

we care



about nature



about social environment



about quality



about our customers



about employees



about future



Introduction



Business report



Financial report

ANNUAL REPORT 2010



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Introduction



**We took our chance and success
did not elude us.**

We set ambitious goals for us
also for following financial year.

Report by the President of the Management Board

A challenging, yet successful year

Before the start of 2010, we anticipated harsh conditions to affect our operations; hence, we were able to tackle them well prepared. The finding that a good merchant must meet the expectations and justify the trust of the customers day-in day-out, regardless of the circumstances, has again been proven true. In 2010, we stood out as one of the most formidable companies and reasserted our role of the leading retailer in the region although most of the year was still beset by the consequences of the crisis and optimism in the market was nowhere to be seen. Deteriorated macroeconomic conditions and a slump in purchasing power in the region also affected Mercator Group operations. Depreciation of the local currency in Serbia and worsening payment defaults were two particularly adverse factors. Consumer shopping habits reflected rationalization of consumption, particularly with those consumers whose financial status has become weakened and who, as a result, tend to spend less on their daily shopping. Nevertheless, we harnessed all mechanisms at our disposal to adapt to both our customers and the stringent market conditions.



Acting with determination

Start of the year also saw the kick-off of our new organizational structure that improves our responsiveness in all markets, our adjustment to the needs of the consumers, and our operating efficiency, and makes the entire organization more flexible, given the complexity of international operations. Hence, our subsidiaries abroad were provided with new impetus to adapt to the needs of their respective local markets and to consolidate and promote their market positions. Intersport and Modiana started their operations as independent legal entities.

We were highly active in risk management. A lot of attention was paid to active risk management, particularly the risk of a decline in purchasing power resulting from the strenuous economic conditions, risk of stringent competition, risk of volatile prices in raw material markets, and to management of credit, solvency, and foreign exchange, or currency, risk. We also worked to hedge operational risks in all local markets and to constantly adjust our strategy of expansion according to our experience with entering new markets. We worked closely with the suppliers to manage the purchasing risk, and we carried out the already established measures to manage human resource and environmental risk. We invested a total of EUR 116 million in the development of the retail network, mostly financed by our own sources and partly also with debt. Many new shopping centers and stores were opened in all markets of our operations and many stores were refurbished and updated.

Special attention was paid to marketing and the efficiency of the Mercator Pika card customer loyalty system; above all, we strove to offer our customers the quality and the best value for their money. We carried on the development of new store formats and technologies, tapped into the global supply sources and upgraded the systems of category management and cooperation with suppliers. Moreover, we were committed to constant improvement of our logistics network and IT support to all systems. This included consistent implementation of the project launched in the field of organization and quality management, and employee training and education. Human resource management certainly remains a key strategic field at the Group operating in seven different markets and ranking as the biggest employer in the region.

We strove to be as responsive as possible in all markets. A lot of attention was paid to proactive risk management. A total of EUR 116 million was invested in retail network development and strategic operations.

In addition to being the largest retailer in the region, however, Mercator Group also owns 1,188,149 m² of real estate and is thus among the largest real estate management entities in the region. Therefore, we launched the initial activities for monetization of a part of this portfolio in order to speed up our development cycle in the future. We carried out additional activities in the field of investor relations, reporting and providing quality business information to stir investor interest in company stock. For these activities, Mercator received an award by the Ljubljana Stock Exchange for the most improved investor relations.

Mercator Group is among the largest real estate management entities in the region.

Ready to do more for customer satisfaction

Admittedly, all advantages harvested as a result of activities in the previous years were highly beneficial for our operations in the strenuous conditions of 2010; however, rapid adjustment to sudden changes in the market and consumer behaviour required additional effort, higher responsiveness, and consistency. Times when the customers are becoming more rational and demanding, expecting more for their money, but not relenting in terms of their expectations of quality, put the retailers to the test. We have retained an excellent offer, variety to meet all needs and preferences, with a high level of service, and expanded the choice of products under our private labels which have become household names in seven markets of our operations. In addition to the fast-moving consumer goods, we also offer quality garments by renowned brands and high-quality sports equipment, as well as growing offer of home products. We have updated the Mercator Pika system, allowing our loyal customers to win double bonus points and other benefits. Increasing attention is also paid to customers at our web store, and we are active in the digital media social networks. Hence, we have proven time and again that we can not only meet the expectations of the customers, but also justify and reward their trust. Our first international advertising campaign "Treats from Mercator" stressed that we are prepared and willing to do more for our customers. I take this opportunity to sincerely thank all co-workers for their effort in our joint pursuit of the goals laid out. In particular, I would like to express my gratitude to the employees in retail whose friendliness and professional attitude reassure the customers every day that they are indeed the focal point of all our efforts. Looking to establish an interactive relationship with our customers and to bring Mercator's offer and service closer to them through digital media, we founded at the end of 2010 a Digital Communication Council which has already laid out the strategic policies for activities of the Mercator corporate brand as well as other brands in order to connect with our customers in an interactive manner.

Seizing opportunities

It was an undisputed fact to us that crisis brings about opportunities. In February 2010, the Group took over the trade operations of the company Getro in Croatia, thus becoming the second largest FMCG retailer in this market. In July 2010, the Group signed an agreement on the acquisition of trade operations of the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., in the Montenegrin market, thus becoming the leading retailer in this country. In August 2010, the companies Mercator-S, d.o.o., and Coka, d.o.o., signed agreement on strategic alliance which consolidates Mercator's position of the second largest retailer in the Serbian market.

In Bulgaria, we opened three stores and introduced the Roda brand to this challenging market in order to better adjust to the needs of our customers. A year after Mercator's entry to the Albanian market, Albanian Chamber of Commerce and Industry presented Mercator with the Trade Company of the

Year Award for long-term investments in Albania which include establishing a retail chain providing high-quality products at reasonable prices, for creating employment opportunities which will only grow as the retail network expands, and for high standards of business ethics and corporate social responsibility.

In February 2010, the Group took over the trade operations of the company Getro in Croatia, thus becoming the second largest FMCG retailer in this market.

Committed to sustainability

At Mercator, we are particularly proud of our close relation with the people and the environment in which we are developing, contributing to higher quality of life, and supporting the aspects of social life that are of greatest importance to the people. The fact that many people rely on Mercator is both an honour and responsibility. Our respect for the environment is materialized in our environmental management system, efficient use of energy, modern waste management systems, sustainable logistics and supply chain, and activities for the customers aimed at preserving the nature. Our corporate responsibility takes the form of partnership relations with the suppliers, provision of high-quality offer, safe food, and innovations for a modern shopping environment at our stores. Our commitment to corporate social responsibility is perhaps best seen in our sponsorships and donations, as well as human resource development efforts; we are aware that our employees are among our essential sources of competitive edge. In order to manage our efforts in sustainability and corporate social responsibility, we have established the Sustainable Development Council. For its contribution to sustainable development in the region, Mercator Group was awarded the Ruban d'Honneur - the Ribbon of Honour. An independent jury of prominent economists, scholars, businesspeople, politicians, and media representatives selected the best companies in respective industries among over 7,500 enterprises throughout Europe; Mercator was among the selected few.

For its contribution to sustainable development in the region, Mercator Group was awarded the Ruban d'Honneur - the Ribbon of Honour.

Reaping what we sowed

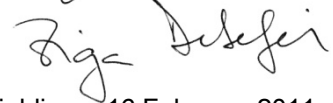
Despite the harsh conditions, our results are solid. We generated EUR 2,782 million of sales revenues in all markets of our operations combined, which is 5.2 percent more than in 2009. Assuming constant exchange rates to adjust for the depreciation of the Serbian dinar, revenue growth amounts to 6.9 percent. Stable revenues in times of harsh economic conditions and competition, supported with measures to adapt our operations to the stringent conditions by both marketing activities and provision of favourable offer for the consumers, prudent development activities, further implementation of business rationalization processes, and unhindered financing, allowed us to generate EUR 205 million of gross cash flow from operating activities before rental expenses at Mercator Group level in 2010, which is 7.5 percent more than in 2009. Assuming constant exchange rates, the increase would have amounted to 9.3 percent. In 2010, Mercator Group net profit amounted to EUR 30.4 million, of which EUR 27 million was paid out in dividends.

In 2010, our sales revenues rose by 5.2%, while gross cash flows from operating activities before rental expenses were up by 7.5% relative to the year before.

Ambitious plans

The plans specified for 2010 were attained. The future is opening up new possibilities. We are consistent in the pursuit of our mission and strategic policies. We have proven that we are at the top of the retail industry in the region. We are looking forward to the challenges that will reassert our skills and vitality; therefore, our goals for the way ahead are ambitious. In 2015, we see Mercator as the largest retail chain in the region, generating EUR 4.2 billion of revenues, with over 33,000 employees, present in 9 markets of the region. Our vision and the system of values will continue to be a fountain of our inspiration; our environment will be our motive; we will turn to our customers for confirmation and reassurance. I also thank all shareholders and other stakeholders whose trust Mercator has enjoyed for years for their support and confidence; I also deeply appreciate the correct and professional cooperation with the Supervisory Board members.

Žiga Debeljak, MScBA
President of the Management Board



Ljubljana, 16 February 2011

Mercator Group performance highlights in 2010

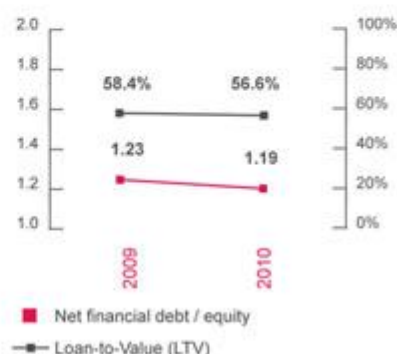
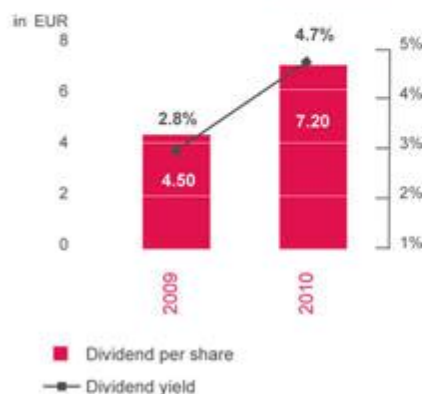
Income statement (in EUR 000)			
Revenue			
2010	2,781,604	▲	+5.2 %
2009	2,643,315		
Revenue based on fixed exchange rates			
2010	2,825,500	▲	+6.9 %
2009	2,643,315		
Profit before income tax			
2010	40,344	▲	+60.1 %
2009	25,196		
Profit for the period			
2010	30,387	▲	+43.9 %
2009	21,119		

Cash flows (in EUR 000)			
Gross cash flow from operating activities			
2010	170,087	▲	+1.7 %
2009	167,296		
Gross cash flow from operating activities on fixed exchange rates			
2010	172,409	▲	+3.1 %
2009	167,296		
Gross cash flow from operating activities before rental expenses			
2010	204,846	▲	+7.5 %
2009	190,619		
Gross cash flow from operating activities before rental expenses on fixed ex. rates			
2010	208,340	▲	+9.3 %
2009	190,619		



Shareholders information			
Closing rate (in EUR)			
2010	157.70	▲	+3.0 %
2009	153.17		
Earnings per share (in EUR)			
2010	8.2	▲	+43.9 %
2009	5.7		
Dividend per share (in EUR)			
2010	7.20	▲	+60.0 %
2009	4.50		
Dividend yield			
2010	4.70%	▲	+65.1 %
2009	2.85%		

Financial indicators			
Return on equity			
2010	3.9%	▲	+48.6 %
2009	2.6%		
Return on sales			
2010	1.1%	▲	+36.6 %
2009	0.8%		
Net financial debt / equity			
2010	1.19	▲	-0.04
2009	1.23		Ind. points
Loan-to-Value (LTV)			
2010	56.6%	▲	-1.8
2009	58.4%		perc. points



Mercator Group profile and organization

Slovenia



Current foreign markets



New foreign markets



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

Nearly 40 percent of Mercator Group's total sales revenues are generated internationally.

Mercator Group activities

Mercator Group's core and key activity is retail and wholesale of fast-moving consumer goods.

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

Fast-moving consumer goods

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



Home products

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



Mercator real estate

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

Other operating activities

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



Mercator
Emba

INTERSPORT®

MODIANA

Organization and composition of the Mercator Group

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

Organization and composition of the Mercator Group

Mercator Group

Poslovni sistem Mercator, d.d.

Žiga Debeljak

President of the Management Board

Strategic business fields

STRATEGIC MARKETING AND GLOBAL SUPPLY MANAGEMENT

Mateja Jesenek

Senior Vice President

STRATEGIC FINANCE AND IT

Melita Kolbezen

Senior Vice President
(as of January 1st 2011)

STRATEGIC HUMAN RESOURCES AND ORGANIZATION DEVELOPMENT

Vera Aljančič Falež

Senior Vice President

Operational business fields

MERCATOR TRADE SLOVENIA

Peter Zavrl

Senior Vice President

MERCATOR TRADE SOUTHEASTERN EUROPE

Stanka Čurović

Senior Vice President
(as of January 1st 2011)

MERCATOR REAL ESTATE

Aleš Resnik

Senior Vice President
(as of January 1st 2011)

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

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

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

*The company has not yet commenced its business operations.

** Project-based real estate company not conducting business operations.

Branch offices

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

Other organizations

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

Company profile

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

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

Vision, mission, and corporate values

Vision

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

Mission

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



Corporate values

Following are Mercator's corporate values:

Responsibility

Each employee is responsible for their work.

Respect

Each individual matters and deserves respect.

Learning

We build on our knowledge and experience.

Integrity

We work honestly and fairly.

Cooperation

What one person cannot do, we can accomplish together.

Responsiveness

Prompt response is our advantage.

Strategic objectives

Following are Mercator Group's fundamental strategic goals:

1. In our **domestic market** (Slovenia):

- a) To retain the position of the leading fast moving consumer goods retailer.
- b) To consolidate the position of the second largest retailer of home products.
- c) To develop supplementary trade services related to our customer loyalty system.

2. In **existing foreign markets** (Serbia, Croatia, Bosnia and Herzegovina, Montenegro):

- a) To consolidate or attain the position of the second largest fast moving consumer goods retailer.
- b) To rank among the top three retailers of home products.
- c) To develop supplementary trade services related to our customer loyalty system.

3. In **new foreign markets** (Bulgaria, Albania, Macedonia, Kosovo):

- a) To rank among the top five retailers of fast moving consumer goods.



SWOT analysis

Slovenia	Current foreign markets (Serbia, Croatia, Bosnia and Herzegovina, Montenegro)	New foreign markets (Bulgaria, Albania, Macedonia, Kosovo)
STRENGTHS		
<ul style="list-style-type: none"> • Leading retailer in the Slovenian market with a highly established and reputable brand • Developed retail network with several programs and store formats • Developed marketing mix (customer loyalty card, clubs, private label, etc.) • Existence of supplementary services (M Holidays, etc.) 	<ul style="list-style-type: none"> • Among the leading retailers in all markets (leaders in Montenegro, second in Serbia and Croatia, third in Bosnia and Herzegovina, etc.) • Relatively developed retail network of major shopping centers in most markets, with both programs • Presence with two complementary brands in all markets (Mercator and Roda/Getro) • Relatively developed marketing mix (customer loyalty card, private label, etc.) 	<ul style="list-style-type: none"> • Retail units already present in two markets (Bulgaria, Albania); in others, business infrastructure has already been established • In the medium term run, Mercator could reap the economies of scale and competitive advantages as a regionally strong player • In some markets, Mercator brand is already distinctive
WEAKNESSES		
<ul style="list-style-type: none"> • Suboptimal logistics system • Suboptimal retail network, particularly smaller older stores • Poorer perception of price competitiveness 	<ul style="list-style-type: none"> • Still underdeveloped retail network in most markets, particularly in the segment of neighbourhood stores and supermarkets, and particular voids in geographic coverage • In some markets, volume of operations is still insufficient to allow reaping the economies of scale for long-term competitiveness • Poorer pricing perception related to the Mercator brand • Suboptimal logistics infrastructure 	<ul style="list-style-type: none"> • Relatively weaker investment capacity compared to large trade chains (of key importance particularly in Bulgaria) • Retail network underdeveloped or in the beginning stages; underdeveloped logistics operations • Cultural differences compared to our current markets • Volume of operations still insufficient to allow reaping the economies of scale • Macroeconomic and political risks relatively high
OPPORTUNITIES		
<ul style="list-style-type: none"> • Adjustment of the network of smaller stores to the characteristics of the micro environment • Further development of the marketing mix (customer relationship management, private label, clubs, etc.) • Development of new store formats (convenience stores), expansion of hardware and electronic centers • Development of supplementary services: insurance, finance, telecommunications, energy management, etc. • Inclusion into a strong global procurement association for appliances and electronics ("technical products") • Upgrade and expansion of fast-moving consumer goods web store 	<ul style="list-style-type: none"> • Expansion of operating segments through two-tier branding system (Mercator and Roda/Getro) • Further expansion and positioning in the regions where we are not yet present • Setting up a franchise system and development of wholesale activities • Further development of the marketing mix (upgrade of the customer loyalty card, regional brand management, etc.) • Accession of these countries to the EU and resulting macroeconomic and political stabilization • Reaping synergies in procurement and logistics at the regional level 	<ul style="list-style-type: none"> • Opportunities to grow and assert important role in the market • Possibility of growth through strategic business combination in some markets • Young demographics • Relatively and absolutely, Southern Balkans are increasingly economically integrated into the European streams - potential for the future • Some countries less affected by the current economic crisis • Experience with entering new countries in the region • Reaping regional synergies

Slovenia

Current foreign markets (Serbia, Croatia, Bosnia and Herzegovina, Montenegro)

New foreign markets (Bulgaria, Albania, Macedonia, Kosovo)

THREATS

-
- | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Further expansion of retail facilities in an already saturated market• Slump or stagnation of consumption as a result of the country's macroeconomic problems• Entry of an international home product retailer | <ul style="list-style-type: none">• Very strong competition by both multinational and local retailers in some markets (particularly Croatia)• Entry of new international players, particularly discount retailers• Economically less stable markets, greater political risks in some of them• In some regions, purchasing power is exceptionally low and modern stores are undeveloped• Potential foreign exchange and other macroeconomic risks | <ul style="list-style-type: none">• Macroeconomic and political instability as a result of transition (unemployment, bureaucracy, unstable financial systems, considerable share of grey and black market, corruption, etc.)• Low market potential outside major cities, and low purchasing power of local population• Low GDP per capita in absolute terms (Bulgaria is partly an exception)• Substantial share of so-called traditional trade |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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Mercator Group performance highlights for the period 2005-2010

	2005	2006	2007	2008	2009	2010	Index 2010/2009
Mercator Group performance highlights for the period 2005-2010							
INCOME STATEMENT							
Revenue (in EUR 000)	1,749,206	2,064,583	2,445,258	2,708,560	2,643,315	2,781,604	105.2
Results from operating activities (in EUR 000)	30,401	50,776	91,335	100,327	71,842	94,505	131.5
Profit before income tax in EUR 000)	20,588	36,724	54,475	49,993	25,196	40,344	160.1
Profit for the period (in EUR 000)	13,626	30,149	43,814	40,761	21,119	30,387	143.9
Gross cash flow from operating activities (in EUR 000)	111,129	135,394	162,046	176,773	167,296	170,087	101.7
Gross cash from operating activities before rental expenses (in EUR 000)	117,279	141,703	171,781	198,158	190,619	204,846	107.5
SELECTED INCOME STATEMENT DATA, BASED ON CONSTANT EXCHANGE RATES							
Revenue (in EUR 000)	-	-	-	-	2,643,315	2,825,500	106.9
Gross cash flow from operating activities (in EUR 000)	-	-	-	-	167,296	172,409	103.1
Gross cash from operating activities before rental expenses (in EUR 000)	-	-	-	-	190,619	208,340	109.3
FINANCIAL POSITION							
Total assets (in EUR 000)	1,533,457	1,861,175	2,070,473	2,540,122	2,476,348	2,608,854	105.4
Equity (in EUR 000)	551,175	647,880	688,196	814,101	805,390	798,165	99.1
Net financial debt (in EUR 000)	655,489	752,332	749,439	958,881	986,966	949,081	96.2
INVESTMENT ACTIVITIES							
Capital expenditure (in EUR 000)	238,180	149,283	164,850	298,305	157,353	116,394	74.0
Long-term financial investments (in EUR 000)	39,646	117,467	49,221	15,104	1,801	0	-
EMPLOYEES							
Number of employees at the end of the period	16,372	19,539	20,893	21,636	21,404	23,482	109.7
Number of employees based in hours worked	15,086	17,101	19,099	20,438	20,266	21,632	106.7

	2005	2006	2007	2008	2009	2010	Index 2010/2009
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Mercator Group performance highlights for the period 2005-2010

FINANCIAL INDICATORS							
Revenue per employee based on hours worked (in EUR 000)	115.9	120.7	128.0	132.5	130.4	128.6	98.6
Value added per employee per hours worked (in EUR 000)	22.5	22.7	22.9	22.8	22.0	21.4	97.1
Return on sales	0.8%	1.5%	1.8%	1.5%	0.8%	1.1%	136.6
Return on equity	2.7%	5.2%	6.8%	5.6%	2.6%	3.9%	148.6
Net financial debt / equity	1.19	1.16	1.09	1.18	1.23	1.19	97.0
Loan-to-value (LVT)	74.0%	69.3%	62.5%	62.6%	58.4%	56.6%	96.8
Net financial debt / gross cash flow from operating activities	5.90	5.56	4.62	5.42	5.90	5.58	94.6
Gross cash flow from operating activities / revenue	6.4%	6.6%	6.6%	6.5%	6.3%	6.1%	97.1
Gross cash flow from operating activities before rental expenses / revenue	6.7%	6.9%	7.0%	7.3%	7.2%	7.4%	102.3
SHAREHOLDERS INFORMATION							
Market price as at the end of the period (in EUR)	153.9	212.9	335.0	158.1	153.2	157.7	102.9
Dividend per share (in EUR)	1.30	2.50	4.00	4.25	4.50	7.20	160.0
Earnings per share (in EUR)	4.1	8.4	11.8	10.9	5.7	8.2	143.9
Book value per share (in EUR)	159.9	175.0	183.5	209.8	211.1	221.8	105.0
NUMBER OF COMPANIES IN THE GROUP							
Number of companies in the group as at the end of the period	18	13	16	20	23	26	113.0

Major events in 2010



For Mercator Group, 2010 was a challenging, but successful year. We further pursued our development goals and reached some major milestones in our operations. The most notable ones include:

- further development of retail network,
- changes in the Group's composition,
- new strategic combinations and alliances,
- appointment of the six-member Management Board and other events in corporate governance,
- further pursuit and development of corporate activities,
- awards received in various fields of our work.

Retail network development

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



As at December 31st 2010, Mercator Group operated 1,483 retail units spanning a total gross area of 1,209,429 m².

Changes in the composition of Mercator Group

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

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

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

Main reasons for reorganization included the need to improve local responsiveness in all markets, to adapt to the needs of consumers, and to improve operating efficiency.

Strategic business combinations

Croatia

On February 17th 2010, the companies **Getro**, d.d., and Mercator-H, d.o.o., completed their strategic combination based on the agreement on the acquisition of the trade activities of the Croatian trade company Getro, d.d., signed by the partners involved on December 18th 2009. The strategic combination includes the purchase of the "Getro" brand and long-term operating lease of 16 Getro trade centers and other business facilities spanning a total area of nearly 120 thousand m².

Montenegro

The companies **Pantomarket**, d.o.o., and the Mercator Group signed on June 30th 2010 an agreement on strategic alliance based on which the company Mercator-CG, d.o.o., Montenegro, took over the trade operations and employees, and the long term operating lease of 77 trade facilities owned by the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., in the market of Montenegro, with a total gross sales area over 31 thousand m².

Serbia

On August 4th 2010, the companies Mercator-S, d.o.o., and **Coka**, d.o.o., signed a strategic alliance agreement based on which the company Mercator-S, d.o.o., Serbia, took over the operating lease and sublease of 22 trade facilities of the Coka Group in the Danube region ("Podunavlje"), with a total sales area of over 12 thousand m². The strategic alliance also includes the purchase of inventory and equipment, as well as employing all employees of the companies in the Coka Group.

In 2010, we forged strategic combinations with the companies Getro (Croatia), Pantomarket (Montenegro), and Coka (Serbia), acquiring a total retail area of 163 thousand square meters.

Corporate governance

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

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

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

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

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



The Shareholders Assembly adopted the resolution on the expansion of the Supervisory Board, confirmed the proposal on dividend payment, and granted authorization to the Management Board to acquire and dispose of treasury shares.

Corporate activities

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

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

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

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

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

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

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

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

In 2010, we consolidated our communication with business partners and investors and supported over 2,000 projects by providing sponsorship funds and donations.



Awards received

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



We were awarded six new certificates and numerous awards in various fields of our operations.

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

In 2010, Albanian Chamber of Commerce and Industry presented Mercator with the **Trade Company of the Year Award for long-term investments in Albania** which include establishing a retail chain providing high-quality products at reasonable prices, for creating employment opportunities which will only grow as the retail network expands, and for high standards of business ethics and corporate social responsibility.

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

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

In 2010, Mercator Group received six new certificates:

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



Corporate Governance Statement

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



Reference to the Corporate Governance Code

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

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

Deviation from the Code

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

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

Relations with shareholders

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

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

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

Supervisory Board

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

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

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

Internal control and risk management, regarding to the financial reporting process in financial reporting

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

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

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

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

The central IT system SAP has an important role in providing quality financial information.

Audit

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

At Mercator Group, this is achieved by:

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

Internal auditing

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

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

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

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

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

External auditing

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

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

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

The key purpose of audit is to mitigate and hedge as much as possible the risks related to compiling financial information.

Major shareholders as at 31 December 2010

Major Shareholders	Country	Number of shares	Share
Major shareholders as at December 31st 2010			
1 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2 NLB, d.d.	Slovenia	404,832	10.75%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Nova KBM, d.d.	Slovenia	197,274	5.24%
6 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
7 Gorenjska Banka d.d., Kranj	Slovenia	142,920	3.80%
8 Abanka Vipava, d.d.	Slovenia	103,400	2.75%
9 NFD 1 Delniški Investicijski Sklad, d.d.	Slovenia	97,743	2.60%
10 Radenska, d.d.	Slovenia	96,952	2.57%
Total		2,300,963	61.11%

Restriction of voting rights

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

Appointment and replacement of members of managerial or supervisory bodies, changes to the Articles of Association

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

Pursuant to the Shareholders Assembly resolution dated July 13th 2010, the company Supervisory Board comprises twelve members; with the said resolution, the Assembly appointed two additional Supervisory Board members to represent the interests of the shareholders. The Workers Council has not yet exercised their right to appoint two additional members to represent the interests of the workers. One half of the Supervisory Board members represent the interests of shareholders; they are appointed by the Shareholders Assembly. The other half represents the interests of the employees; pursuant to the Worker Participation in Management Act, they are appointed by the company Workers Council.

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

Pursuant to the Supervisory Board resolution adopted at the session held on March 30th 2010, President of the Management Board and Senior Vice Presidents were appointed for a five-year term beginning on January 1st 2011.

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

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

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

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

In 2010, the Shareholders Assembly authorized the company Management Board to acquire and dispose of treasury shares in the amount of up to 10 percent of the company share capital.

Shareholder's Assembly and shareholder rights

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

As a rule, Company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator, d.d., once per year. The convocation shall be announced at least 30 days before the Assembly meeting. The convocation of the Assembly shall be announced in the Delo daily paper, and

in the electronic information dissemination system of the Ljubljana Stock Exchange, d.d., called SEOnet, at least one month prior to the Assembly date.

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

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

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

As a rule, company Management Board shall convene the Shareholders Assembly once per year. The convocation shall be announced at least 30 days prior to the Assembly in the Delo newspaper and SEOnet info system.

Management Board

President of the Management Board

Žiga Debeljak, MscBA

Education:

- MScBA, BS Computer Engineering

Fields of responsibility:

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



**Strategic Marketing and Global Supply Management,
Senior Vice President**

**Mrs. Mateja Jesenek,
MBA**

Education:

- MBA, BA Economics

Fields of responsibility:

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



Strategic Finance and IT, Senior Vice President

**Mrs. Melita Kolbezen,
MScBA**

Education:

- MScBA, BA Economics

Fields of responsibility:

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



**Strategic Human Resources and Organization Development,
Senior Vice President**

**Mrs. Vera Aljančič
Falež, LL.M.**

Education:

- LL.M., LL.B.

Fields of responsibility:

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



Senior Vice President for Mercator Trade Slovenia

Peter Zavrl

Education:

- BA Economics

Fields of responsibility:

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



Senior Vice President for Mercator Trade Southeastern Europe

Mrs. Stanka Čurović,
MScBA

Education:

- MScBA, BA Economics

Fields of responsibility:

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



Supervisory Board

Supervisory Board Members Representing Shareholders

Robert Šega - Supervisory Board Chairman

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

Jadranka Dakič - Deputy Chairwoman

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

Stefan Vavti

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

Kristjan Verbič

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

Matjaž Kovačič

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

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Miro Medvešek

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

Supervisory Board Members Representing Employees**Jože Cvetek**

- Education: BA Economics
- Employment: retired.

Janez Strniša

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

Mateja Širec

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

Ivica Župetič

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

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

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

Audit Committee

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

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

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

The activities of the Audit Committee are aimed at further improvement of the supervisory function.

Management of subsidiaries

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



The parent company pursues the principles of improving business performance in each subsidiary and the Group as a whole.

Management responsibility statement

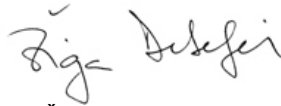
The company Management Board is responsible for the compilation of the Annual Report for Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2010, including all relevant financial statements which, to the best knowledge of the Management Board, present truly and fairly the development and performance of company operations and the company's financial position, including the description of all significant types of risk to which the company, any other companies included in the consolidation, or the Group as a whole, are exposed.

The Management Board confirms that the financial statements were compiled by applying duly and consistently the relevant accounting policies; that the accounting estimates were made on the principles of fair value, prudence and sound management; and that financial statements represent a true and fair view of the company's financial position, and of the results of its operations in 2010.

The Management Board shall also be responsible for appropriate and accurate accounting, and adoption of relevant measures to protect its property and other assets. The Management Board hereby confirms that the financial statements, including all and any notes, are compiled based on the going concern assumption and in compliance with relevant legislation and International Financial Reporting Standards as adopted by the European Union.

The company Management Board hereby adopts and confirms the Annual Report for the Company Poslovni sistem Mercator, d.d., and the Mercator Group for the Year 2010.

Ljubljana, 16 February 2011



Žiga Debeljak, MScBA
President of the Management Board



Vera Aljančič Falež, LL.M.
Senior Vice President



Mateja Jesenek, MBA
Senior Vice President



Peter Zavrl
Senior Vice President



Melita Kolbezen, MScBA
Senior Vice President



Stanka Čurović, MScBA
Senior Vice President

Supervisory Board Report

Supervisory Board Activities

Pursuant to the legislation and company Articles of Association, operations of the company Poslovni sistem Mercator, d.d., as the controlling company of the Mercator Group was supervised in 2010 by a Supervisory Board which met at eight regular sessions in the course of the year.

As of October 31st 2009, Supervisory Board consists of Mr. Robert Šega as the Supervisory Board Chairman, and the following members: Mrs. Jadranka Dakič (deputy chairwoman), Mr. Stefan Vavti and Mr. Kristijan Verbič, both appointed by the Shareholders Assembly at its regular meeting held on July 20th 2009, and Mr. Jože Cvetko, Mr. Janez Strniša, Mrs. Mateja Širec, and Mr. Ivica Župetič, appointed by the Workers Council of the company Mercator, d.d. At its 16th regular meeting held on July 13th 2010, the company Shareholders Assembly appointed two additional members: Mr. Matjaž Kovačič and Mr. Miro Medvešek.

Supervisory Board sessions in 2010 were held on February 25th, March 9th, March 30th, April 22nd, May 11th, August 24th, November 9th, and December 14th. At the said meetings, the Supervisory Board mostly discussed current performance and property balance of the company and the Mercator Group, interim reports, Annual Report, Management Board activities, investment activities, implementation of major projects, financial policy and financial position, annual business plans, and implementation of the resolutions adopted by the Supervisory Board.

Major Supervisory Board resolutions

In the meeting held on March 30th 2010, the Supervisory Board appointed a six-member Management Board for the term 2011-2015 and confirmed the Mercator Group strategic policies for the same period. As of January 1st 2011, the Management Board consists of President of the Management Board Mr. Žiga Debeljak, and Senior Vice Presidents Mrs. Mateja Jesenek, Mrs. Melita Kolbezen, Mrs. Vera Aljančič Falež, Mr. Peter Zavrl, and Mrs. Stanka Čurovič. The Supervisory Board discussed and examined the audited financial statements for 2009 for the company Poslovni sistem Mercator, d.d., and the Mercator Group, and took note of the performance and results of the company Poslovni sistem Mercator, d.d., and the Mercator Group.

In addition, the Supervisory Board discussed other current issues and adopted the following major resolutions:

- Supervisory Board discussed and adopted the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2009, and confirmed the wording of the Supervisory Board Report on the Annual Report audit, and the opinion to the proposal on the allocation of distributable profit for 2009.
- Furthermore, the Supervisory Board took note of the Management Board's decision to waive the right to define a performance bonus for 2009;
- examined the revised Corporate Governance Code;
- adopted the revised proposal on the allocation of distributable profit for 2009;
- adopted the Business Reports of the Mercator Group and the company Mercator, d.d., for the periods I-III 2010, I-VI 2010, I-IX 2010;
- confirmed the resolution proposals for the 16th regular Shareholders Assembly of Poslovni sistem Mercator, d.d., including the meeting agenda;
- proposed to the Shareholders Assembly to appoint KPMG Slovenija, podjetje za revidiranje, d.o.o., as the company auditor for 2010;
- proposed to the Shareholders Assembly a resolution on expanding the Supervisory Board to twelve members;
- confirmed the Report on Fulfilment of Commitments related to the cartel charge and proceedings, pursuant to the decisions by the Competition Protection Office of the RS,

No. 306-182/2007 dated May 7th 2009 for 2009, and No. 306-178/2007 dated July 26th for the 2009;

- adopted the medium-term Business Plan of the Mercator Group and the company Mercator, d.d., for the period 2011-2015, and
- adopted the Mercator Group Corporate Governance Policy.

Activities of the Audit Committee

The Audit Committee is in charge of the quality of supervision and control functions at the company. In 2010, the Committee held six meetings.

As of November 19th 2009, Audit Committee includes the committee chairwoman Mrs. Jadranka Dakič (Supervisory Board member) and two members: Mr. Jože Cvetek (Supervisory Board member) and Mr. Peter Ribarič (independent expert on accounting and auditing).

Audit Committee sessions in 2010 were held on January 19th, February 23rd, May 6th, August 24th, November 4th, and December 2nd. At these meetings, the Audit Committee discussed mostly current affairs and adopted the following notable resolutions:

- the Audit Committee adopted the Rules of Procedure for the Audit Committee;
- examined the revised Corporate Governance Code;
- examined the progress and findings of the independent audit for 2009;
- examined and commented the Annual Report for the company Mercator, d.d., and the Mercator Group for 2009;
- proposed auditor for company Mercator, d.d., and Mercator Group in 2010;
- examined the report on significant received and filed lawsuits, and created provisions in the company Mercator, d.d.;
- adopted resolution to prepare a register of external auditing recommendations for the years 2007 to 2009, and a register of resolutions and recommendations of internal auditing for years 2009 and 2010, and examined them;
- examined the new IT strategy in the Mercator Group for the term 2010 - 2015;
- adopted resolution to organize the register of real estate property and equipment;
- examined the pilot project of Tax Administration: Horizontal monitoring;
- examined and commented the Business Report for the company Mercator, d.d., and the Mercator Group for the period I-III 2010, I-VI 2010 in I-IX 2010;
- examined the Risk Management Report of the Mercator Group for 2009;
- confirmed the report on the appraisal of real estate companies of the Mercator Group and the new assessment of useful lives of Mercator Group property and equipment as at January 1st 2010;
- confirmed the Mercator Group Risk Management Report for the period I-VI 2010 and I-IX 2010, and gave proposals to improve reports in the future;
- examined the work of the internal audit in 2009;
- confirmed the agreement on the audit/review of Mercator Group condensed interim financial statements for the first half of 2010;
- examined the independent auditor's report on the progress and findings of the first stage of the audit at Mercator, d.d.

Semi-annual and Annual Report for 2010

The Supervisory Board examined the non-audited Semi-annual Business Report of the company and the Mercator Group for the period I-VI 2010 at their session held on August 24th 2010. The company announced the summary of non-audited semi-annual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange, d.d.

At their regular session held on March 1st 2011, the Supervisory Board discussed the audited non-consolidated and audited consolidated Annual Report for the year 2010, audited by the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o., Ljubljana. Annual Report was first discussed on February 15th 2011 by the company Audit Committee. Also present at this Audit Committee session was the certified auditor who provided any additional explanations required. On February 17th 2011, the auditing company issued an unqualified opinion on the unconsolidated and consolidated Annual Report. Supervisory Board did not have any objections to the certified auditor's reports and concurred with both.

The Supervisory Board had no objections to the submitted Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for 2010, and confirmed it unanimously at their meeting held on March 1st 2011.

Proposal on the allocation of distributable profit

Simultaneously with the confirmation and adoption of the 2010 Annual Report, the Supervisory Board also confirmed the proposal on the allocation of distributable profit to be proposed by the Management and Supervisory Board to the Shareholders Assembly.

Proposal on the allocation of distributable profit amounting to EUR 40,418,098.46 as at December 31st 2010 is as follows:

- a part of the distributable profit in the amount of EUR 30,122,888 shall be allocated for the payment of dividends, with the gross value of EUR 8.0 per ordinary share;
- remaining part of the distributable profit in the amount of EUR 10,295,210.46 shall remain undistributed.

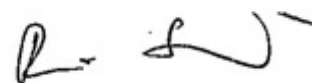
The Supervisory Board agrees with such proposal on the allocation of distributable profit, finding it consistent with the strategic goals, investment plans, and the adopted dividend policy of the company and the Mercator Group.

The Supervisory Board finds the performance of the company Poslovni sistem Mercator, d.d., and the Mercator Group, and the work of the Management Board in 2010 successful as all key business goals planned for the year were attained by pursuit of the adopted vision and strategic policies of the Mercator Group.

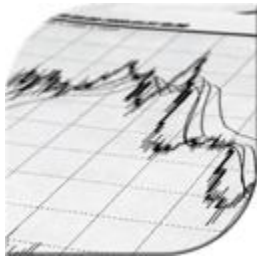
This Report was issued by the Supervisory Board pursuant to the provisions of Article 282 of the Companies Act. The Report is intended for the Shareholders Assembly.

Ljubljana, 1 March 2011

Robert Šega
Supervisory Board Chairman



Business Report



**We are pursuing the
development strategy
we have laid down.**

Harsh economic conditions did not affect our attainment of the specified business objectives.

Effect of economic conditions and competition on Mercator Group operations in 2010

Economic conditions in Mercator Group target markets in 2010



In 2010, Southeastern European countries saw feeble growth of economic activity. Credit activity of the banks remained sluggish.

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

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

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

Slovenia

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

Serbia

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

Croatia

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

Bosnia and Herzegovina

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

Montenegro

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

Bulgaria

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

Albania

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

Serbian dinar depreciated by 9.6 percent in 2010.

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

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

In 2010, the consumers curbed and cut down their budgets for holidays, clothing, footwear, and durables. More pronounced rationality could also be observed in shopping for fast-moving consumer goods, as evident in lower food and beverage family budgets.

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

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

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

We anticipate the mix of impulses from the environment to permanently affect shopping behaviour. Consumers plan their shopping more carefully, they are more rational and prudent, they distinguish between needs and desires. Their perception of the best offered value of a product or service is also

adapted accordingly. There is a lag in any response in household consumption which tends to adjust to the current conditions in the environment. At the end of the year, unemployment in Slovenia rose notably to 110,000 unemployed persons. Paired with increased number of bankruptcies and receiverships of Slovenian companies, circumstances in 2011 can be expected to worsen. Unemployment rate in foreign markets of Mercator operations is rather high: In Serbia, unemployment rate in 2010 rose relative to the year before, reaching nearly 20 percent. The same development could be seen in Croatia. In Bosnia and Herzegovina, the unemployment rate, currently exceeding 40 percent, increased additionally in 2010.

Contrary to the forecasts by some analysts that weak signs of recovery would appear in 2011, conditions could in fact be aggravated in case of increase in basic inflation to which the consumers are usually quick to react. A hike in raw material prices in 2011 could lead to supply shocks as the prices of food production and processing rise. This would result in stronger inflationary pressure and pressure on profit margins.

In 2011, weak signs of recovery are anticipated in key markets of the Group. However, actual recovery may be under threat by basic inflation to which the consumers are quick to react.

Development and real estate management

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



Investment summary

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

Investment into property, plant, and equipment (CAPEX) in 2010 amounted to EUR 116.4 million. As a result, we acquired new commercial facilities spanning a gross area of 205,381 m².

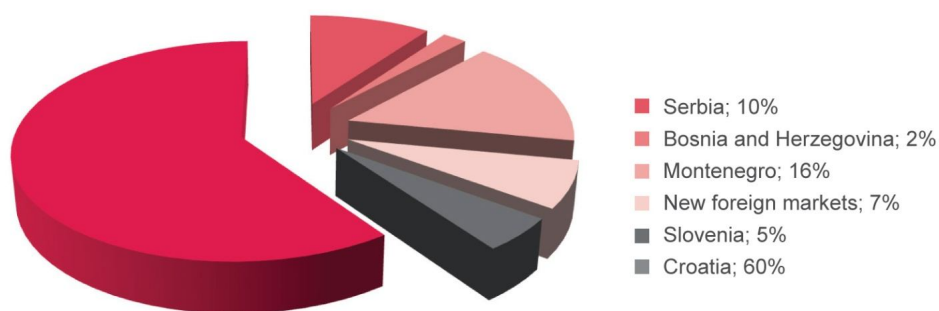
Capital expenditure	CAPEX in the period	Composition
	1-12 2010 (EUR thousand)	in %
Slovenia	41,705	35.83%
Serbia	33,053	28.40%
Croatia	24,504	21.05%
Bosnia and Herzegovina	2,260	1.94%
Montenegro	7,236	6.22%
Bulgaria	6,302	5.41%
Albania	1,334	1.15%
TOTAL	116,394	100%

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

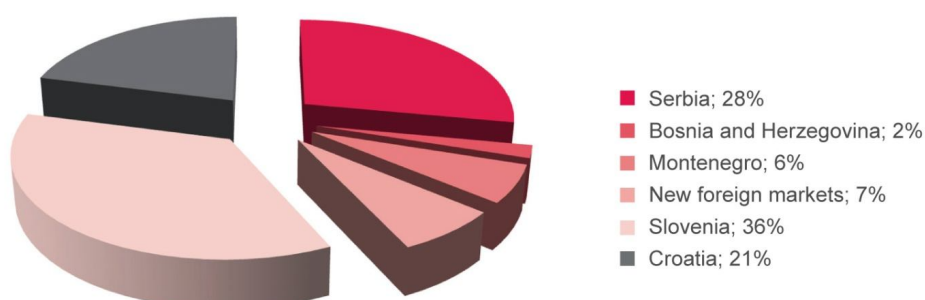
In 2010, the Group acquired 205,381 m² of new gross facilities, which includes real estate owned by Mercator and operating leases. In 2010, 93 percent of all new facilities were acquired through operating lease; 7 percent was acquired through purchase or construction.

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

Share of newly launched facilities by markets



Share of investments by markets



Summary of retail unit launches by markets

Slovenia

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



In 2010, our investment activities resulted in acquisition of 155 new retail units.

Serbia

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



Croatia

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

Bosnia and Herzegovina

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



Montenegro

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



Bulgaria

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



Albania

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

Summary of total gross retail area

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

Retail network development in the future

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

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

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

Mercator Group balance sheet includes many units of property that could be designated for monetization in order to finance the acceleration of the development cycle and to reduce debt.

Sales

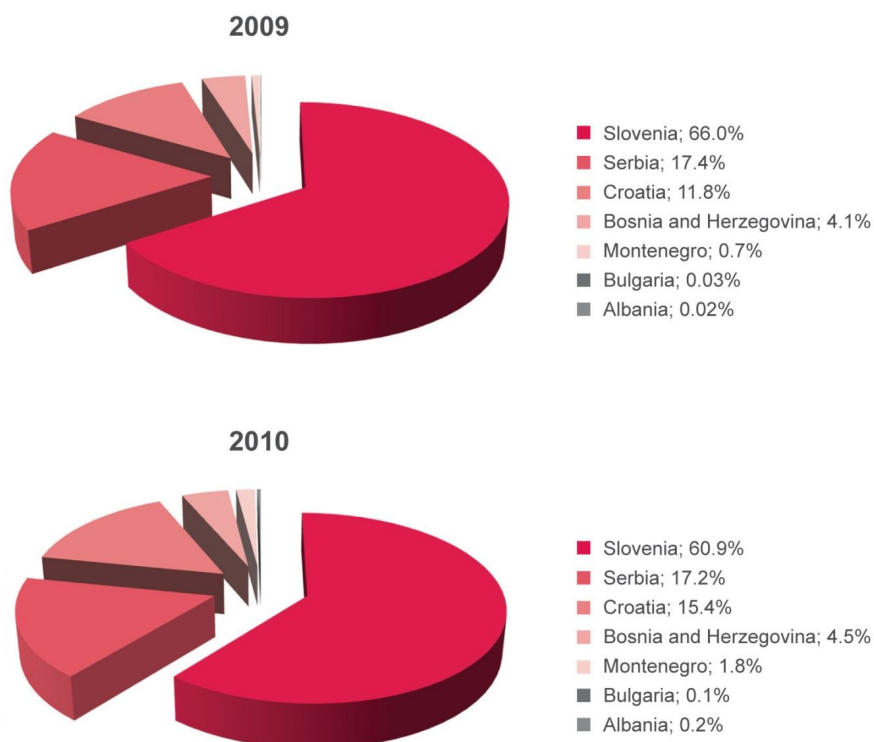
Despite harsh macroeconomic situation and a drop in purchasing power in all markets of our operations, reflected in the changes to the volume and composition of consumption, Mercator Group generated revenues in the amount of EUR 2,781,604 thousand in 2010, which is 5.2 percent more relative to 2009;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

Despite the drop in purchasing power in all markets, Mercator Group generated EUR 2.8 billion of sales revenues in 2010, an increase of 5.2 percent relative to 2009.

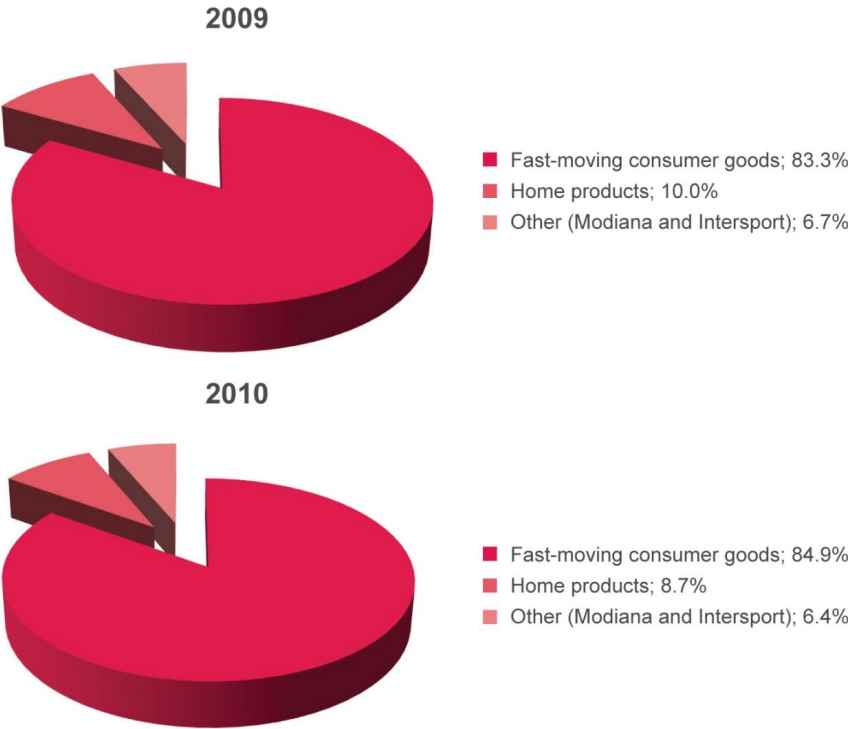
Revenues in Slovenia dropped by 2.9 percent. Of this drop, revenues from sales of goods, material, and products accounted for 1.4 percent, which is mostly a result of the general macroeconomic situation which has thus far been the most pronounced in sales of textile products and other non-alimentary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

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

Mercator Group revenues by geographical segments

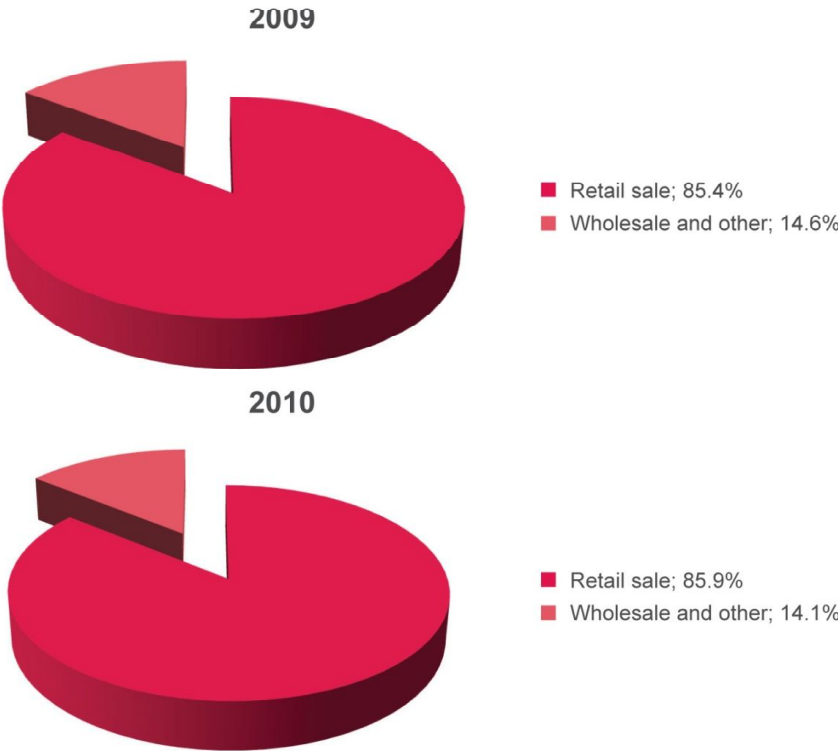


Mercator Group revenues from trade operations by programs



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

Mercator Group revenues by type of sale



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

Marketing

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

In marketing, we are pursuing the policies specified:

- the consumers' first choice when shopping for fast-moving consumer goods,
- creating the best value for the consumers,
- offering high-quality service and a pleasant shopping environment,
- improving the quality of life in our social and natural environment.

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

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

Customers are at the heart of Mercator Group efforts.



The consumers' first choice when shopping for fast-moving consumer goods

Mercator Group wants to be the first choice of consumers shopping for fast-moving consumer goods and thus become the leading and largest retail chain offering FMCG, appliances & consumer electronics. Our activities in 2010 were focused in all markets on provision of the broadest possible offer for the consumers. Various favourable offers of products and services are continuously prepared for our customers with emphasis on seasonal or theme-oriented offer. Our offer is designed according to the needs of consumers in respective markets. Our special offers and campaigns include the widest possible selection of products in order to allow more favourable shopping for daily essentials. Pursuing the trends of convenience and modern shopping methods, we also paid particular attention to development of our web store.

Customers are offered twelve private label lines. Our goal is to offer products with quality matching that of the leading brands in the market, yet with a lower price tag.



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

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

Country	Number of lines	Number of products
Number of lines and products by markets		
Slovenia	12	2,630
Serbia	9	917
Croatia	8	986
Bosnia and Herzegovina	9	1,050
Montenegro	6	756
Bulgaria	3	218
Albania	7	383

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



Creating the best value for the consumers

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

In 2010, the share of total Group retail revenue generated through purchases completed with Mercator Pika card amounted to 45.7% (44.1% in 2009).

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



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



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

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

Offering high-quality service and a pleasant shopping environment

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



We are committed to providing quality service for the consumers.

Improving the quality of life in our social and natural environment

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

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

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

In 2010, we established the Sustainable Development Council focused on looking for solutions that are friendly to the people and the environment.

Store formats



Commitment to please our customers lies at the heart of Mercator's strategy. We are constantly working to adapt to their lifestyles and to exceed their expectations and wishes. To this end, Mercator has developed a wide range of store formats; this includes development of various private labels as well as a constant search for new technological solutions.

Multi-level brand strategy

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

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

Mercator

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

Mercator private label stands for above-standard offer and high level of service.

Roda, Getro

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

Getro and Roda labels represent high-quality yet reasonably priced goods.

Brand strategy

Premium

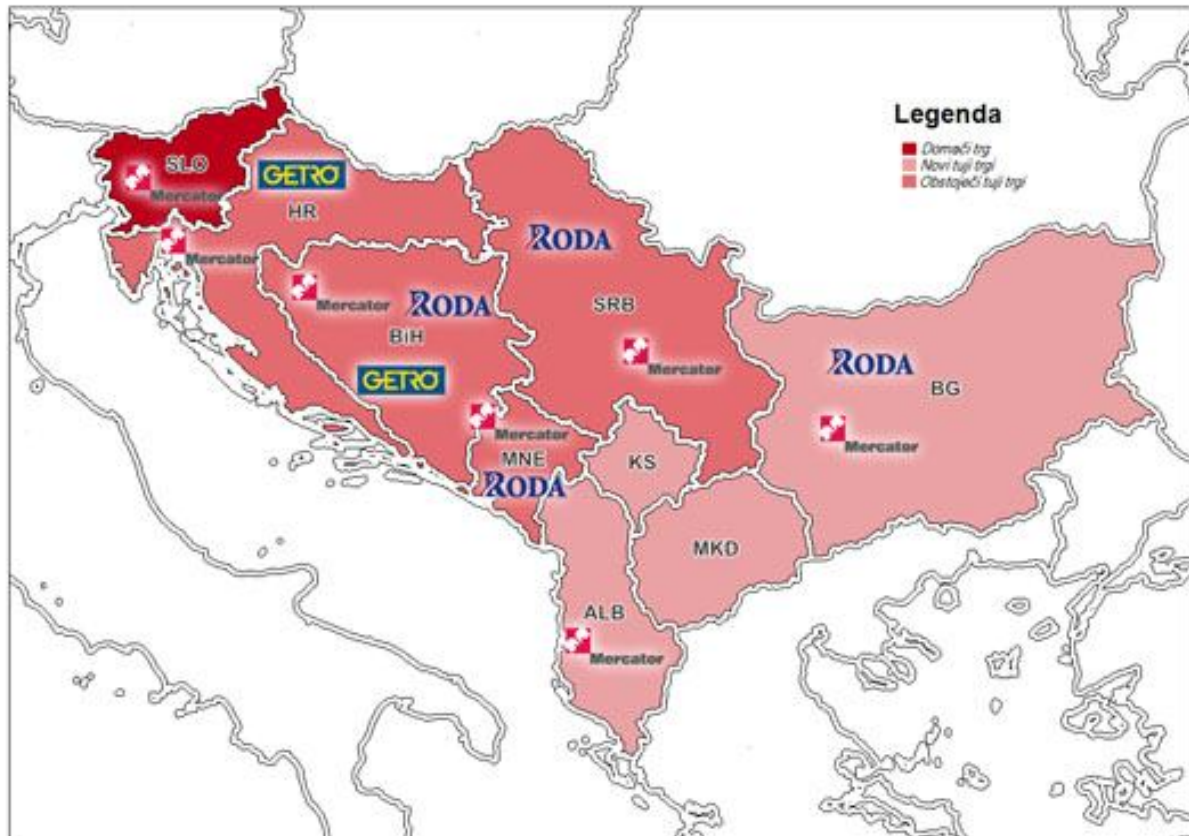
store formats provide unique offer of goods and services, innovative marketing mix, and advanced technological solutions

Value

store formats are focused on delivering the best value for money ratio while providing an attractive offer of goods and services

Economy

store formats provide the best possible choice of well-priced goods with satisfactory service.



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

Multi-format strategy

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



FMCG store formats

As at December 31st 2010, Mercator Group operates 1,122 retail units offering fast-moving consumer goods.

Mercator brand



Mercator Centers and Shopping Centers

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

Hypermarkets

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

Supermarkets and neighbourhood stores

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

Comfort stores

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



Web Store

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

Cash&Carry

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

Discount stores

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

Roda brand



Roda centers

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

Roda megamarkets

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

Roda supermarkets and markets

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

Roda Cash&Carry

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

Getro brand



Getro Cash&Carry

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



Getro Market

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

Home product store formats

Construction and garden centers

Construction and garden centers are located at the outskirts of major cities as well as minor settlements (next to arterial roads) and in environments with highly intensive construction activity. The stores will offer everything the customers may need for major construction works, refurbishments, and basic landscaping.

Home interior stores

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

Home improvement stores

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



As at December 31st 2010, Mercator Group operates 121 retail units offering home products.

Other store formats

Clothing program and drugstores

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



As at December 31st 2010, Mercator Group operates 240 retail units offering textile and beauty program, and sportswear and sports equipment.

Intersport

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



Composition of retail units

COUNTRY	SLOV-ENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	ALBANIA	BULGARIA		MERCATOR GROUP	
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Composition of retail units as at December 31st 2010										
Hypermarkets	21	13	14	6	2	1	4	61	291,537	189,899
Supermarkets	129	14	21	12	5	-	-	181	215,362	138,649
Neighbour stores	335	57	66	7	72	2	-	539	208,257	120,089
Comfort stores	1	-	1	-	-	-	-	2	4,450	2,704
Cash & Carry	12	3	16	-	-	-	-	31	135,639	96,677
Hard discount stores	15	-	-	-	-	-	-	15	11,884	8,567
Restaurants	15	6	-	2	1	-	-	24	9,130	5,178
M Holidays	12	-	-	-	-	-	-	12	222	220
Franchise stores	223	-	34	-	-	-	-	257	51,350	33,620
TOTAL FMCG program	763	93	152	27	80	3	4	1,122	927,829	595,603
Technical program	62	7	14	-	3	-	-	86	126,754	68,114
Furniture program	32	2	-	-	1	-	-	35	34,869	26,344
Total home program	94	9	14	-	4	-	-	121	161,623	94,458
Clothing program and drugstores	96	19	30	13	1	-	-	159	69,168	58,144
Clothing program	77	10	30	9	1	-	-	127	65,429	55,052
Drugstores and perfumeries	19	9	-	4	-	-	-	32	3,740	3,092
Intersport	32	10	26	9	2	2	-	81	50,808	38,993
Other store formats	128	29	56	22	3	2	-	240	119,976	97,137
TOTAL	985	131	222	49	87	5	4	1,483	1,209,429	787,198

Development of new technological solutions

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

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

New technological solutions

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



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



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



Introduction of a wine vending machine at Hypermarket Ljubljana Šiška

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



*Examining the **electronic price tags***

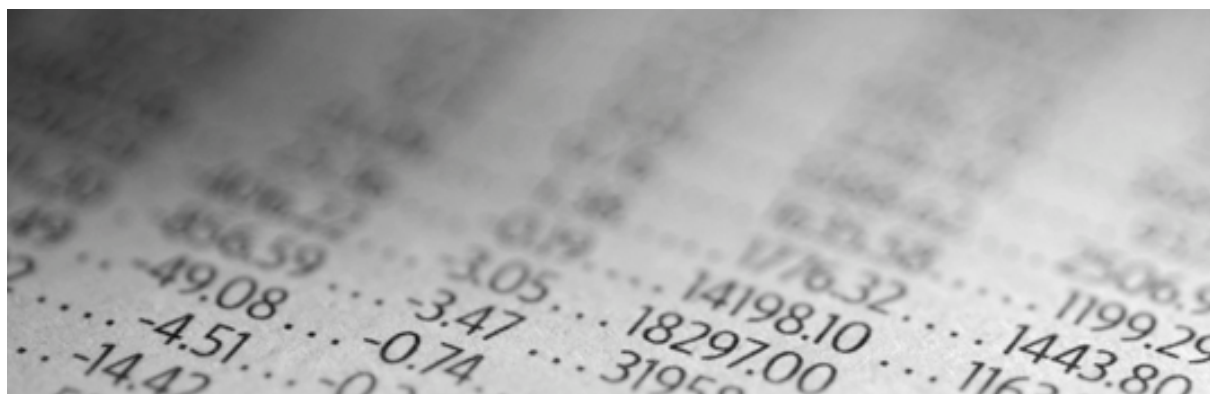
- reduce operating costs** (environmentally friendly technologies, fruit and vegetable moistening technology, LED lighting, etc.)



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

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

Financial management



Maintaining a stable level of net financial debt

Relative to the balance as at the end of 2009, Mercator Group financial liabilities rose by 1.8 percent in 2010. As at the end of 2010, Mercator Group net financial debt amounts to EUR 949,081 thousand, which is 3.8 percent less than as at the end of 2009. The level of the indicator net debt to gross cash flow from operating activities has improved by 5.4 percent.

In 2010, the Group's net financial debt was cut down by 3.88 percent. The share of long-term financial liabilities as at the end of 2010 amounted to 63.0%; thus, the composition of financial liabilities by maturity has been maintained.

in EUR thousand	December 31 st 2010	December 31 st 2009	Index December 31 st 2010 December 31 st 2009
Net financial debt of Mercator Group			
Non-current financial liabilities excl. other financial liabilities	674,375	682,744	98.8
Current financial liabilities excl. other financial liabilities	391,482	360,090	108.7
Derivative financial instruments (liabilities)	2,478	4,945	50.1
Financial liabilities including derivative financial instruments	1,068,335	1,047,779	102.0
Cash and cash equivalents	20,766	16,844	123.3
Derivative financial instruments (assets)	70	737	9.4
Available-for-sale financial assets	3,959	5,473	72.3
Loans and deposits	94,459	37,759	250.2
Financial assets	119,254	60,813	196.1
NET FINANCIAL DEBT	949,081	986,966	96.2
Net financial debt / Gross cash flow from operating activities	5.58	5.90	94.6
Net financial debt / fair value of real estate	56.6%	58.4%	96.9

Debt-to-equity ratio

As at December 31st 2010, debt-to-equity ratio of the Mercator Group amounted to 1:1.14. The ratio is a quotient between equity, which includes share capital as reported in financial statements and provisions, and net financial debt.

Obtaining sources of financing

In 2010, Mercator obtained short-term and long-term bilateral loans, as well signed long-term financial lease agreements.

Particularly abroad, the use of long-term operating lease of trade facilities was employed as an increasingly important form of investment financing. These facilities were either hired by Mercator from their respective owners, or they were constructed for Mercator by local real estate development partners.

On January 31st 2011, the company Poslovni sistem Mercator, d.d., closed drawing of a syndicated loan/credit facility in the amount of EUR 105 million (a total of EUR 85 million had been drawn by December 31st 2010) which was used to restructure a significant part of its short-term financial liabilities, turning them into long-term financial liabilities; the company did not increase the total debt. By improving the maturity structure of financial liabilities, Mercator Group notably reduced the refinancing risk and thereby increased the financial stability of the company. The syndicated facility was divided into two tranches: tranche A has a maturity of three years and bullet repayment; tranche B has a five-year maturity, with semi-annual principal repayment. Seven commercial banks based in Slovenia were involved in the syndicated loan.

Current to non-current financial liability ratio

The share of non-current financial liabilities as at December 31st 2010 amounted to 63.0 percent. Regardless of the fact that in 2010, availability of long-term banking sources was restricted, Mercator Group managed to maintain a solid term structure of financial liabilities, which indicates high financial stability of the Mercator Group.

Ratio between variable and fixed or hedged financial liabilities

As at December 31st 2010, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 58.1% vs. 41.9%.



Available liquidity sources as at December 31st 2010

As at December 31st 2010, Mercator Group had access to the following sources of liquidity:

in EUR thousand	December 31 st 2010
Liquidity sources	
Cash and cash equivalents	20,766
Bank deposits	8,453
Standby revolving credit lines	57,052
Total	86,271

Equal treatment of all financial partners

Mercator Group provides all lenders a pari passu ranking. No financial liability of the Mercator Group is collateralised a mortgage on real estate. Moreover, Mercator made a commitment to all lenders not to encumber its property with mortgages or liens.

Financial covenants compliance

Mercator Group had unified financial covenants with all financial partners in 2007. In 2010, Mercator Group has complied with all financial covenants.

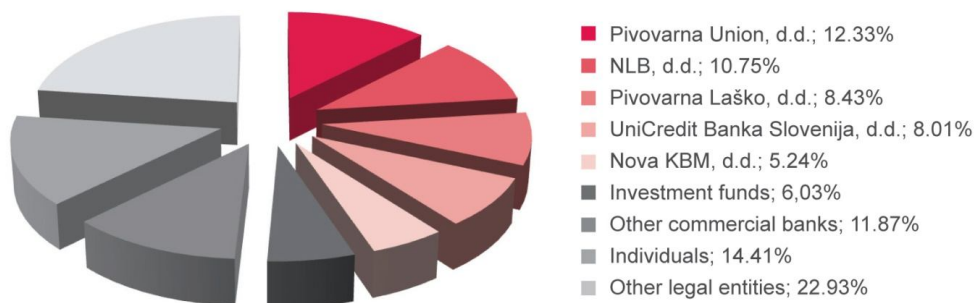
Mercator share and investor relations



Code / Symbol	MELR
Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31st 2010	
Type	Ordinary shares
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	16,331

Ownership structure and treasury shares

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



At 2010 year end, the shareholdings of international (foreign) investors amounted to 15.01 percent, which is 2.53 percentage point more than a year earlier.

Major shareholders

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

Major Shareholders	Country	Number of shares	Share
Major Shareholders of the company Poslovni sistem Mercator, d.d., as at December 31st 2010			
1 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2 NLB, d.d.	Slovenia	404,832	10.75%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Nova KBM, d.d.	Slovenia	197,274	5.24%
6 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
7 Gorenjska Banka d.d., Kranj	Slovenia	142,920	3.80%
8 Abanka Vipava, d.d.	Slovenia	103,400	2.75%
9 NFD 1 Delniški Investicijski Sklad d.d.	Slovenia	97,743	2.60%
10 Radenska, d.d.	Slovenia	96,952	2.57%
Total		2,300,963	61.11%

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

First and last name	Position	Number of shares	Share	
Shares held by Management and Supervisory Board members as at December 31st 2010				
Management Board				
1	Žiga Debeljak	Management Board President	1,100	0.0292%
2	Mateja Jesenek	Senior Vice President	1,000	0.0266%
3	Melita Kolbezen	Senior Vice President (as of January 1 st 2011)	0	0.0000%
4	Vera Aljančič Falež	Senior Vice President	30	0.0008%
5	Peter Zavrl	Senior Vice President	60	0.0016%
6	Stanka Čurovič	Senior Vice President (as of January 1 st 2011)	0	0.0000%
Total			2,190	0.0582%
Supervisory Board				
1	Robert Šega	Supervisory Board Chairman	0	0.0000%
2	Jadranka Dakič	Deputy Supervisory Board Chairwoman	0	0.0000%
3	Stefan Vavti	Supervisory Board member	0	0.0000%
4	Kristijan Verbič	Supervisory Board member	0	0.0000%
5	Matjaž Kovačič	Supervisory Board member	0	0.0000%
6	Miro Medvešek	Supervisory Board member	0	0.0000%
7	Mateja Širec	Supervisory Board member	36	0.0010%
8	Jože Cvetek	Supervisory Board member	2,000	0.0531%
9	Janez Strniša	Supervisory Board member	0	0.0000%
10	Ivica Župetič	Supervisory Board member	0	0.0000%
Total			2,036	0.0541%

Foreign shareholders

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

Shareholders indirectly or directly owned by the Republic of Slovenia

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

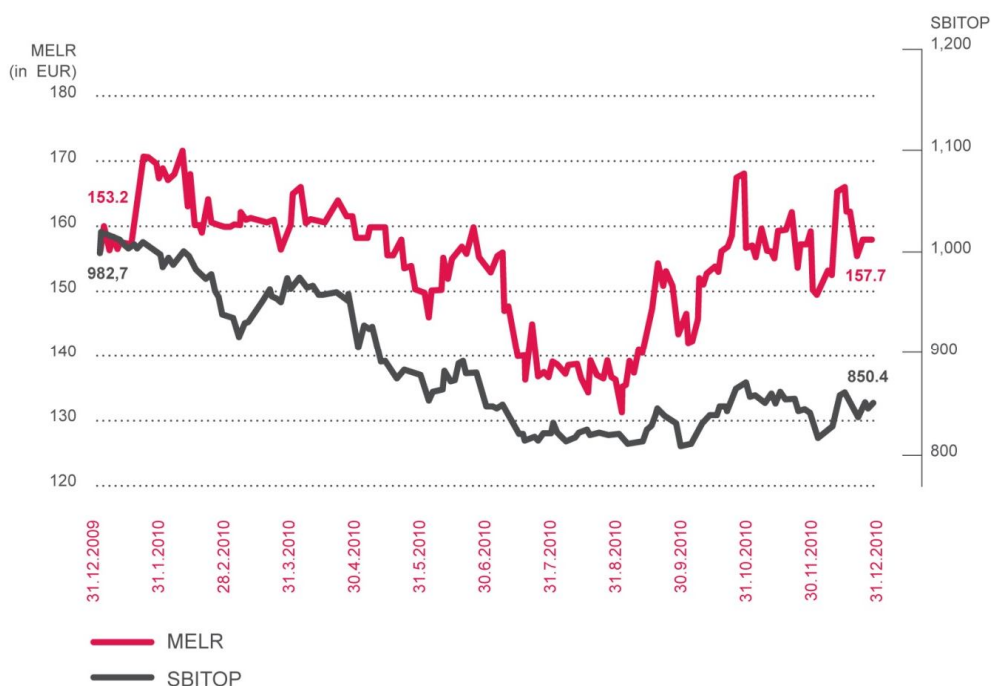
Treasury shares

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

Share trading

The value of Mercator share rose by 2.9 percent in 2010. In the same period, the Ljubljana Stock Exchange SBI TOP blue chip index slumped by 13.5 percent.

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



Key information for the shareholders

	December 31 st 2010	December 31 st 2009	Index 2010/2009
Key information for the shareholders			
Number of shares entered in the court register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization as at Dec 31 st (in EUR)	593,797,430	576,740,344	103.0
Market price per share as at Dec 31 st (in EUR)	157.70	153.19	102.9
Book value per share as at Dec 31 st (in EUR)	221.76	211.13	105.0
Minimum close rate in the period (in EUR)	131.20	144.03	91.1
Maximum close rate in the period (in EUR)	171.50	185.00	92.7
Average close rate in the period (in EUR)	154.14	164.22	93.9
Earnings per share (in EUR)	9.9	5.2	190.9
P/E ratio	16.0	29.6	53.9
Capital gains yield (in %)	2.94	-3.11	-
Dividend yield (in %)	4.70	2.85	165.1
Total yield (in %)	7.64	-0.26	-

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

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

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

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

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

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

Dividend policy and approved capital

Dividend policy

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

At its regular meeting held on December 14th 2010, the Supervisory Board of the company Poslovni sistem Mercator, d.d., discussed and adopted the Mercator Group Medium-Term Business Plan for the Period 2011 - 2015, which also defines the planned gross dividends per share in the medium term period.

Consistently with the medium-term Mercator Group Business Plan, gross dividend of EUR 8 per share is planned for 2011.

Year	2010	Plan 2011	Plan 2012	Plan 2013	Plan 2014	Plan 2015
Planned gross dividends per share						
Gross dividend per share (in EUR)	7.2	8.0	8,8	9,2	9.6	10.0

Management Board will work with the Supervisory Board to examine each year the suitability of the amount of dividend, given the business and financial aspects; the decision on actual payment of dividends, however, lies with the Shareholders Assembly.

Approved capital

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

Investor relations

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

The company Poslovni sistem Mercator, d.d., treats all shareholders holding shares of the same class equally, both internal and external, minority and majority, domestic and foreign. The company shall motivate all shareholders to exercise their rights proactively and responsibly. Stronger representation of minority shareholders at the Shareholders Assembly is also encouraged indirectly, through proxies. The company motivates major shareholders and institutional investors to publicly disclose their investment policy at the company, e.g. their voting policy, level of activity in the corporate governance

processes and the manner thereof, and the mechanisms and frequency of communication with the managerial or supervisory bodies.

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

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

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

- **Presentation for Slovenian investors and analysts** at two events held by the Ljubljana Stock Exchange (April and December 2010).
- **Extensive 2010 Semi-Annual Report** with detailed disclosures and an auditor's opinion on the compiled condensed Mercator Group financial statements. Thus, Mercator provided the investors with even more exhaustive and quality information on the Group's operations.
- The company was the first in the Republic of Slovenia to announce the convocation of its Shareholders Assembly in the **EuroVote system**. EuroVote employs the Euroshareholders web platform, an association of 29 national members with approximately 500,000 private European investors, to allow the investors to lodge via this international association a proxy to represent the interests of individual shareholders in the country or at a particular Shareholder's Assembly. In this way, EuroVote is promoting an active role of shareholders and their attendance at the Shareholders Assemblies and general meetings, as it facilitates cross-border voting in the European Union and additionally supports and motivates the diversity of equity investment at the international level, while reducing risk. This year, proxy voting services were provided for Shareholders Assemblies and general meetings of the following six major issuers: ArcelorMittal, SA (Investas, Luxembourg), Banco Santander, SA (AEMEC, Spain), Mercator, d.d. (VZMD, Slovenia), SAP, AG (DSW, Germany), Shell, Plc (VEB, Netherlands), and Total, SA (DSW, France). Joining the most reputable companies, Mercator is looking to further improve the recognition of the company shares at the international level.
- In September 2010, the company held the **1st Conference of Investors and Financial Analysts** which was attended by representatives of over 30 financial companies including financial analysts and many existing and potential investors. The company presented the details of Mercator Group operations in the first half of 2010.
- The company Poslovni sistem Mercator, d.d., signed an agreement with the Tax Administration of the Republic of Slovenia to join its pilot project called **Horizontal Monitoring**. Planned to last two years, the project is aimed at achieving an improvement in the quality of relations between the Tax Administration of the Republic of Slovenia and the persons liable for taxation. Within the project, the latter shall cooperate with the Tax Administration as equal partners, in a transparent manner, based on mutual trust and understanding of the business events. Mercator's expectations from the project include improved taxation certainty, faster response by the Tax Administration to any inquiries, better understanding of tax legislation, and understanding the effects of major business decisions on company financial and taxable income statements even before they are actually adopted. The information was welcomed by potential investors as this move improves their confidence in the company with regard to mitigation of the tax risks.

- Company representatives took part in the **London and Vienna roadshows** held by the Viennese stock exchange in cooperation with the Ljubljana Stock Exchange (October and November 2010).
- In December 2010, Mercator received a **special award by the Ljubljana Stock Exchange for the most improved investor relations in 2010**. Our active approach to investors and quality up-to-date information witness how seriously investor relations are managed at Mercator.

In 2010, the Group published 31 announcements in Slovenian and English in the SEOnet info system.

Financial calendar for 2011

The company Poslovni sistem Mercator, d.d., announces the outline financial calendar late each year for the following year, listing major events and announcements planned. The calendar is announced in the SEOnet electronic communication system.

Type of information

Planned announcement date*

Financial calendar for 2011

Audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2010	Wednesday, March 2 nd 2011
Declaration of Compliance with the Corporate Governance Code	Wednesday, March 2 nd 2011
Adoption of the proposal on the agenda and resolutions of the 17 th regular Shareholders Assembly	Wednesday, May 18 th 2011
Business Report of the Mercator Group and the company Mercator, d.d., in the period 1-3 2011	Wednesday, May 18 th 2011
Business Report of the Mercator Group and the company Mercator, d.d., in the period 1-6 2011	Wednesday, August 24 th 2011
Business Report of the Mercator Group and the company Mercator, d.d., in the period 1-9 2011	Wednesday, November 9 th 2011
Business plan for the year 2012	Wednesday, November 9 th 2011

* The dates listed are the currently planned dates. Actual dates may be subject to change.

The announcements will be available on the Ljubljana Stock Exchange website in the SEOnet system, and on the website of the company Poslovni sistem Mercator, d.d. The same applies to any changes to the financial calendar.

Risk management

Risk management goals

Active risk management at the Mercator Group is pursuing the goal of timely identification and response to the potential threats, by preparing appropriate measures to hedge the identified risks or mitigate our exposure. Risk management measures are integrated in daily operations of all Mercator Group companies.

Risk management organization

Risk management activities at Mercator Group are the responsibility of the dedicated Risk Management Council. The council is managing a systematic risk management process which is laid down in the Rules of Procedure for Risk Management. Since the risks are monitored and managed from the aspect of several professional fields, Risk Management Committees, covering three main fields of risks, were founded to provide support to the Risk Management Council. Risk management is coordinated centrally at the Group; financial risks are managed by the parent company.

Exposure to risks is assessed based on sensitivity analysis which identifies by how much the gross cash flow from operating activities at the level of the Group or a particular company would drop in case of occurrence of a particular event.

Risk Management Committee

Committee for business risks

Committee for financial risks

Committee for operational risks

Risk management methodology

At Mercator Group, we are constantly studying and analyzing the existing and potential new risks, and implementing measures to manage, or hedge them.

Risk management process includes identification of risks, sensitivity analysis, defining the threshold value for key risks, adopting measures for managing the risks, and implementation thereof to daily decision-making in individual fields.

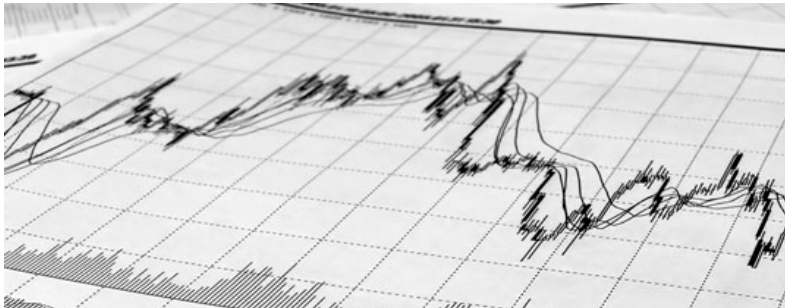
Assessments of Mercator's exposure to particular types of risks were made based on the occurrence probability rate and expected damage in case a particular loss events actually took place. Exposure to risks is assessed based on sensitivity analysis which identifies by how much the gross cash flow from operating activities at the level of the Group or a particular company would drop in case of occurrence of a particular event taken as the basis for risk analysis. Probability is calculated based on analysis of data on past events, and expectations on the frequency of individual events in the year ahead. The analysis includes different effects and factors adjusted to particular types of risk.

Risks that cannot be quantified are assessed qualitatively. The assessed key risks for which the negative economic effect, weighted by the probability of occurrence, exceeds 1 percent of gross cash flow from operating activities of Mercator Group or a particular company and for which measures have not yet been adopted, or which are not hedged in a way that would allow us to fully manage the risk, are paid the most attention. Measures are adopted for their hedging which either minimize the damage upon occurrence of the event, or decrease the level of probability of the occurrence of such event, thus rendering the risk level acceptable.

Implementation of the measures adopted to control the key risks is checked with a special internal audit. Management thereof is reported to the Audit Committee quarterly.

Managing the key risks in 2010

In 2010, the negative effects of the economic and financial crisis could still be felt. Despite the improvement in macroeconomic conditions, the Group is still facing lower demand in retail in all markets of operations; payment defaults ("payment indiscipline") are still rampant, resulting from reduced amount of credit available to enterprises and individuals. In addition, foreign currency risk was also quite notable. Against this backdrop, deliberate and thoughtful management of risks encountered was of vital importance for Mercator Group.






Mercator Group is still facing low demand in retail and defaults on receivables.

Business risks

Business risks are related to company operations and our core activity.

We anticipate the exposure to risk in 2011 to increase due to resumed global inflationary pressures on the prices of input raw materials.

Key risk	Analysis	Management/hedging	Assessed exposure in 2011/2010
Business risks			
Risk of a decline in purchasing power Assessment of the risk of a decline in purchasing power (size of market) due to challenging economic conditions.	We are monitoring quarterly the changes in key macroeconomic indicators (unemployment, GDP, salaries, pensions, inflation, etc.) and their effect on Mercator operating activities and retail in general, in all markets of our operations. Unemployment as the key indicator of purchasing power and the sense of safety on the part of the consumers has risen dramatically towards the end of the year. In addition, many insolvency proceedings were instituted against major companies, which will bear a further negative impact on the purchasing power in 2011.	Adjustment of the organization in order to adapt to different levels of development in national economies. Rationalization of operations and reaping untapped internal potential in operating activities. In all markets, we have adapted the marketing activities to the new conditions in order to provide a favourable offer for our customers, and to retain our revenue level. In Slovenia, we introduced the weekly flyer (increased frequency of special offers), increased exposure of private label products, and Every Day Low Price project. In foreign markets, we carried on our activities of providing the most favourable offer. In light of the changes in market conditions, we have also prepared the starting points for our presence in the markets in the period 2011 ? 2015, which will be aimed at adapting as far as possible our offer to the purchasing power of the consumers.	
Risk of suboptimal marketing mix and effects of the competitive environment Assessment of risk based on market conditions and Mercator's position in the Group's market of operations.	We are regularly monitoring the perception of key elements of the marketing mix as relative weakening of Mercator's position could be perceived in 2010, resulting mostly from activities of our competitors (expansion of discount retailers and private labels) and is not a result of poorer marketing mix management on the part of Mercator.	Reorganization of operations allows higher flexibility at the national level and the possibility of further optimization of business processes. Regular monitoring of competitiveness of pricing and plans of other retailers; considering the shopping behaviour and habits of the customers, including changes in such behaviour; development of private label lines; adjustment of business activities to the specific characteristics of each market. In the last quarter of 2010, a new store format was launched in the Croatian market: Getro market which will allow Mercator to approach the most price-sensitive customers in Croatia. Currently, 23 stores are operating with adjusted marketing mix, mostly in Slavonia region ? the least developed region in Croatia. Test activities of adjusting the assortment to the micro-location-specific purchasing power were also carried out in Slovenia. Comparable adjustments to the marketing mix will be carried out in other markets of our operations, too, if necessary.	
Risks in the supply process Assessment of global impact on Mercator's supply processes.	Risks of supply of products for resale include above all the risks of fluctuations in exchange rates (currency risk) and traded raw materials (oil, grains and meat), which translate into input prices of the products purchased by the Mercator Group. In 2011, we are expecting an increase in the risk level as a result of resumed global inflationary pressures on the prices of input raw materials.	Systemic centralization of global supply includes global supply tenders in order to improve our procurement conditions and minimize the negative effects of fluctuations in input prices of raw materials in food production.	




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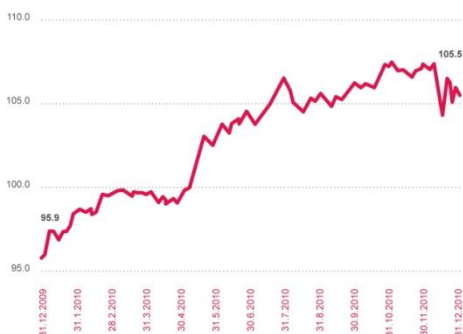
- ↑ planned increase in exposure in 2011 relative to 2010
- ▬ equal exposure planned for 2011 as in 2010
- ↓ planned decrease in exposure in 2011 relative to 2010

Financial risks

Financial risks are those that may negatively affect the ability to generate cash flows, management of cash flows, maintaining the value of financial assets, and managing financial liabilities.

In 2011, we expect the exposure to interest rate risk and credit risk in wholesale to increase. On the other hand, we anticipate reduced exposure to credit risk pertaining to Mercator Pika car and liquidity risk.

Key risk	Analysis	Management/hedging	Assessed exposure in 2011/2010						
Financial risks									
Credit risk in wholesale Assessment of the risk that receivables from business partners resulting from deferred payment will only be settled partly or not at all.	We are monitoring the level and changes in the level of receivables to wholesale customers. In 2010, we continued to restrict sales with deferred payment without first-class security. This reduced our exposure to wholesale and other partners. Adjustment/revaluation of receivables ¹ : <table border="0"> <tr> <td style="color: red;">EUR thousand</td> <td style="text-align: right;">2010</td> <td style="text-align: right;">2009</td> </tr> <tr> <td>Adjustment/revaluation of receivables</td> <td style="text-align: right;">34,627</td> <td style="text-align: right;">30,860</td> </tr> </table>	EUR thousand	2010	2009	Adjustment/revaluation of receivables	34,627	30,860	Obtaining first-class security from customers with poorer rating Continuous monitoring of customers with a history of payment defaults, and harsher restrictions to exposure to a single customer More active collection procedures for overdue receivables	
EUR thousand	2010	2009							
Adjustment/revaluation of receivables	34,627	30,860							
Mercator Pika card credit risk Assessment of the Mercator Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all).	We are daily monitoring the changes in receivables from Mercator Pika card holders. In 2010, the amount of receivables from Mercator Pika card holders was increased particularly as a result of the increase in the number of card holders; however, appropriate mechanisms of collection management allowed us to actually reduce the share of bad receivables from Mercator Pika card holders in 2010.	Defining initial credit limit according to the individual's rating. Introduction of automated and systematic collection system. Timely blocking of the card in case of defaults on the payments by the card holder.							
Currency risk Assessment of the loss of economic benefit due to changes in exchange rate.	Subsidiaries in Serbia, Mercator-S, d.o.o., and in Croatia, Mercator-H, d.o.o., are particularly exposed to fluctuations in the EUR/RSD and EUR/HRK exchange rates, respectively, in the segment of financial liabilities from EUR-denominated loans. In 2010, both the Serbian dinar and the Croatian kuna depreciated which resulted in higher finance expenses due to currency translation differences in the amount of EUR 10,098 thousand. EUR/RSD movement in 2010:	Constant monitoring of macroeconomic background of the changes in the exchange rate at hand, and other related macroeconomic indicators and trends Based on the general trends and expectations, we are adapting our operations, as far as possible, in such way that it we are not increasing foreign exchange exposure.							



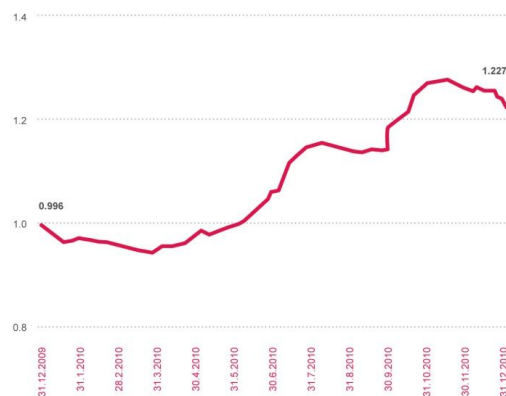
Key risk **Analysis** **Management/hedging**

Financial risks

Interest rate risk
Euribor interest rate is subject to market fluctuations and it is changing daily, which can lead to increased interest expenses.

Mercator Group liabilities include some financial liabilities that are pagged to the Euribor variable interest rate. Average 6m Euribor in 2010 was 1.08%; however, it is estimated that Euribor will rise in 2011.

6m EURIBOR movement in 2010:



Regular monitoring of the changes in variable interest rates and, given any forecasts of rising interest rates, examining the possibilities to conclude derivative financial instruments in order to hedge the interest rate risk. At any moment, at least 50% of all financial liabilities used to finance non-current assets and at least 25% of total financial liabilities are hedged.



Liquidity risk
Assessment of the risk that at a certain moment, the company will not have enough liquid assets to settle its current liabilities.

As a result of the financial crisis lasting throughout 2010 as well, credit activity of commercial banks was quite low; in addition, there was a risk that the banks would not refinance the financial liabilities that reached maturity. As at December 31st 2009, the ratio between non-current and current financial liabilities of the Mercator Group was 65:35; in the first three quarters of 2010, the ratio dropped to 51:49. In the last quarter of 2010, Mercator Group utilized new long-term loans which improved the term structure of the Group's financial liabilities.

Signing a long-term syndicated loan at the end of the year 2010. With banks, which did not participate in the syndicated loan, refinanced part of the short-term and long-term loans that reached maturity. Establishing liquidity management at the Mercator Group level according to the needs of each company.

Changes in term structure of Mercator Group financial liabilities 2010:



¹ Revaluations/adjustments to receivables also include adjustments related to Mercator Pika card.







Legend:

- ↑ planned increase in exposure in 2011 relative to 2010
- ▬ equal exposure planned for 2011 as in 2010
- ↓ planned decrease in exposure in 2011 relative to 2010

Operational risks


Operational risks are related to the progress and control of business processes and activities in the Mercator Group, and to the consumption and costs incurred in the progress of business processes.


Relative to 2011, we are expecting greater exposure to risks related to delivery failures and price hikes for traded commodities.

Key risk	Analysis	Management/hedging	Assessed exposure in 2011/2010
Operational risks			
Strategic risks Risks of pursuit and attainment of the specified strategy and integration of companies into the Group.	Risks related to pursuit and attainment of strategy and reaping joint synergies are monitored quarterly through analysis of development and operations, particularly in new markets.	Continuously completing and adjusting the strategy of expansion based on the experience already accumulated with entry into foreign markets Implementing the adopted systematization and operations in compliance with the corporate culture and strategic goals of the Group in order to improve integration efficiency.	
Category management operational risks Risks related to delivery failures, increase in the prices of traded commodities, and seasonal effect.	We are monitoring delivery failures at monthly level. The amount of delivery failures is decreasing each year. We are regularly monitoring the changes in the prices of raw materials used for products in each category that may be subject to considerable influence by the commodity market. Risk of effect of bad weather on the seasonal products is related to efficient management of these categories.	Tolerable rate of delivery failure relative to total supply value was defined. Sound IT support allows fast and quality decision-making on the amount of each order. Detailed knowledge of these categories and continuous adjustment to current market conditions. Proper provision of attractive, varied, and favourably priced seasonal offer.	
Core activity operational risks Risk of a refrigeration system failure.	Logistics plan for the following few years is based on the assumptions of the existing infrastructure with any required adjustments and investments. The assessment revealed that the biggest risk was related to outdated refrigeration equipment at our oldest fresh program warehouses. This could lead to substantial material damage.	Providing safe work and operation on existing infrastructure and repair and replacement of outdated equipment in 2011. In the medium term, we are planning to set up a new, energy efficient distribution center for fresh programs in Slovenia. The warehouse is scheduled for completion by 2013.	
IT operational risks Risk of failure of the central IT systems.	Failures occur for various reasons such as natural disasters, fires, failure of individual system components, failure in system or application software, etc.	Maintaining an up-to-date backup copy of the key IT systems and segmentation and mirroring of key system elements. Establishing a business environment for rapid resumption of failed system elements and efficient and successful management of changes to the systems.	
Environmental risks Risks of inefficient power consumption due to sub-optimally planned processes and technologies employed.	We are regularly monitoring power consumption and any causes of inefficient use of power (sub-optimal business processes and technologies employed).	In Slovenia, activities are under way as a part of the project Reduction of Power Consumption through savings measures, current maintenance and minor investments. In foreign markets, activities are under way in compliance with the internal manual and plan for efficient use of energy at our stores.	
Human resource risks Risk of a lack of adequate human resources and risk related to employee health.	We are regularly monitoring the status and identifying any deficiencies and inadequacies with regard to human resources in the labour market, particularly for excess demand jobs (butchers, bakers, cooks, as well as sales managers, store or shop managers and their deputies, specialized shop assistants), and for inadequate professional skills of new employees. The risk is higher in areas with higher labour turnover. The risk related to employee-health is present wherever average age of employees exceeds the average (particularly in Slovenia).	Efficient expansion and operation of the internal training network, shop manager and deputy manager training. Permanent search for appropriate human resources, particularly those for whom changing the location of work and residence (expatriation) is not a major issue. Raising awareness of the employees about healthy lifestyle; working with physicians of various specialties; standardized collection of information on work-related injuries in order to eliminate the causes thereof (ergonomic design of workplaces, training). Establishing the Ergonomics Team and the Mercator Society of Sports and Culture (in Slovenia).	

Legend:

 planned increase in exposure in 2011 relative to 2010

 equal exposure planned for 2011 as in 2010

 planned decrease in exposure in 2011 relative to 2010

Risk assessment

In view of the Management Board, total exposure of Mercator Group to business, financing, and operational risks, as at December 31st 2010, considering the current assumptions on further development of the aspects of economic environment in 2011, is at a moderate level.

It should furthermore be noted that there is considerable uncertainty with regard to the following:

- further effects of a sluggish economic recovery;
- conditions in financial markets; and
- future macroeconomic situation in the countries of the Western Balkans.

Should any major changes occur, relative to the current expectations, with regard to the key aspects of our business and economic environment, as listed above, the exposure of Mercator Group to the following risks could become considerable, or high, despite the measures introduced to hedge them:

- risk of attaining the planned amount of revenues from sales, resulting from a decline in purchasing power;
- foreign currency risk, particularly in Serbia and Croatia;
- refinancing risks;
- and/or any other risks.

Therefore, the company will update each quarter its assessment of exposure to risks, according to the development of the aspects of business and economic environment; these reassessments will be reported on in interim, or quarterly, business reports.

In 2010, total exposure of Mercator Group to business, financial, and operational risks is at a moderate level.

Performance analysis

Despite the challenging economic circumstances, Mercator Group operations were stable in 2010. The following factors affected Mercator Group performance in 2010:

Performance analysis should be based on consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity.



- Increase in fast-moving consumer goods sales revenue resulting from investments and acquisition of trade operations of the company Getro in Croatia and companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., in Montenegro;
- Increase in sales revenues from home products and sportswear;
- Marketing and development activities carried out in order to adapt the well-priced offer for consumers during the period of lower purchasing power;
- Further implementation of business rationalization measures.



- Effect of harsh economic conditions which resulted in stagnating purchasing power and consequently in decrease of the overall value and change to the composition of consumption at existing retail units, for both fast-moving consumer goods and apparel;
- Heavy investment into prices to counter the severe economic conditions;
- Stronger competition due to rapid expansion of discount retailers;
- Negative currency translation differences due to depreciation of the Serbian currency;
- credit risks in wholesale due to low liquidity in the economy.

Following is an analysis of performance in 2010, focused on the Mercator Group. The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that holds all ownership shares in the Group's subsidiaries; simultaneously, it is an operative company carrying out all trade and other activities in Slovenia. Hence, it is sensible to focus for the purpose of performance analysis only on the consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity. In addition, due to the transfer of a part of operating activities to the companies Intersport ISI, d.o.o., and Modiana, d.o.o., in 2010, financial statements of the company Poslovni sistem Mercator, d.d., are not fully comparable between the periods.

Analysis of consolidated income statement

in EUR thousand	2010	2009	Index 2010/2009
Analysis of consolidated income statement			
Revenue	2,781,604	2,643,315	105.2
Costs of sales	-2,611,100	-2,474,106	105.5
Gross profit	170,504	169,209	100.8
Administrative expenses	-99,622	-109,955	90.6
Other income	23,623	12,588	187.7
Results from operating activities	94,505	71,842	131.5
Net interest expenses	-41,521	-38,743	107.2
Net finance foreign currency translation differences	-10,098	-4,224	239.1
Other net finance expenses	-2,542	-3,679	69.1
Profit before income tax	40,344	25,196	160.1
Tax	-9,957	-4,077	244.3
Profit for the period	30,387	21,119	143.9
Gross cash flow from operating activities (EBITDA)	170,087	167,296	101.7
Gross cash flow from operating activities before rental expenses (EBITDAR)	204,846	190,619	107.5

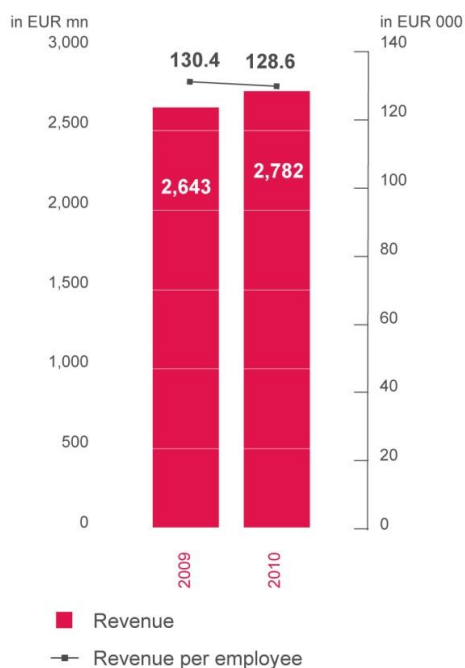
Sales revenues and productivity

Revenues in 2010 amount to EUR 2.8 billion, which is 5.2 percent more than in 2009.

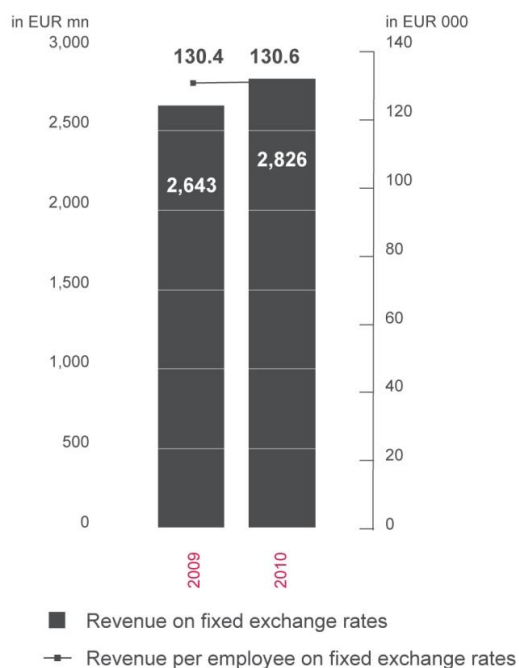
in EUR thousand	2010	2009	Index 2010/2009
Revenue and productivity			
Slovenia	1,694,276	1,744,603	97.1
Foreign markets	1,087,328	898,712	121.0
Total	2,781,604	2,643,315	105.2

Revenues in 2010 amount to EUR 2,781,604 thousand, which is 5.2 percent more than in 2009. In Slovenia, revenues are 2.9 percent lower than last year. In foreign markets, revenues are higher by 21 percent, which is mostly the result of acquisitions of trade operations during the year 2010 (Getro in Croatia and the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., in Montenegro).

Revenue and productivity



Revenue and productivity on fixed exchange rates



Assuming constant exchange rates, Mercator Group revenues would have amounted to EUR 2,825,500 thousand, a 6.9 percent increase over 2009.

Mercator Group revenues exceeded the planned figure by 1.1% in 2010.

The greatest share in total revenue goes to net sales of goods, materials and products (93.9%); the rest is related to revenue from services rendered.

Detailed summary of sales by particular markets and trade programs is presented in the section Sales.

Labour productivity at Mercator Group in 2010 amounts to EUR 128.6 thousand per employee based on hours worked, which is 1.4% less than in 2009; assuming constant exchange rates, it is at the same level as in 2009, or slightly higher: by 0.2%.

Operating costs

Costs of sales

Mercator Group costs of sales which include the purchase value of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 2,611,100 thousand in 2010, which is 5.5% more than in 2009. Increase in costs is consistent with the expansion of our operations.

Administrative expenses

Mercator Group administrative expenses in 2010 amount to EUR 99,622 thousand, which is 9.4% lower than in 2009. Given the extent of the operating activities, this points to further cost rationalization in 2009. Administrative expenses also include costs of recognized long-term provisions in the amount of EUR 3,839 thousand, and losses from disposal of property, plant, and equipment and impairment of goodwill and real estate in the amount of EUR 5,189 thousand.

Expenses by nature

The largest share of selling and marketing costs, administrative expenses and production costs, is represented by labour costs (43.4%) which amount to EUR 291,901 thousand in 2010, or 4.9% more than in 2009; the number of employees based on hours worked rose by 6.7% in the same period.

Costs of material and services in 2010 amount to EUR 277,890 thousand, which is 10.2% or EUR 25,748 thousand more than in 2009. Rental costs (as Mercator Group has mostly expanded its retail network through operating lease recently) were up by EUR 11,436 thousand, or 49.0%. The share of costs of material and services in sales revenues amounts to 10.0%, which is 0.5 percentage point more than in 2009.

Depreciation costs in 2010 amounted to EUR 78,694 thousand, which is EUR 17,318 thousand less than in 2009. Depreciation decreased as a result of the change in the useful lives of property and equipment, pursuant to the appraisal conducted on January 1st 2010 by independent certified appraisers. In recent years, Mercator carried out numerous activities that positively affected the actual useful life of property, plant, and equipment. These activities include high investment into current and investment maintenance of property, plant, and equipment, comprehensive standardization of store formats, technological standardization of equipment, implementation of the category management concept, standardization of computer equipment, active internal education and training on correct, economical, and safe use of property, plant, and equipment, property insurance, and measures to improve energy efficiency. In our estimate, the costs of depreciation was decreased by EUR 21,102 thousand in 2010 as a result of the changes in useful lives of property, plant, and equipment.

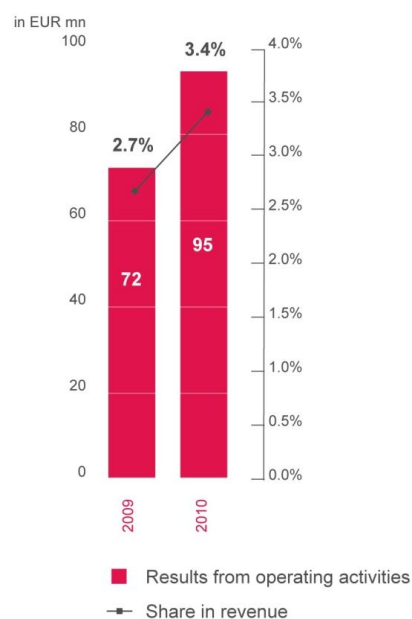
Detailed breakdown of costs by natural categories is presented in the section Notes to Consolidated Financial Statements, Explanation 11: Expenses by nature.

In 2010, Mercator Group administrative expenses amounted to EUR 100 million, down 9.4 percent relative to 2009.

Results from operating activities

In 2010, Mercator Group's results from operating activities (operating profit) amounted to EUR 94,505 thousand, which is EUR 22,663 thousand, or 31.5 percent more than in 2009. Results in 2010 were positively affected by the increase in revenue, marketing and development activities, business rationalization measures, and positive effect of the extension of useful lives of PPE. On the other hand, it was negatively affected by harsh economic conditions and their influence on consumption in all markets, and depreciation of Serbian dinar which affected the revenue in the Serbian market and currency translation differences.

Results from operating activities and share in revenue



Finance income and expenses

Net finance expenses in 2010 amounted to EUR 54 million, which is EUR 16.1 percent more than in 2009.

in EUR thousand	2010	2009	Index 2010/2009
Finance income and expense			
Interest income	3,427	7,811	43.9
Interest expense	-44,948	-46,554	96.6
Net interest expense	-41,521	-38,743	107.2
Net finance foreign currency translation differences	-10,098	-4,224	239.1
Other net finance expense	-2,542	-3,679	69.1
NET FINANCE EXPENSE	-54,161	-46,646	116.1

In 2010, Mercator Group finance income amounts to EUR 6,070 thousand, which is EUR 4,175 thousand or 40.8% less than in 2009. Finance income in the amount of EUR 863 thousand is related to revenues from regular interest on financing; the rest includes revenues from default interest, positive currency translation differences, and other finance income.

Mercator Group finance expenses in 2010 amount to EUR 60,231 thousand, which is EUR 3,340 thousand or 5.9% more than in 2009. Of this sum, EUR 10,794 thousand pertains to finance expenses from currency translation differences. Finance expenses in the amount of EUR 44,362 thousand include expenses from regular interest on borrowings from commercial banks. Finance expenses in 2010 were notably affected by currency translation differences in Serbia where the EUR exchange rate of the Serbian RSD depreciated by 13.1% at the end of 2010 relative to the end of 2009 (exchange rate as at December 31st 2009: RSD 95.03 per 1 EUR; exchange rate as at December 31st 2010: RSD 107.47 RSD per 1 EUR). Net negative currency translation differences in financing amount to EUR 10,098 thousand in 2010.

Detailed breakdown of finance expenses is presented in the section Notes to Consolidated Financial Statements, Explanation 13: Finance Income and Expenses.

Profit before income tax

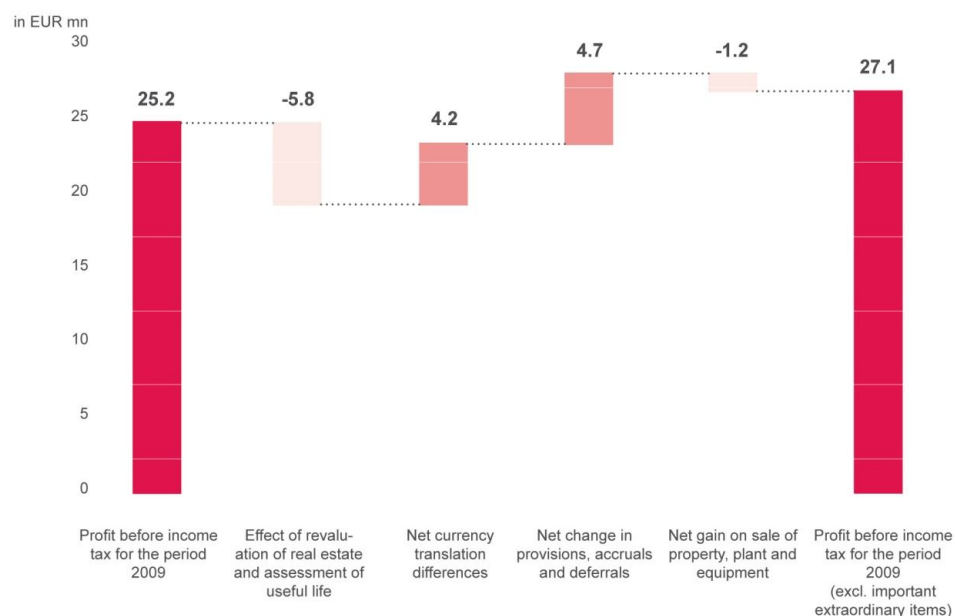
Profit before income tax for the Mercator Group in 2010 amounts to EUR 40,344 thousand, which is EUR 15,148 thousand or 60.1% more than in 2009 and 48.4% more than planned for 2010.

The following unplanned or extraordinary events had a major impact on the profit before income tax in 2010:

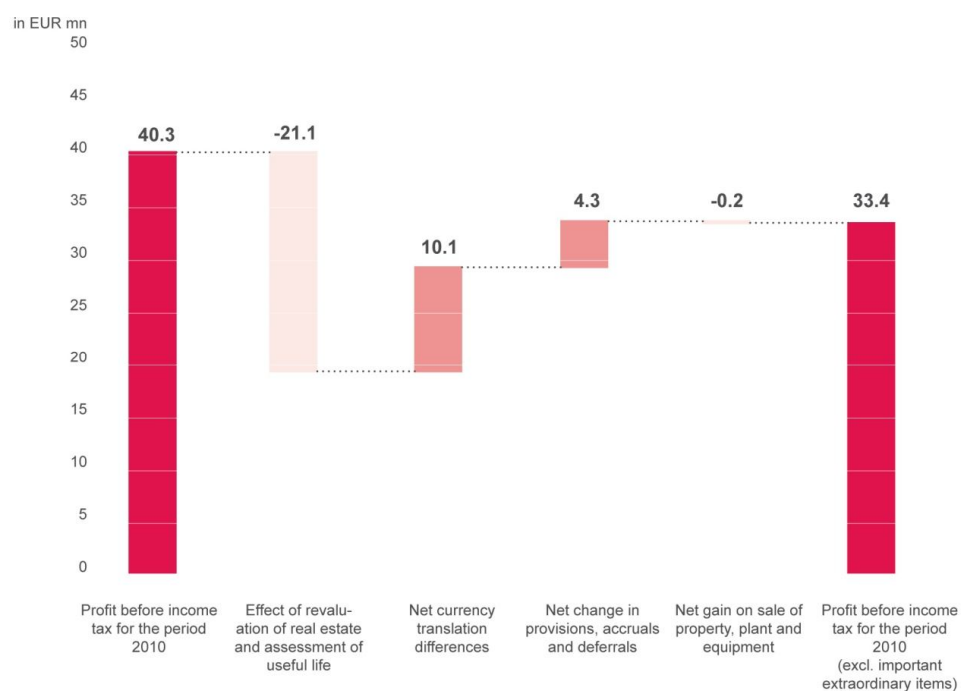
- effect of revised useful lives and appraisal of property, plant, and equipment;
- net effect of currency translation differences from financing;
- net changes in provisions and other accruals;
- net gains from disposal of property and impairment of property, plant, and equipment.

When these effects are eliminated, the adjusted profit before income tax for 2010 amounts to EUR 33,442 thousand, which is 23.2 percent more than the adjusted result for 2009 (EUR 27,145 thousand).

Adjusted profit before income tax in 2009



Adjusted profit before income tax in 2010



Profit for the period

in EUR thousand	2010	2009	Index 2010/2009
Profit for the period			
Results from operating activities	94,505	71,842	131.5
Net finance expense	-54,161	-46,646	116.1
Tax	-9,957	-4,077	244.3
Total	30,387	21,119	143.9

Mercator Group's profit for 2010 amounted to EUR 30,387 thousand in 2010, which is EUR 9,268 thousand or 43.9% more than in 2009 and 39.0% or EUR 8,531 thousand more than planned for 2010.

Gross cash flow from operating activities

Mercator Group's gross cash flow from operating activities in 2010 amounted to EUR 170,087 thousand, which is 1.7 percent more than in 2009. Assuming constant exchange rates, gross cash flow from operating activities would have amounted to EUR 172,409 thousand, which represents 3.1-percent growth relative to 2009.

Detailed summary of the calculation of gross cash flow from operating activities is presented in the section Consolidated statement of cash flows.

Gross cash flow from operating activities before rental expenses

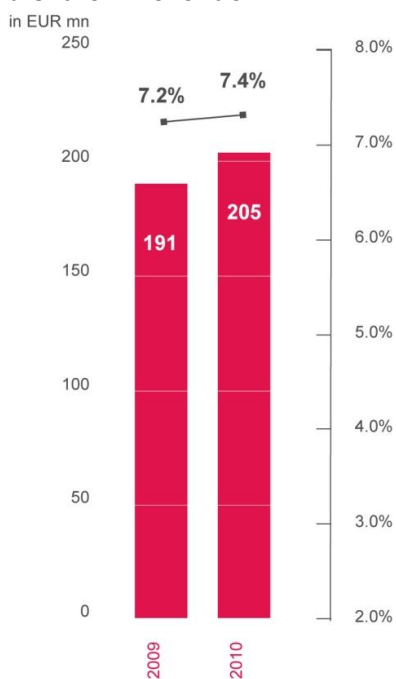
However, the relevant indicator of the ability to generate operating cash flow, which also accounts for the expansion of Mercator Group's retail network through operating lease, is gross cash flow from operating activities before rental expenses which amounted to EUR 204,846 thousand in 2010, or 7.5 percent more than in 2009. Assuming constant exchange rates, gross cash flow from operating activities before rental expenses would have amounted to EUR 208,340 thousand, which is 9.3 percent more than in 2009.

Mercator Group's gross cash flow from operating activities before rental expenses in 2010 is 1.1% above the planned figure for 2010.

Stable generation of cash flows from operating activities, even in the time of economic hardship, indicates great financial power, competitiveness, and business efficiency of the Group.

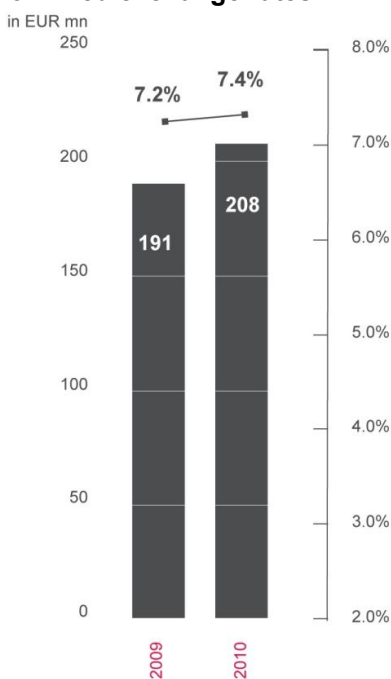
Mercator Group's gross cash flow from operating activities before rental expenses in 2010 amounted to EUR 205 thousand, which is 7.5 percent more than in 2009.

Gross cash flow from operating activities before rental expenses and share in revenue



■ Gross cash flow from operating activities before rental expenses
 —■ Share in revenue

Gross cash flow from operating activities before rental expenses and share in revenue on fixed exchange rates



■ Gross cash flow from operating activities before rental expenses on fixed exchange rates
 —■ Share in revenue on fixed exchange rates

Analysis of consolidated statement of financial position

in EUR thousand	2010	2009	Index 2010/2009
Analysis of consolidated statement of financial position			
Non-current assets	2,016,720	1,947,556	103.6
Current assets	592,134	528,792	112.0
Total assets	2,608,854	2,476,348	105.4
Equity	798,165	805,390	99.1
Non-current liabilities	763,800	772,933	98.8
Current liabilities	1,046,889	898,025	116.6
Total equity and liabilities	2,608,854	2,476,348	105.4

Assets

Mercator Group assets as at December 31st 2010 amounted to EUR 2,608,854 thousand, which is EUR 132,506 thousand more than at the end of 2009.

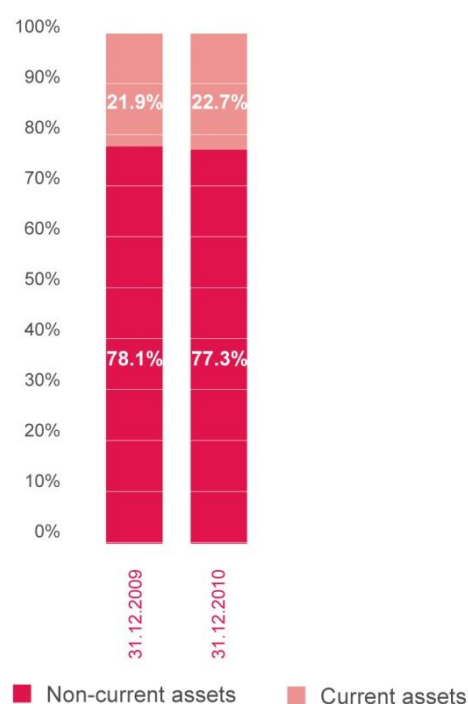
The value of property, plant and equipment as at December 31st 2010 represents 92.7% of total Mercator Group non-current assets.

Mercator Group assets

As at December 31st 2010, the value of Mercator Group **non-current assets** amounted to EUR 2,016,720 thousand, which is EUR 69,164 thousand, or 3.6 percent more than as at December 31st 2009.

The biggest share of non-current assets is represented by property, plant and equipment, accounting for 92.7% (EUR 1,870,428 thousand) of the total figure. Their amount rose by EUR 7,137 thousand relative to the end of 2009. The change in 2010 is related to investments, revaluation adjustments, depreciation and amortization, disposal of unnecessary and non-viable property, plant, and equipment, and currency translation differences.

The activities to prepare the analysis of possible monetization of Mercator Group real estate also comprised an appraisal of fair value of real estate as at January 1st 2010 by independent certified appraisers. Furthermore, the independent certified appraisers appraised the useful lives of property and equipment. The revaluation effect in 2010 amounts to a total of EUR 20,841 thousand.



As at December 31st 2010, the value of intangible assets amounts to EUR 52,626 thousand, of which EUR 9,984 thousand pertains to goodwill, and EUR 42,642 thousand is related to brands, material rights, and patents. Relative to the end of 2009, the value of intangible assets rose by EUR 631 thousand.

Investment property as at December 31st 2010 is valued at EUR 3,894 thousand, which is EUR 233 thousand less than as at the end of 2009; the change in value in 2010 pertains to depreciation and currency translation differences.

As at December 31st 2010, the value of Mercator Group **current assets** amounts to EUR 592,134 thousand, which is 12.0 percent, or EUR 63,342 thousand more than at the end of 2009. The largest share thereof includes inventories (54.4%) and trade and other receivables (39.2%).

Equity and Liabilities

Equity

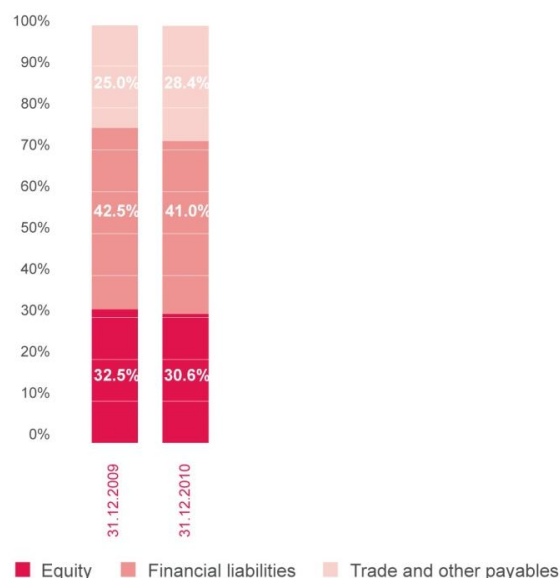
As at December 31st 2010, Mercator Group equity amounts to EUR 798,165 thousand, which is EUR 7,225 thousand, or 0.9%, less than as at the end of 2009. Changes in equity are presented in the Section Notes to Consolidated Financial Statements, Explanation 25: Equity.

Liabilities

Financial liabilities

As at December 31st 2010, total financial liabilities amount to EUR 1,070,227 thousand, which is EUR 18,825 thousand more than as at the end of 2009.

Mercator Group liabilities



In the composition of financial liabilities, non-current liabilities represent 63.0 percent, while current liabilities represent the remaining 37.0 percent (as at December 31st 2009, the ratio between non-current and current financial liabilities was 65.0 : 35.0).

Net debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 949,081 thousand as at December 31st 2010 (December 31st 2009: EUR 986,966 thousand). A detailed calculation of net debt is presented in the section Financial management.

Provisions

As at December 31st 2010, provisions amounted to EUR 35,709 thousand. Compared to the end of 2009, provisions have decreased by EUR 1,479 thousand. Additionally, provisions in the amount of EUR 8,713 thousand were recognized; EUR 5,822 thousand was drawn to the debit of liabilities; and EUR 4,370 thousand were reversed. Net effect on the income statement amounted to EUR -4,343 thousand.

Trade and other payables

Trade and other payables as at December 31st 2010 amount to EUR 645,113 thousand, which is EUR 117,180 thousand more than at the end of 2009. This is predominantly the effect of expansion of operating activities resulting from strategic business combination in Croatia and Montenegro.

Capital adequacy and long-term assets coverage

Capital adequacy

As at December 31st 2010, Mercator Group attained a debt-to-equity ratio of 1:1.14. The ratio is a quotient between equity, which includes share capital as reported in financial statements and provisions, and net financial debt.

Long-term assets coverage

As at December 31st 2010, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 77.5%, which is 3.5 percentage points less than as at the end of 2009.

Analysis of consolidated statement of comprehensive income

Total comprehensive income in 2010 amounted to EUR 19,919 thousand, which is EUR 10,468 thousand less than profit for the period in 2010. Changes to the comprehensive income are mostly related to the increase in the value of real estate in the amount of EUR 22,094 thousand, and foreign currency translation differences for foreign companies in the Group in the amount of EUR -28,515 thousand.

Analysis of consolidated statement of cash flows

in EUR thousand	2010	2009	Index 2010/2009
Analysis of consolidated statement of cash flows			
Net cash from operating activities	189,745	112,038	169.4
Net cash used in investing activities	-174,611	-142,018	122.9
Net cash from financing activities	-9,916	1,666	-
Net increase in cash and cash equivalents	5,217	-28,314	-

In 2010, Mercator Group increased the value of cash and cash equivalents by EUR 5,217 thousand.

Cash generated in operating activities amounts to EUR 189,745 thousand, which indicates successful performance and working capital management.

Net cash from investing activities is negative in 2010, at EUR -174,611 thousand, mostly as a result of acquisition of property, plant and equipment, and expenses for investment property.

Net cash from financing activities in 2010 amounts to EUR -9,916 thousand, which is a result of excess of finance expenses over finance income, and is consistent with the total debt of Mercator Group.

Detailed summary of the calculation of cash flows is presented in the section Consolidated statement of cash flows.

Key financial indicators

	Mercator Group		Poslovni sistem Mercator, d.d.	
	2010	2009	2010	2009
Key financial indicators				
INDICATORS OF PROFITABILITY				
Return on equity	3.9%	2.6%	4.8%	2.5%
Return on sales	1.1%	0.8%	2.2%	1.1%
Gross profit margin	6.1%	6.4%	8.3%	7.6%
INDICATORS OF FINANCIAL STRUCTURE				
Financial liabilities / equity	1.3	1.3	0.9	0.9
Net financial debt / equity	1.19	1.23	0.88	0.92
Equity and provisions to total equity and liabilities	32.0%	34.0%	42.2%	42.0%
Financial liabilities to total equity and liabilities	41.0%	42.5%	38.4%	37.4%
Trade and other payables to total equity and liabilities	24.7%	21.3%	17.0%	18.4%
Net financial debt / gross cash flows from operating activities	5.58	5.90	5.65	5.98
Long-term asset coverage	77.5%	81.0%	81.7%	80.3%
INDICATORS OF OPERATING EFFICIENCY AND PRODUCTIVITY/CAPACITY TO GENERATE CASH FLOW				
Revenue per employee based on hours worked (EUR thousand)	128.6	130.4	155.7	148.0
Revenues / labour costs	9.5	9.5	8.8	8.6
Value added per employee based on hours worked (EUR thousand)	21.4	22.0	29.7	27.4
Gross cash flows from operating activities / revenue	6.1%	6.3%	7.7%	6.9%
Gross cash flows from operating activities before rental expenses / revenue	7.4%	7.2%	8.1%	7.3%
Gross cash flows from operating activities / invested capital at the beginning of the year	8.7%	8.6%	7.6%	7.6%

Return on equity and return on sales were both improved in 2010.

Indicators of financial structure point out that the composition of financing sources has changed, in accordance with the financial requirements and the relevant policies adopted. Share of equity and provisions in total equity and liabilities of the Mercator Group dropped by 2.0 percentage point in 2010 relative to the end of 2009; the share of financial liabilities and trade and other payables was increased. Long-term asset coverage is slightly less favourable than as at the end of 2009, which is a result of an increase of the share of short-term financing sources in the total composition of financing sources. The values of indicators of financial structure point to stable management of assets and sources of financing.

The values of indicators of financial structure point to stable management of assets and sources of financing.

Indicators of operating efficiency and productivity which summarized the efficiency of performance and ability to generate cash flows, remained at the level attained in 2009 despite the harsh economic circumstances. The share of gross cash flow from operating activities before rental expenses in sales revenues reached 7.4% in 2010, which is 0.2 percentage point more than in 2009, indicating formidable financial power and stability of the company.

The share of gross cash flow from operating activities in invested capital at the beginning of the year amounts to 8.7%, which is 0.1 percentage point better relative to 2009.

Indicators of operating efficiency and productivity mainly remained at the level reached in 2009.

Anticipated economic conditions and plans for the period 2011 – 2015

Anticipated macroeconomic environment

Economic growth in Southeastern European countries in 2011 can be expected to reach positive figures, albeit rather low; in subsequent years, their gradual recovery to more substantial rates is anticipated. GDP growth rate is a fundamental indicator of economic situation and domestic consumption is a notable part thereof. Hence, Mercator Group's goals and their accomplishment are planned accordingly.

Furthermore, we expect the interest rates to be directly related to the state of the economy and that along these lines, reference rates will increase as the economic recovery gains some steam.

Inflation in the Southeastern European countries is not expected to deviate markedly from that of the euro zone. Considerable price shocks in raw material markets would result in major inflationary pressures.

With respect to changes in exchange rates, the euro rate of the Serbian dinar will be of particular importance for Mercator. Depreciation of the Serbian currency, expected to be quite high in 2011, will gradually subside by 2015. Exchange rates of other Southeastern European currencies are expected to stay stable, with the possibility of occasional variation from the expected rates.

We expect the consumption and demand in our key markets to grow slowly in the following two years, and to take off thereafter.

	2011	2012	2013	2014	2015
Expected GDP and EURIBOR growth					
GDP growth rate in the SE European region	low	low	medium	medium	high
Average annual 6m EURIBOR	1.5%	2.2%	2.8%	3.4%	4.0%

Anticipated competitive environment

Fast-moving consumer goods market in the Southeastern European region is expected to consolidate further in the period 2011-2015 and entry of major international retailers is expected in the market for home products. All players in the region will expand their capacities. Concentration and modernization of trade will continue, focusing on the ability to adapt to different shopping behaviour, and development and implementation of new store formats, services, and technologies.

In the fast-moving consumer goods market, consolidation is expected to continue and the retailers will most likely expand their capacity.

Launch of operations in new foreign markets

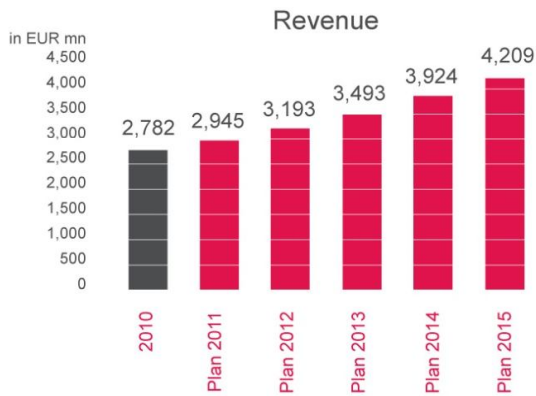
In the medium term period, Mercator Group will carry on its operations in the markets where it is currently present, i.e. Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Albania. As of 2013, we are planning to launch operations in the markets of Kosovo and Macedonia.



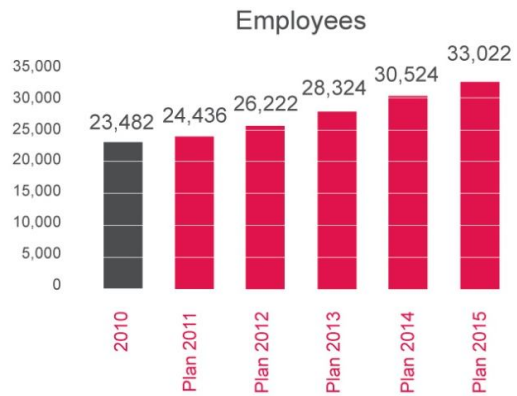
Anticipated key economic indicators

In 2011, we are planning a 16-percent growth of revenues in foreign markets.

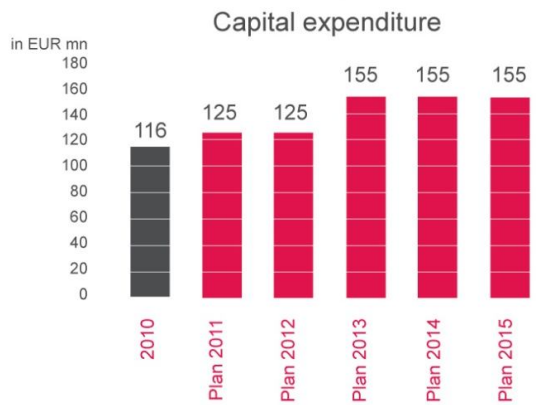
2011:
in Slovenia: 2.1-percent growth
abroad: 16.2-percent growth



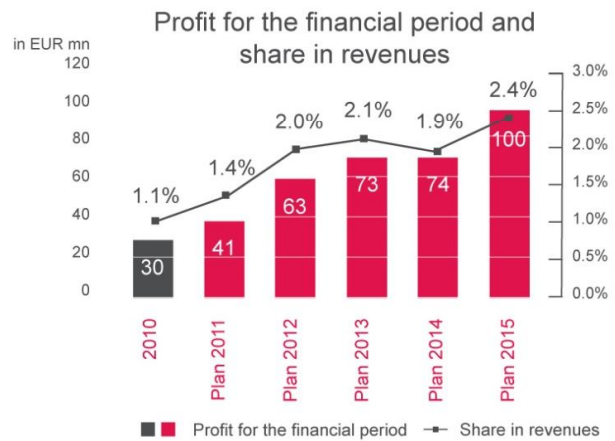
2011:
3.7-percent growth



2011:
In Slovenia, investments will be allocated to refurbishment of existing facilities, and completion and touching up of the retail network while in foreign markets our efforts will be focused primarily on intensive expansion of our retail network.

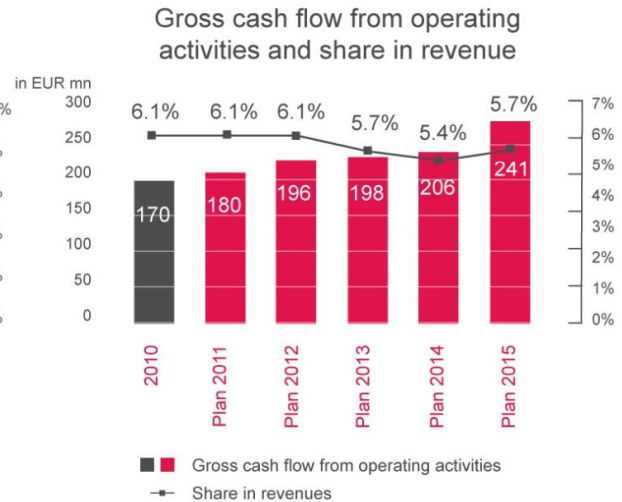
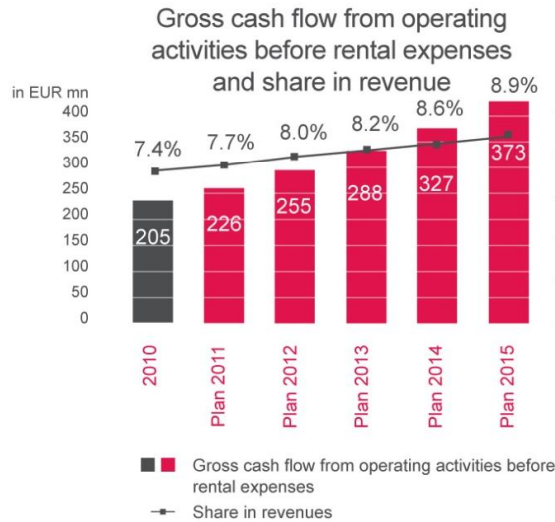


2011:
The growth pertains to planned increase in operating profit (result from operating activities) and lower net finance expenses. After 2013, a drop in the share of net profit to revenues (ROE) is expected as a result of monetization.



2011:
Increase in cash flows is a result of planned continuation of business rationalization, reaping of the economies of scale, and investment activities.

2011:
Increase in cash flows is consistent with efficient performance; after 2013, we anticipate a drop in the share of gross cash flow in total revenue, as a result of monetization which will increase rental expenses.



Sensitivity analysis

Considering the high level of uncertainty with regard to future macroeconomic and business conditions in the period 2011-2015, an analysis of sensitivity of the planned cash flows from operating activities to changes in revenues, gross profit margin, and reference interest rates is presented in the following table.

Category to change	% change	Observed category	% change in observed category				
			Plan 2011	Plan 2012	Plan 2013	Plan 2014	Plan 2015
Sensitivity analysis							
Revenue	-5%	gross cash flow from operating activities	-6.0%	-6.3%	-7.0%	-7.7%	-7.5%
% of gross profit in revenues	-1 percentage point	gross cash flow from operating activities	-16.2%	-16.2%	-17.5%	-18.4%	-17.4%
EURIBOR (6m)	+1 percentage point	Profit before income tax	-19.9%	-10.0%	-6.0%	-5.5%	-3.4%

All simulations are made ceteris paribus (all other things held constant) and they show the short term effect, without structural adjustments and business measures which would have ensued.

Given the economic circumstances and competitive environment, the Management Board finds Mercator Group's goals and targets for the period 2011-2015 ambitious and consistent with the strategic policies and orientations, as well as with the vision of being the leading fast-moving consumer goods retailer in the SE European region.

we care



about nature



about social environment



about quality



about our customers



about employees



about future

SUSTAINABILITY REPORT



We care about nature



By sorting the waste packaging, we prevented approximately 10 thousand tons of carbon dioxide and saved several thousand trees.



We are the only Slovenian trade company dealing with wholesale and retail of FMCG to hold the ISO 14001 certificate.

Commitment to sustainable development

Corporate social responsibility and sustainable development are two pillars of Mercator's corporate culture, integrated into the Group's strategies, culture, and values. As the largest retailer, Mercator steers its activities towards sustainable development, and works to improve environmental awareness among consumers, employees, and business partners. Mercator Group voluntarily placed social and environmental issues at the core of its business activities. In its operations, the Group strives to meet the social norms, provide environmental benefits, promote sustainable development, and foster social welfare. We are aware that only socially responsible operations will lead to greater business success, competitiveness, and productivity.

In 2010, Sustainable Development Council was launched at Mercator Group to coordinate the activities in the following fields: energy management/construction, waste management and other environmental aspects, purchasing and sales, marketing, store format development, and public relations. A major task for the Council, particularly in its beginnings, is monitoring and measuring the effects of activities at all Mercator companies on the reduction of the use of power and fossil fuels, and on reduction of waste.

Throughout our operations, Mercator is stressing the concept of sustainable development, corporate social responsibility, and within the latter, the issue of the company's relationship with all stakeholders.

Management commitment

Company management has made a commitment to pay particular attention to sustainable development.

Žiga Debeljak, President of the Management Board:

"At Mercator Group, we believe that our business success is founded upon economic rationality, balanced development, and responsibility to people, environment, and the society. We are aware of the magnitude of our influence on economic and social development of each environment in which we operate, for all our stakeholders. Therefore, we included sustainable development into our business strategy which contributes to improvement in the quality of life, represents a competitive advantage, and provides a foundation for long-term success."

Environmental management system

In order to even further advance our success in reducing the effects of our activities on the environment and preserving the natural environment, the company Poslovni sistem Mercator, d.d., is constantly improving and upgrading its environmental management system in compliance with the **ISO 14001 standard**. Regular internal and independent third-party audits indicate that the environmental management system is appropriately maintained, that environmental risks are well managed, and that we adapt to new requirements of the customers, the market, environmental legislation, and scientific and technological progress.

In order to identify, collect, assess, analyze, and apply the information on the volume and value of the flow of matter and energy, and on environmental costs, we upgraded the system for managing the key environmental performance indicators in order to provide management of environmental effects of the company and to link them to the key financial performance indicators.

We have defined the **Code of Responsible Energy and Environment Management** and thus motivated our employees to adopt a desirable approach to energy, material, and waste management in their workplaces.

We have signed the **Retail Environmental Sustainability Code** as part of the REAP initiative (Retailers' Environmental Action Programme), an initiative by the European trade industry to define environmental commitments and to adopt the practices of environmentally friendly retail. The Code is a non-mandatory Code for European retail defining the standards of operations in retail.

We have joined the Environment Protection Committee at the Slovenian Chamber of Commerce which brings together companies to define environmental legislation and to exchange sound environmental practices.

We are involved in the European **PLASTICE** project intended to promote the use of environmentally friendly sustainable plastic materials in Central Europe. By taking part in this project, we are looking to offer our customers packaging with lesser environmental footprint and to raise their awareness of the pros and cons of the use of biodegradable plastics.



Mercator is the only trade company in Slovenia engaging in wholesale or retail of fast-moving consumer goods to be awarded the ISO 14001 certificate.

Waste and other environmental aspects

We manage natural resources responsibly. By rationalizing the use of separation bags at checkout counters and by distributing **reusable bags** to customers, we have contributed to reduction in the use of natural resources consumed throughout the life cycle of a bag.

Compared to the reference year 2008, we cut the use of separation bags at check-out counters by 21 percent, and the use of carrying bags by 22 percent.

We are working hard to apply the **five-step waste management hierarchy**; thus, prevention of waste generation, reuse, and recycling are priorities at our company.

Compared to 2009, the amount and cost of mixed municipal waste was cut by 20% in 2010 by active sorting of fractions of waste and reducing the volume of waste bins for mixed municipal waste.

Nearly 9 thousand tons of waste cardboard packaging was collected and recycled at the company Poslovni sistem Mercator, d.d., by conscious and diligent sorting of waste packaging. In addition, we collected over three thousand tons of waste plastic packaging and more than a thousand tons of waste wooden packaging.

Sorting of waste packaging has resulted in prevention of nearly 10 thousand tons of carbon dioxide emissions, and saving of 360 thousand cubic meters of water and over a thousand trees.

We have sorted and collected over 4 thousand tons of biological waste used for generating electric power at the biogas power plant.

In order to make **waste sorting** easier for our customers, we provided them with a possibility to dispose of waste luminaires at 20 additional locations. In addition to waste luminaire, customers can also dispose of waste batteries and accumulators using the neat boxes at our stores.

The company Poslovni sistem Mercator, d.d., is also reducing emissions and other effects on the environment. A range of activities are in place to prevent excessive noise emissions, spillage of hazardous substances, emission of ozone-depleting substances, and to reduce the quantity of wastewater and pollution thereof.

We use **environmentally friendly ecological material** for all Mercator's printed editions.



Sustainable logistics and supply chain organization

In 2010, too, we have again improved the level of usage of our cargo transport vehicles in delivery of the goods for sale and own use. Average volume usage of cargo capacity for 2010 was 84.1%, which is an improvement in usage by 5 percentage points relative to 2009, and translates into 15 cargo vehicles less on the roads each day.



By reducing the distance travelled, we cut the carbon dioxide emissions by 715 tons.

In December 2010, we exceeded for the first time the 85-percent volume usage of cargo transport capacity; attaining and exceeding this figure will remain the primary goal of transport capacity management.

Supplying the delivery points with food products, fast-moving consumer goods, and home products, including driving a total distance of 16,856,000 kilometers in 2010, which is 956,000 kilometers less than in the year before, with the physical amount of the goods distributed unchanged. Such savings were made possible **by improved volume usage of cargo transport capacity and permanent optimization in transport route planning.**

In 2010, we updated our vehicle fleet with 12 new EURO 5 emission standard vehicles, eliminating an equal number of obsolete cargo vehicles.

Processes of supplying our delivery points with goods for sale and own use, we continued to carry out in 2010 the processes of reverse logistics. Reusable containers and waste packaging that cannot be sorted as municipal waste was delivered to collection points organized within our distribution centers on return trips. Thus, we avoided causing additional carbon dioxide emissions which would have occurred if collection of reusable containers and waste packaging had been outsourced.

Energy efficiency and energy-efficient buildings

Energy efficiency

The importance of energy efficiency has been on Mercator's agenda for over ten years; around the break of millennium, we started constructing all major Mercator centers in accordance with the principles of energy-efficient buildings. In our decisions, we increasingly favour the use of alternative energy sources. In recent years, efficient use of energy has thus become a part of Mercator's comprehensive corporate social responsibility. In addition to energy management, it involves environmental aspects, process aspects, and aspects of business performance.

In order to cut the use of energy, the environmental project included in 2009 and 2010 a number of activities in the field of organizational and investment measures that involve **cutting the specific use of power by 4%**. This means that our power consumption will be decreased by the equivalent of annual consumption by 2,000 average households, in addition, we shall save EUR 1 million per year. Total investment into measures of efficient use of energy amounted to over EUR 700 thousand.

Based on determination of power consumption units, we compiled a priority list of measures for efficient use of energy, with focus on raising the awareness and education of employees on the subject, installing covers on refrigeration equipment, replacement and adaptation of the existing lighting in lightboxes with energy-efficient LED luminaires, energy bookkeeping and targeted energy consumption monitoring, remote control and management of central control systems, and other pilot projects.

Rational management of energy and natural resources, and carefully devised measures to reduce power consumption resulted in savings of 4% in power at the company Poslovni sistem Mercator, d.d., in 2010.

Energy-efficient buildings

Since 2000, our shopping centers have been constructed according to the principles of efficient use of energy, which include improved heat insulation, optimization of glass surfaces, daylighting, controlled shading, displacement ventilation with floor heating and cooling, exploiting waste heat from refrigeration appliances and HVAC equipment, managing buildings through a central control system, etc.

As a socially responsible retailer, we furthermore prioritized sustainable development where priorities include the **Eco House development project** which will upgrade the existing energy-efficient technologies and systems.



Since 2000, our shopping centers have been constructed according to the principles of efficient use of energy.

Environmentally friendly projects in 2010

Mercator Group operations are conducted while bearing in mind the generations to come. We are aware that as Slovenia's largest company, increasingly becoming an international corporation, we are in a position to contribute substantially to the protection and preservation of the environment, although our activities are not among those most harmful to it. As a socially responsible enterprise aware of the importance of relieving the burden brought upon the environment, we are continuously improving our business processes to make them more environmentally friendly.

Aspects	Goals for 2010	Completed
Environmental management system (EMS)	Specify and define responsibilities for energy management and monitor in a systematic manner the environmental aspects and environmental risks.	Prepared Organizational Rule on energy management. Data on environmental aspects included in the SAP tool, and completed Monthly Report on environmental aspects for the requirements of environmental projects.
Waste and other environmental aspects	Reduction of the amount of mixed municipal waste and increase in the share of sorted waste packaging, electric and electronic equipment, and organic waste.	Compared to last year, the amount and cost of mixed municipal waste was cut by 20% by active sorting of waste and reducing the volume of waste bins for mixed municipal waste.
Sustainable logistics and supply chain organization	Optimization of transport routes and weekly delivery cycle, heavier use of environmentally friendly cargo transport vehicles, sorting of waste packaging from retail (non-municipal waste).	Average volume usage of cargo transport capacity in 2010 amounted to 84.1%, which is 5 percentage points higher than in 2009. 5.7% less distance travelled compared to 2009, or "savings" of 956,000 km which saved 715 tonnes of CO2 emissions. 12 cargo vehicles were replaced for EURO 5 standard vehicles. Return trips are used to remove waste packaging that cannot be sorted as municipal waste (additional trips are not necessary, which reduces CO2 emissions).
Energy efficiency	Provide rational use of electric power by savings measures, current maintenance, and minor investments. Expected savings amount to EUR 1,000,000 per annum.	Reduction in specific use of electric power by 4%. Employee education on the efficient use of energy. Project activities completed: installation of covers and doors on refrigeration equipment; replacing the existing lighting with LED lamps for exterior lighting of major Mercator stores; established central control for management of major trade facilities.
Energy-efficient buildings	Eco House project.	Project starting points for the ECO HOUSE development project.

We care about social environment



Our sponsorships and donations supported over 2,000 projects throughout the region in 2010.



Our central humanitarian campaign titled "Future for All" included providing aid to 50 talented children and youngsters from families in social and economic distress to complete their education.

Sponsorships and donations

Mercator's vision is also aimed at improving the quality of life and satisfaction. Our activities contribute to the development of the local economy and social development. At Mercator Group, corporate social responsibility has long surpassed the mere system of communication management for the values of the Group and its stakeholders values, to become a real value of the Group, which is managed and developed throughout the corporate governance system.

In 2010, our donations and sponsorships supported over 2,000 projects in the region.

Sponsorship, donations, and participation in humanitarian campaigns are an important part of the strategy of comprehensive socially responsible conduct of the Mercator Group. In 2010, donations and sponsorships supported over 2,000 projects in the region. Sponsorships and donations supported numerous humanitarian, sports, cultural, scientific, and other projects and organizations active in our broad social environment. One example of such cooperation was Mercator's aid to those affected by the floods in Slovenia, Croatia, and Albania.



Humanitarian campaign

Our central humanitarian campaign is carried out each year to make a notable contribution to resolving a particular issue that may require attention. In 2010, the campaign was called Future for all. It included providing aid to 50 talented children from families in social distress, allowing them to complete the year or degree of education. Thus, we helped alleviate the hardship of many children and youngsters who may not have been able to complete their education and gain financial independence to build a better future.

We supported 1,150 humanitarian projects.

Following are the major ones:

- equipment of the charity kitchen in Maribor and provision of funding for warm meals;
- aid to the Slovenian Red Cross for the workers of Prevent and Vegrad;
- donation of a combined vehicle to the Paediatric Clinic for transport of children to examinations; donation of equipment for the kitchen at the children's department of the Dermatology and Venerology Clinic; donation of funds for equipment of lab for haematology patients at the Paediatric Clinic; and donation of funds for the purchase of ultrasonography equipment for the paediatric department at the Izola General Hospital;
- aid in the purchase of ultrasonography equipment for the Ljubljana Maternity Hospital and aid in the competition of house painters who took part in the charity campaign of painting the entire floor;
- donation to Friends of the Youth Association of Slovenia for summer holidays of children from families in economic distress;



- donation to the "Tinkerbell" ("Palčica") Shelter Home in Grosuplje and Shelter Home in Pilštanj;
- charity campaign in association with Duracell, "Help the newborns" which included raising funds for the maternity unit of the Celje General Hospital;
- aid to people afflicted by the disastrous floods in Slovenia, Croatia, Bosnia and Herzegovina, and Bulgaria;
- donation of Lumpi diapers to maternity hospitals in Montenegro;
- aid to the National Institute for Aid to Albanian Orphans; to Janjevo Association for families in social distress in Zagreb; and to orphanages in Bulgaria.

We supported education in eighty projects.

Following are the major ones:

- high-school / vocational school competition in sales techniques;
- sponsorship to the Slovenian Festival of Science;
- sponsorship to the Slovenian Marketing and Business Conference;
- support to the "Varna pot" ("Safe Way") Institute in education on traffic safety;
- sponsorship to parent and children education on family values in Osijek;
- support to Unicef project "Say it out loud! Talking about violence among children" for prevention of peer violence in elementary schools;

We took part in 200 cultural events.

Following are the major ones:

- support to the Week of Slovenian Drama at the Prešeren Theatre in Kranj; to Borštnik Festival; to theatre production Marie Antoinette; and award ceremony for Sever and Jurčič awards;
- sponsorship for the Golden subscription package at Cankarjev dom, Drama theatre, and Municipal and National Museum;
- sponsorship of the Ptuj Carnival and the Istra Carnival in Koper;
- sponsorship of events and concerts like Jose Carreras concert, Summer concerts in Ljubljana and Koper, Ormož Summer, Lendava grape harvest, and the Sobota days;
- support to the shooting of the film on refurbishment of the Ljubljana Opera;
- sponsorship of the Ona competition for the Ona story project, and the project "For a bagful of love and treats" which included designing an environmentally friendly yet appealingly designed and practical shopping bag;
- sponsorship to the Ljubljana Festival; Senior Citizen's Festival; City of Women Festival; Lace Craft Festival in Idrija and Železniki; Ulysses theatre from Zagreb; Mess theatre festival in Sarajevo; Dragon's Children Games - the largest children's festival in Serbia; international folklore festival Dukat held in Banja Luka, Gradiška, and other cities in Bosnia and Herzegovina.

We sponsored 400 sports clubs, societies, and events.

Following are the major ones:

- sponsorships to various sports societies and clubs in particular disciplines like handball, football, basketball, cycling, swimming, skiing, running, etc. The more prominent ones include team handball clubs Krim, Celje Pivovarna Laško, and Budućnost from Montenegro, football clubs Koper and Maribor, basketball clubs Škofja Loka and Domžale, cycling club Adria Mobil, ski club Apletour, swimming club Radovljica, etc.;
- sponsorship to the Ljubljana marathon and the Walk Along the Wire; cycling race across Slovenia; and Run for Hope organized by Europa Donna;
- sponsorship at the Vitranc Trophy and the Planica ski jumping races;
- sponsorship to the basketball club of the Society of the Disabled of Ljubljana Region; wheelchair-bound table tennis player Mateja Pintar, and the cultural and sports gathering of Croatian disabled persons in Požega;
- sponsorship to the Slovenian and Serbian Olympic Committee;
- sponsorship to the Handball Association of Slovenia and Bosnia and Herzegovina.



Projects in 2010

Aspects	Goals for 2010	Completed
Projects in 2010		
Sponsorships and donations	Corporate social responsibility.	Support to over 2,000 projects in the region. Successful central humanitarian campaign 2010. 10-percent increase in media reports regarding sponsorships and donations.

Transparent communication

Communication activities at Mercator Group, too, are focused on the needs of our stakeholders. Since constant and open communication with our stakeholders is another aspect of our corporate social responsibility, we communicated relevant information both with regard to business performance and products regularly and according to our plan, at the level of particular Mercator Group companies and at the corporate level. At the annual and semi-annual press conference, we shared public announcements with media representatives to provide relevant information on company operations, strategic business combinations, dividend policy, and new launches in all markets. At the local level, we kept the public in all markets up to date on major activities at Mercator centers which are among the key supply hubs for entire regions and cities, and on consumer issues of interest to the general public (pricing, special campaigns and customer benefits, Mercator Pika card customer loyalty system, offer of local suppliers at Mercator stores, and on corporate social responsibility and humanitarian campaigns supported by Mercator throughout the region).

We care
about quality



Comprehensive quality is provided by implementation of international quality standards and the principles of business excellence.



We regularly conduct regular and follow-up audits of the existing certified quality systems. In addition, we were awarded six new certificates in 2010.

Quality management systems

In our comprehensive quality management, we apply international quality standards and the principles of business excellence which were also introduced and merged into an integrated management system.

Company/Management system	Mercator, d.d.	Mercator-S	Mercator-H	Mercator-BH	Mercator-IP	Eta	Emba	Modiana
Quality management systems								
ISO 9001 Quality Management System	C	C	C	C				
ISO 14001 Environmental Management System	C							
ISO 22000 Food Safety Management System	C							
HACCP Food Safety Management		C	C					
IFS International Food Standard						C	C	
AEO - Authorized Economic Operator Status	C							
Family-Friendly Company	C				C			C

Legend:

· C – certified

· C – new certificate in 2010

Regular and follow-up audits of the existing certified quality management systems were carried out; in addition, we were awarded six new certificates.

Working with independent institutions for comprehensive management of the company's sustainable development

We have taken an active role in the United Nations Global Compact Slovenia corporate social responsibility and sustainable development initiative, part of the UN Global Compact network.

The Viennese stock exchange included the company Poslovni sistem Mercator, d.d., into the **CEERIUS** - (CEE Responsible Investment Universe Sustainability Index), a capitalization-weighted price index which is composed of the leading companies in reference to social and ecological quality that are traded on stock exchanges in the region of Central, Eastern and Southeastern Europe.

Social community presented us with three human resource management awards: in Slovenia, we were awarded the **Family-Friendly Company** certificate; company M-BL, d.o.o., was awarded for the greatest contribution to employment and job creation; the company Mercator-BH, d.o.o., was awarded the title The Best Employer.



Quality Projects in 2010

Our most important task is to care for long-term satisfaction of our customers, employees, shareholders, business partners, and the social environment. This is provided by efficient management of business processes and quality of products and services.

Aspects	Goals for 2010	Completed
Food Safety Management System	Implement and certify the food safety management system at the companies Mercator, d.d., Mercator-S, d.o.o., and Mercator-H, d.o.o.	At the company Mercator, d.d., we were awarded the ISO 22000 certificate; at the companies Mercator-S, d.o.o., and Mercator-H, d.o.o., we were awarded the HACCP certificate.
Family-Friendly Company	Upgrade the basic Family-Friendly Company certificate at the company Mercator, d.d., and implement the measures to the companies Mercator IP, d.o.o., and Modiana, d.o.o.	We were awarded the Family-Friendly Company certificate at companies Mercator, d.d., Mercator IP, d.o.o., and Modiana, d.o.o.

We care about our customers



We nurture the trust of our customers and we are the only Slovenian company dealing with wholesale and retail of FMCG to hold the food safety certificate - ISO 22000.



We are looking to offer our customers a healthy and wholesome choice at every moment. Our offer of organically grown products will be expanded and enriched by our BIO private label.

Responsible management of food quality and safety

The process of distributing safe food is constantly improved and advanced by continuous monitoring of mandatory legislation, in-house development, and food safety guidelines. Thus, our food safety management system also complies with the requirements of the **ISO 22000 international standard for food safety management systems**.



We have conducted HACCP studies for the process of retail operations as a whole, and by particular categories. The records are continuously updated as the rising global trade and hence new food products and materials require constant monitoring and management of potential risks.

Preventive controls are conducted at every Mercator store. In 2010, we carried out 463 such control inspections.

We believe our in-house control has an important preventive role in the entire process of the flow of goods and services, which is a part of the verification of the system pursuant to ISO 9001 and ISO 22000.

We have established a system for **early identification of sources of non-compliance in the process of food safety management** based on systematic monitoring of the findings of bodies of control, internal control, in-house and national product safety and quality control, and monitoring other external factors; this contributes to faster elimination of any non-compliance.

Furthermore, a **Food Safety Team** has been established as an interdisciplinary professional body to manage, maintain, update, and report on the performance of food safety management system. The team is thus in charge of efficient implementation of activities related to withdrawals after the completion of regular working hours of administrative, or overhead, services.

We have set up a system for sharing and dissemination of knowledge and experience on HACCP system management. The system has proven successful for employees at all levels. In recent three years, nearly 3,000 employees took part in professional training, for which at least 1,400 hours were spent. Only a highly professional sales assistant will be able to establish a relationship of trust and confidence with the customers.

In 2010, we defined in more detail the methodology of control over the Mercator private label products. Hence, all products will be checked based on the resulting risk analysis.

Activities for the customers

Our private label also includes an offer of organic products in our blue line, while some products are included in the **Healthy living line** aimed to offer consumers a high-quality, diverse, yet reasonably priced products of organic origin or processing. All our organic products are certified by IKC Maribor. Furthermore, we are looking to present to the consumers a wide offer of organic products by various suppliers, which the consumers can find in our aisles.

In some Mercator stores, groups of organic products and products for a healthy diet are particularly emphasized. Products are displayed either on special aisles or corners, or on the shelf (with special markers); hence, shopping for such products is made easier for the consumers.

In select major Mercator stores, our customers are offered certified Fair Trade products.

At the end of 2010, our offer included over 65 fair trade products and over 2,000 organic products.

The project "**Five a day - let some colour into your life**" is intended to increase in a fun and simple way consumption of fruit and vegetables per capita, to at least five meals a day, by offering reasonable prices. The philosophy of the "Five a day" project is based on intake of fruit and vegetables according to the system of colour separation. Such combination provides all substances required daily by the human body.



The **Healthy living line** makes wholesome food even more available to our customers. The Healthy living line includes products aimed at promoting in the long run a healthy lifestyle and a change for the better in our customers' eating habits. The products meet at least one of the criteria of healthy food: a lot of nutritious fibre; or low content of fat, sugar, or salt; or lower energy value. Selection of products for this line is confirmed by the Kranj Institute of Public Health.



We are nurturing long-term trust and loyalty of our customers. Therefore, a lot of attention is paid to constant monitoring and quality control for all private label products.

GDA - Nutritional values

Recommendations for balanced nutrition include moderation in quantity and diversity in the choice and composition of each meal. In order to provide the customers with more information on the packaging of Mercator private label food products, we introduced labelling of food nutritional values, which allows the customers to check and plan their menus.

The **Healthy Lifestyle club** motivates people to adopt a healthy nutrition and an active lifestyle. The club is intended for people of all generations who share the idea of a healthy lifestyle and who are seeking more information on wholesome nutrition, exercise, and quality leisure time.

At the end of 2010, there were 74,141 members of the Healthy Lifestyle club.

Health of our children is a key concern for us. Therefore, the quality and assortment of the Lumpi product line is tested by both the Ljubljana Paediatric Clinic and the Kranj Institute of Public Health. **Lumpi club** offers parents useful advice on upbringing, nutrition, care, learning, play, and development of a child, prepared in cooperation with renowned experts. In addition, club members are also offered various well-priced products throughout the year. At the end of 2010, there were 22,999 Lumpi Club members.

In the fall of 2010, we prepared for our loyal customers in all markets of our operations an offer of high-quality **Laura Amatti Organic** bathroom textile range with the GOTS certificate. The products are made of organically grown cotton. The GOTS certificate certifies that Organic products are made of materials and using the processes tested and confirmed by the Control Union Certifications, and that they meet the international standards of nature-friendly management.

In November 2010, we issued a special flyer "**Green white goods - green home appliances**" which presents several environmentally friendly and economical home appliances. In addition, the flyer presented various possibilities of purchase (eco discount, trading in your old appliance, etc.) offered to our environmentally aware customers shopping for products that contribute to care for the environment. Moreover, the flyer included some advice prepared as a part of the Energy.si campaign (Energija.si - Be Efficient) in cooperation with the company ZEOS, also a partner in the Synergy network like Mercator.

In 2010, we carried out the campaign "**Replace and save**", offering a 30-percent discount when purchasing or trading in any luminaire or bulb for a class A saving bulb.



Local supply and partnership with suppliers

In addition to a wide offer of quality products for healthy and balanced diet, we can also offer our customers and other stakeholders activities that positively affect the preservation of the natural environment and their health. We are aware that we are the key link between the manufacturers and the consumers and that we have the power to raise awareness and affect the shopping choices by providing sustainable products on our shelves. Thus, we are focused on partnerships with suppliers and implementation of environment- and human-friendly practices in numerous fields. We seek to work with local suppliers, to take part in joint product development, choose packaging materials, adjust the packaging units to consumer trends, etc.

Partnership with suppliers

Category management is focused in particular on the choice of suppliers and assortment, pricing, promotions, and consumer education. In selection of suppliers and products, we follow the shopping behaviour and trends among our customers. By expanding the offer by local suppliers, we steer the consumer towards choosing products from the local environment.

In addition to our regular offer, we also provide additional choice of products from the local environment. Hence, Mercator is currently working with 132 local suppliers.

Saturday's organic markets by Slovenian farms at major Mercator centers also support **organic farming at Slovenian farms**.

In 2010, Mercator's assortment in Slovenia included over 300 different locally sourced products by 132 local suppliers.



In development of products from various private label lines, we give priority to the local suppliers with whom we are developing mutually productive partnerships.

Innovation

Following the trend of local supply and pursuing Mercator's policy of sustainable development, we implemented a wine vending machine and a wine dispenser at two stores. Thus, Mercator is catering to the consumer's requirements for well-priced quality wine by a renowned winemaker and at the same time supports consumption of wine by Slovenian winemakers and thus promotes the development of Slovenian countryside. Use of wine dispenser and wine vending machine also contributes to cleaner environment as wine can be poured into larger containers, thus reducing the need for packaging. Furthermore, wine transported in tanks requires much less volume than the same amount of wine would in conventional package and means of transportation; hence, this innovation also notably reduces the need for transport.

Projects in 2010

At Mercator, the customer comes first. We are making sure our customers are offered safe products. We see our Group as a key element in establishing trust between consumers and food producers. Looking to provide offer that will satisfy the needs of our customers and even exceed them, we are doing our best to offer environmentally friendly products with the broadest and most recognized communication, at reasonable prices. We promote a healthy lifestyle - from wholesome nutrition to exercise and leisure activities. Thus, we seek to improve the quality of life of each individual. We are aware that offer and information we provide will also affect more rational and economic use of energy in households.

Aspects	Goals for 2010	Completed
Food safety	Regular and extraordinary controls in stores pursuant to HACCP and ISO 22000 standards. Monitoring.	Obtaining the ISO 22000 certificate. 377 regular and 28 extraordinary controls were carried out. We tested 550 samples of private label products. We monitored 120 samples of private label products. We monitored 1,700 samples in open departments (mostly meat departments). 28 private label samples in national monitoring.
Activities for the customers	Sales promotion activities and communication of environmentally friendly offer and services (Eko, fair trade, energy-efficient appliances, etc.)	"Collect and choose" ("Zberi izberi") customer loyalty program with offer of organic cotton products. Green home appliances - offer of energy-efficient home appliances. Consistent labelling of bio products and offer at all stores. Constant use of recycled paper for printing Mercator publications. Labelling closed refrigeration chests and counters - reduction of power consumption by 30%. Regular cooperation with partners in the offer and promotion of organic, homemade, products at Mercator centers. When buying a new product of any brand to replace a product included in the "Trade In" campaign, customers can trade in their old product and claim a discount on the new one.
Partnership with suppliers	Inclusion of local suppliers, development of products, selection of packaging materials, adjustment of packaging units.	Mercator's assortment includes over 300 products from 132 local suppliers (farms and small-scale manufacturers).
Innovation	Implementation of new technological solutions in stores	Installation of wine dispensers and wine vending machines at two hypermarkets.

We care about employees



Safety is guaranteed for nearly 23,500 employees; we care for their health and promote both their professional and personal development.



In December 2010 we were awarded the Family-Friendly Company Full Certificate.

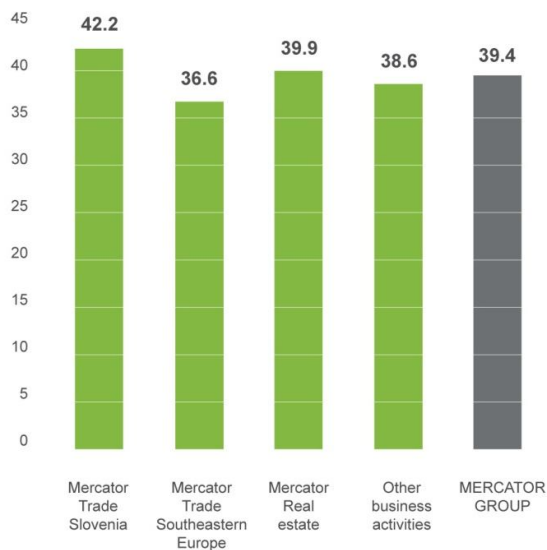
Number of employees

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

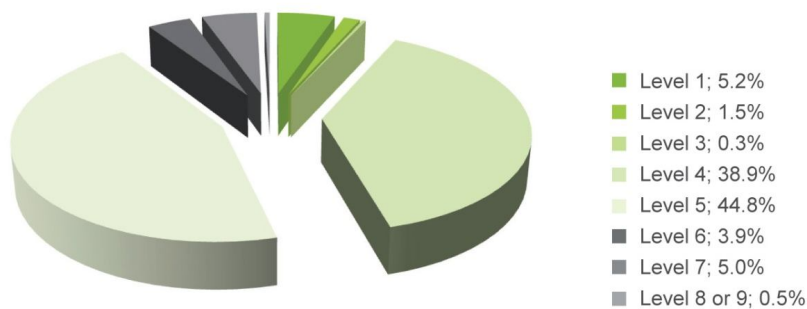
	Number of employees as at December 31 st 2010	Number of employees as at December 31 st 2009	Number of employees index Dec 31 st 2010/Dec 31 st 2009	Number of employees based on hours worked in the period January – December 2010
Number of employees				
Poslovni sistem Mercator, d.d.	10,606	12,297	86.2	10,630
Mercator IP, d.o.o.	295	200	147.5	200
Mercator Trade Slovenia	10,901	12,497	87.2	10,830
Mercator - S, d.o.o.	3,968	3,714	106.8	3,776
Mercator - H, d.o.o.	3,600	3,023	119.1	3,348
Mercator - BH, d.o.o.	826	1,024	80.7	894
M - BL, d.o.o.	262	241	108.7	240
Mercator - Mex, d.o.o.	326	368	88.6	323
Mercator - CG, d.o.o.	1,103	-	-	476
Mercator - B, e.o.o.d.	279	76	367.1	97
Mercator - A, sh.p.k.	121	131	92.4	106
Mercator trade Southeastern Europe	10,485	8,577	122.2	9,260
Mercator - Optima, d.o.o.	16	21	76.2	16
Mercator real estate	16	21	76.2	16
Eta, d.d.	187	198	94.4	184
Mercator - Emba, d.d.	119	111	107.2	118
Intersport ISI, d.o.o.	324	0	-	271
Intersport S-ISI, d.o.o.	114	-	-	58
Intersport H, d.o.o.	264	-	-	163
Intersport BH, d.o.o.	66	-	-	31
Modiana, d.o.o., Slovenia	616	-	-	490
Modiana, d.o.o., Serbia	142	-	-	66
Modiana, d.o.o., Croatia	169	-	-	111
Modiana, d.o.o., Bosnia and Herzegovina	79	-	-	34
Other operating activities	2,080	309	673.1	1,526
MERCATOR GROUP	23,482	21,404	109.7	21,632

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

Average age of employees



Breakdown by level of education in Mercator Group



Employee Relations

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



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

Great majority of employee education and training is provided by our own **in-company instructors** currently numbered at 960. Most of them are trainers; they train shop assistants. Customer satisfaction is impossible to attain without adequately trained sales personnel. Training network provides transfer of knowledge from the experienced to the less experienced shop assistants. We also promote the

development of (vocational) schools of commerce. Mentors in retail allowed 654 students of vocational schools of commerce to complete their internship.

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

We measured employee satisfaction and corporate climate among all employees. Average response rate to the survey was 31%; average satisfaction rating on a scale from 1 to 5 was 3.3. The best rating was given to the "Customer relationship" dimension while "Promotion" was the dimension with the worst grade.

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

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

We revised the intranet.

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

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

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



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

We founded the Mercator Society of Sports and Culture.

HR Projects in 2010

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

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

We care
about future



We are establishing an interactive relationship with the customers as we bring our offer and services closer to them through digital media.



Multi-channel approach with coordination of respective channels will result in meeting and exceeding the customers' expectations.

Digital communication strategy

Mercator is a powerful and reputable brand. Currently, it is active in digital communication with corporate websites in all markets, and Mercator brand websites, as well as profiles on major social networking sites, particularly for Slovenia. In addition, our presence is deliberately increasing in Croatia and Bosnia and Herzegovina as well. Analysis of Mercator website attendance has revealed that information on special offers, campaigns, offer in general, and stores, are the most commonly sought information. Analysis has further shown that we are more active and successful than our competitors.

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

Central guiding principle for digital communication activities

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

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

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

Following are the purposes and plans for digital communication:

- To build and develop the reputation of Mercator brands in the local market and the markets of SE Europe.
- To improve relationships with the stakeholders, particularly customers and employees - offering an excellent user experience;
- To improve recognition and distinctiveness of our brands in target segments;
- To build customer loyalty;
- To improve customer support services and our knowledge of the customers;
- To improve our services and products (based on first-hand information);

- To develop a corporate culture of promoting transparent relationship with the customers;
- To expand our customer base, particularly among the young population;
- To promote sales.

Multi-channel communication - a strategic policy for digital communication

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

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

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

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

	Awareness	Choice	Transaction	Delivery	After-Sales Service	
mobile	Petra finds out about a new collection at Modiana via Twitter on her mobile phone.	Petra checks the interactive web catalogue and shares the info with her friends.	Petra fits the dress at the store, takes a photo, and posts it on facebook. She uses her Pika Card to buy presents for her brother.	Petra takes her new dress and notifies her brother that his present will be delivered.	Petra is notified from the Call Center that the present was delivered.	Food, Appliances & Electronics, Fashion, Sports, Tourism
web	Marko receives customized offer of appliances and electronics via mobile application.	Marko compares the prices of competition on the web.	Marko heads for advice to the local store and orders the product at the info stand; he cashes in his e-coupon.	On his way home from work, Marko picks up his order at the M Appliance & Electronics Store.	Marko orders additional service - installation of the product he purchased - via live chat.	
store	Ana receives her summer M Holidays catalogue by land mail.	Ana heads for advice to the tourist office.	Ana places her reservation and pays for the service online.	Ana receives her electronic voucher.	Just before the trip, Ana buys her insurance policy at the tourist office.	

Projects in 2010

Websites and web stores:

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

Activities at social networking sites:

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

Mobile applications:

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

Monitoring Mercator presence in digital media:

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

Legal aspect of digital communication:

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

At the end of 2010, Mercator had a total of 11,021 Facebook friends.

Planned activities

We shall offer the option of purchasing appliances and electronics online at our web store. We are developing mobile phone applications to upgrade the shopping experience. Our presence on the web is monitored by web clipping.

Mercator appliance and electronics ("technical") web store

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



Mercator mobile applications

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



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

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

Financial report



Performing successfully in 2010, we generated gross cash flow from operating activities before rental expenses that exceeds the last year's figure by 7.5 percent.

Stable generation of cash flows, even in times of economic hardship, indicates formidable financial power, appropriate level of competitiveness, and business efficiency.

Financial report of the Mercator Group

Consolidated statement of financial position

EUR thousand	Note	2010	2009
Consolidated statement of financial position			
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,870,428	1,863,291
Investment property	17	3,894	4,127
Intangible assets	16	52,626	51,995
Deferred tax assets	20	8,700	8,086
Loans and deposits	23	77,113	14,584
Available-for-sale financial assets	18	3,959	5,473
		2,016,720	1,947,556
Current assets			
Inventories	21	322,081	292,050
Trade and other receivables	22	231,871	193,346
Current tax assets		-	2,639
Loans and deposits	23	17,346	23,176
Derivative financial instruments	19	70	737
Cash and cash equivalents	24	20,766	16,844
		592,134	528,792
Total assets		2,608,854	2,476,348
EQUITY			
	25		
Ordinary shares		157,129	157,129
Share premium		198,872	198,872
Treasury shares		-3,235	-3,235
Revenue reserves		270,194	270,194
Fair value reserve		200,187	186,029
Retained earnings		6,671	8,697
Profit for the period		30,396	21,232
Currency translation reserve		-62,295	-33,782
Total equity attributable to owners of the Company		797,919	805,136
Non-controlling interest		246	254
Total equity		798,165	805,390

EUR thousand	Note	2010	2009
Consolidated statement of financial position			
LIABILITIES			
Non-current liabilities			
Trade and other payables	29	2,447	2,872
Financial liabilities	27	674,375	683,547
Deferred tax liabilities	20	51,269	49,326
Provisions	28	35,709	37,188
		763,800	772,933
Current liabilities			
Trade and other payables	29	642,666	525,061
Current tax liabilities		5,892	164
Financial liabilities	27	395,853	367,855
Derivative financial instruments	19	2,478	4,945
		1,046,889	898,025
Total liabilities		1,810,689	1,670,958
Total equity and liabilities		2,608,854	2,476,348

Consolidated income statement

EUR thousand	Note	2010	2009
Consolidated income statement			
Revenue	9	2,781,604	2,643,315
Cost of sales	11	-2,611,100	-2,474,106
Gross profit		170,504	169,209
Administrative expenses	11	-99,622	-109,955
Other income	10	23,623	12,588
Results from operating activities		94,505	71,842
Finance income	13	6,070	10,245
Finance expense	13	-60,231	-56,891
Net finance expense		-54,161	-46,646
Profit before income tax		40,344	25,196
Income tax expense	14, 20	-9,957	-4,077
Profit for the period		30,387	21,119
Profit attributable to:			
Owners of the Company		30,396	21,232
Non-controlling interest		-9	-113
Basic and diluted earnings per share (in EUR)	26	8.2	5.7

Consolidated statement of comprehensive income

EUR thousand	Note	2010	2009
Consolidated statement of comprehensive income			
Profit for the period		30,387	21,119
Other comprehensive income			
Foreign currency translation differences for foreign operations		-28,515	-12,072
Change in fair value of available-for-sale financial assets	25	-1,457	841
Effective portion of changes in fair value of cash flow hedges	25	1,799	-1,462
Revaluation of property	15	22,094	-
Deferred tax	20	-4,389	1,983
Other comprehensive income for the period		-10,468	-10,710
Total comprehensive income for the period		19,919	10,409
Attributable to:			
Owners of the Company		19,927	10,520
Non-controlling interest		-8	-111

Consolidated statement of changes in equity

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the Company	Non-controlling interest	Total
Consolidated statement of changes in equity											
Balance at 1 January 2009	157,129	198,848	-3,250	267,640	188,751	-	24,682	-21,708	812,092	2,008	814,100
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	21,232	-	21,232	-113	21,119
Other comprehensive income	-	-	-	-	-2,722	4,084	-	-12,074	-10,712	2	-10,710
Total comprehensive income for the period	-	-	-	-	-2,722	4,084	21,232	-12,074	10,520	-111	10,409
Transactions with owners, recognized directly in equity											
Contributions by and distributions to owners											
Dividends to equity holders*	-	-	-	-	-	-16,754	-	-	-16,754	-	-16,754
Disposal of treasury shares	-	24	15	-15	-	15	-	-	39	-	39
Transfer of profit for the period to retained earnings	-	-	-	-	-	24,682	-24,682	-	-	-	-
Allocation of disposable income following the Shareholders' Assembly resolution	-	-	-	2,569	-	-2,569	-	-	-	-	-
Total contributions by and distributions to owners	-	24	15	2,554	-	5,374	-24,682	-	-16,715	-	-16,715
Changes in ownership interests in subsidiaries that do not result in a loss of control											
Acquisition of non-controlling interest	-	-	-	-	-	-761	-	-	-761	-1,643	-2,404
Total transactions with owners	-	24	15	2,554	-	4,613	-24,682	-	-17,476	-1,643	-19,119
Balance at 31 December 2009	157,129	198,872	-3,235	270,194	186,029	8,697	21,232	-33,782	805,136	254	805,390

* The amount of dividends to equity holders differs from the amount declared by the Shareholders' Assembly, due to consideration of treasury shares in dividends calculation.

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the Company	Non-controlling interest	Total
Consolidated statement of changes in equity (continued)											
Balance at 1 January 2010	157,129	198,872	-3,235	270,194	186,029	8,697	21,232	-33,782	805,136	254	805,390
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	30,396	-	30,396	-9	30,387
Other comprehensive income	-	-	-	-	14,158	3,886	-	-28,513	-10,469	1	-10,468
Total comprehensive income for the period	-	-	-	-	14,158	3,886	30,396	-28,513	19,927	-8	19,919
Transactions with owners, recognized directly in equity											
Contributions by and distributions to owners											
Dividends to equity holders*	-	-	-	-	-	-26,807	-	-	-26,807	-	-26,807
Transfer of profit for the period to retained earnings	-	-	-	-	-	21,232	-21,232	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-5,575	-21,232	-	-26,807	-	-26,807
Changes in ownership interests in subsidiaries that do not result in a loss of control											
Acquisition of non-controlling interest (Note 8)	-	-	-	-	-	-337	-	-	-337	-	-337
Total transactions with owners	-	-	-	-	-	-5,912	-21,232	-	-27,144	-	-27,144
Balance at 31 December 2010	157,129	198,872	-3,235	270,194	200,187	6,671	30,396	-62,295	797,919	246	798,165

* The amount of dividends to equity holders differs from the amount declared by the Shareholders' Assembly, due to consideration of treasury shares in dividends calculation.

Consolidated statement of cash flows

EUR thousand	Note	2010	2009
Consolidated statement of cash flows			
Cash flows from operating activities			
Profit for the period		30,387	21,119
Adjustments:			
Income tax expense	14	9,957	4,077
Depreciation of property, plant and equipment	15	68,946	85,463
Depreciation of investment property	17	173	211
Amortization of intangible assets	16	9,575	10,338
Impairment and loss on sale of property, plant and equipment and intangible assets		2,676	-1,423
Change in provisions	28	4,343	4,737
(Gain) loss on sale and impairment losses of available-for-sale financial assets	13	37	178
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	8	-7,626	-371
Net foreign exchange loss from borrowings	13	10,098	4,224
Interest received	13	-3,427	-7,811
Interest paid	13	44,948	46,554
Gross cash flow from operating activities		170,087	167,296
Change in inventories		-17,302	-19,659
Change in trade and other receivables		-19,910	93,866
Change in trade and other payables		112,559	-78,067
		245,434	163,436
Interest paid	13	-44,948	-46,554
Income tax paid	14	-10,741	-4,844
Net cash from operating activities		189,745	112,038

EUR thousand	Note	2010	2009
Consolidated statement of cash flows			
Cash flows from investing activities			
Consideration transferred at business combinations, net of cash acquired	8	-40,954	-4,801
Acquisition of property, plant and equipment and investment property	15, 17	-91,910	-149,757
Acquisition of intangible assets	16	-3,532	-7,596
Loans and deposits made		-62,529	-24,963
Proceeds from sale of property, plant, and equipment and investment property	15, 17	16,759	6,967
Proceeds from sale of intangible assets	16	85	36
Proceeds from sale of available-for-sale financial assets	18	56	-
Interest received	13	3,427	7,811
Dividends received	13	4	16
Loans and deposits received		3,983	30,269
Net cash used in investing activities		-174,611	-142,018
Cash flows from financing activities			
Proceeds (repayments) from borrowings		21,346	14,032
Dividends paid		-31,262	-12,366
Net cash (used in) from financing activities		-9,916	1,666
Net (decrease) increase in cash and cash equivalents			
		5,218	-28,314
Cash and cash equivalents at the beginning of the year		16,844	45,870
Effect of exchange rate fluctuations on cash held		-1,296	-712
Cash and cash equivalents at the end of the year	24	20,766	16,844

Accounting policies and general notes

1: Reporting company

Poslovni sistem Mercator, d.d., (hereinafter referred to as Mercator, d.d.) is a company headquartered in Slovenia. The address of the company's registered office is Ljubljana, Dunajska cesta 107. The consolidated financial statements of the Company as at and for year ended 31 December 2010 comprise the company and its subsidiaries (together referred to as the "Mercator Group"). The core activity of the Mercator Group is retail and wholesale of fast-moving consumer goods.

2: Basis of preparation

Statement of compliance

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and in compliance with the provisions of the Slovenian Companies Act.

Consolidated financial statements were approved by the Company Management Board on 24 January 2011.

Basis of measurement

Consolidated financial statements have been prepared on the historical cost basis, except for the items listed below, where fair value was considered.

- derivative financial instruments,
- available-for-sale financial assets,
- property by revaluation model.

The methods used to measure fair values are discussed further in Note 4.

Functional and presentation currency

These consolidated financial statements are presented in euro, which is the functional currency of the company Poslovni sistem Mercator, d.d. All financial information presented in euro has been rounded to the nearest thousand.

Use of estimates and judgements

Preparation of financial statements in compliance with the IFRS requires the company management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of uncertainty regarding estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is given below.

Goodwill

Each year, impairment test is conducted by the Group concurrently with the compilation of financial statements. The recoverable amount of the cash generating unit is defined based on the calculations

of value in use. The calculations include projections of cash flow that are based on operational plans for the successive year, as adopted by the Management Board, and the extrapolation of the growth rates for all successive periods. The Management Board has defined the gross margin based on the business performance record (history) and expectations with regard to development of the market. The discount rate employed is based on market rates adjusted to reflect specific risks related to particular business units.

Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Group, pursuant to IAS 23 Borrowing Costs (2007), capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalization of interest expense is performed for major investments (investments which at completion amount to over 3% of book value of items of property, plant and equipment at the beginning of the year) which started after 1 January 2009 and whose construction and preparation for use lasts more than 6 months. In 2010, no investment meets the above criteria for classification as a major investment.

Available-for-sale financial assets

The Group's long-term financial investments into equity of other companies, classified as available-for-sale financial assets, also include such assets that could not be appraised at fair value. Shares of these companies are also not listed or traded in the stock market. The Group estimates that the costs of evaluating these long-term financial investments into equity of other companies by their fair value would be too high, while the evaluation would not affect significantly the correctness of financial statements; hence, these assets are valued at cost.

Trade and other receivables

The estimate is based on assumption that trade and other receivables will be paid in recognized amount. Provision for the impairment of trade and other receivables is based on pending legal processes and previous years' experience. In the future, the Group does not expect any events that would significantly influence accounting estimates.

Inventories

Carrying values of inventories approximate net realizable value in all material aspects. Allowances and write-downs of inventories are based on previous years' experience. In the future, the company does not expect any events that would significantly influence accounting estimates.

Provisions

Carrying values of provisions are measured as the present value of the expenditures expected to be required to settle the obligation. Estimates are given by experts, or the values are based on original documentation. The outcome and the date of resolution of legal proceedings which were the basis for recognition of provisions are uncertain. In the future, the company does not expect any events that would significantly influence accounting estimates.

Retirement benefits and jubilee premium provisions refer to estimated payments of retirement benefits and long service awards presented to the employees who have been with the Group for a long period of time, as at the reporting date, discounted to present value. These provisions have been made for expected payments. Calculation of the figure also accounted for the expected growth of wages from the day of the calculation until the day of retirement of a particular employee, as well as employee fluctuation. Salary growth consists of career promotion and the related wage inflation. To calculate the present value of retirement benefits and jubilee premium provisions, a discount rate was used that is equal to the market yield on highly rated euro-denominated corporate bonds. In the future, the Group does not expect any events that would significantly influence accounting estimates.

Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal domestic tax rate of individual consolidated entity's country. If the tax rate changes, the deferred income tax assets and liabilities will change appropriately. In the future, the Group does not expect any events that would significantly influence accounting estimates.

Changes in accounting policies

Accounting for business combinations

As of 1 January 2010, business combinations have been recognized by the Group in compliance with IFRS 3 Business Combinations (2008). The change in accounting policy has been applied prospectively and has had no effect on earnings per share in the current year.

For acquisitions after 1 January 2010, the Group shall measure goodwill as the fair value of the consideration transferred (including the fair value of the existing equity interest in the acquiree) and the value of non-controlling interests in the acquiree, less the value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. When the difference is negative, any gain shall be recognized directly in income statement.

Accounting for acquisitions of non-controlling interests

From 1 January, 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. All surpluses or difference between cost of additional investment and carrying amount of assets are recognized in equity for those changes in ownership interest that do not lead to a change in control over the company.

3: Significant accounting policies

The accounting policies laid out below have been applied consistently to all periods presented in these consolidated financial statements, by all Group entities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is deemed to exist when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. Financial statements of subsidiaries are included in the consolidated financial statements from the date such control is commenced until the date such control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date when common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, with the exception of any share capital of the acquired entities, which is recognized as a part of share premium. Any cash paid for the acquisition is recognized directly in equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated from the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate effective at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates effective at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at average exchange rates.

Foreign currency differences are recognized directly in equity. Since the Group's date of transition to IFRS, such differences have been recognized in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or fully, the relevant amount in the FCTR is transferred to profit or loss.

In case of a subsidiary that is not in total control, a pro rata share of FCTR is allocated to non-controlling interest. When the foreign company is disposed of in such way that there is no controlling interest, significant influence or common control, an appropriate amount in FCTR is allocated as profit or as income or expense related to the disposal. If the Group which only disposes of a part of its stake in a subsidiary that includes a foreign company, and still maintains significant influence or common control, an appropriate pro rata share of accumulated amount is allocated to profit or loss.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Initially, the Group recognizes loans and receivables and deposits on the day of their occurrence. Other financial assets (including assets which are estimated at their fair value through profit or loss) are initially recognized on an exchange date or when the Group becomes a client in accordance with contractual terms of the instrument.

The Group shall correct the recognized financial assets when the contractual rights to cash flows of such assets expire or when Group moves the rights to contractual cash flows of financial asset related to a business in which all risks and benefits from ownership of the financial asset are transferred. Any share in transferred financial asset, which is created or transferred by Group, is recognized as individual asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position, but only if the Group has a legal right to settle the net amount or to realize the asset and at the same time settle the liability.

Financial assets at fair value through profit or loss

Instrument is allocated at its fair value through profit or loss, if it is held for trading or if it is deemed recognized at the beginning. Financial assets are determined at their fair value subject to the condition that the Group is able to manage these assets and has the power to take selling and purchasing decisions on fair value basis. Related costs of this business are recognized in profit or loss at the day of their occurrence. Financial assets at their fair value through profit or loss are measured at their fair value, the amount of change in fair value is recognized in profit or loss.

Financial assets at their fair value through profit or loss include ownership securities that would in other way be allocated to available-for-sale financial assets.

Financial assets held to maturity

If the Group's purpose and ability is to hold debt securities to maturity, they are allocated to financial assets held to maturity. Financial assets held to maturity are initially recognized at their fair value, increased by all costs that could be directly related. Later on, these assets are recognized at amortized cost using the effective interest method, decreased by losses or impairments. Result of sale or re-allocation of less important financial assets held to maturity, which are not due soon, is allocation of all financial assets held to maturity to available-for-sale financial assets; Therefore the Group can't allocate investment securities as financial assets held to maturity in current year nor in next two years.

Loans and receivables

Loans and receivables are financial assets with fixed payments, which are not listed in an active market. These assets are initially recognized at their fair value, increased by related direct costs. Later, these assets are recognized at amortized cost using the effective interest method, decreased by losses or impairments. Loans and receivables include cash and cash equivalents, loans to other companies and bank deposits, trade and other receivables, and long-term deposits for rent payment. Long-term deposits for rent payment are considered in terms of content (finance lessors) and represent long-term financial receivables. They are discounted by market or contractual discount rates. Discount rate is a basis for financial revenues accounting for the whole period the rents were paid.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and call deposits. Bank overdrafts, which are repayable on demand and used for cash management purposes in the Group, are included in cash and cash equivalents in the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into the above categories. Subsequently to initial recognition, they are measured at fair value and changes therein. Impairment losses (see note Impairment of assets: Non-derivate financial assets) and foreign exchange differences on available-for-sale financial monetary items (see note Foreign currency: Foreign currency transactions) are recognized in other comprehensive income and reported in equity or in fair value reserve. When an investment is

derecognized, the cumulative gain or loss in equity is transferred to profit or loss. Available-for-sale financial assets also include equity securities.

Available-for-sale financial assets of the Group also include such assets whose fair value could not be evaluated. This mainly includes equity securities of companies that are not listed and traded in stock markets. The Group estimates that costs of evaluating the fair value of all these financial assets would have been too high, while the evaluation would not considerably affect the correctness of financial statements.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Non-derivative financial liabilities

Initially, the Group recognizes issued debt securities and subordinate debt at the date of their occurrence. All other financial liabilities (including liabilities measured at their fair value through profit or loss) are at initially recognized at their trading date, when the Group becomes the contractual client related to that instrument.

The Group eliminates the recognition of financial liability, if obligations, determined in contract are met, repealed or obsolete.

Financial assets are offset and the amount is recognized in the statement of financial position if the Group has the official enforceable right to offset recognized amounts and intent to pay net amount or it is legally entitled to offset amounts and has an intent to pay net amount or realize the asset and on the same time settle the liability.

Group recognizes non-derivative financial instruments as other financial liabilities. These financial liabilities are initially recognized at their fair value increased by the directly related costs. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities include loans and trade and other payables.

Bank overdrafts which are repayable on demand and used for cash management purposes in the Group are included in cash and cash equivalents in the statement of cash flows.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to capital reserves or retained earnings.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately

if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

At the inception of the hedge, the Group keeps formal documents about the ratio between risk management and the purpose of risk management at the company, and about the strategy of the hedge project, as well as the methods used in estimating the effectiveness of this ratio. The group estimates the hedge with conventional method and at its inception, when highly successful hedge is expected to reach the offset changes of fair value or cash flows which are added to hedge, and when the realized amounts reach 80 - 125 percent. With cash flow hedges, the expected business that is the subject of hedging must be highly probable and exposed to cash flow changes, which could ultimately affect the profit or loss.

Derivatives are initially recognized at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instruments designated as a cash flow hedge are recognized directly in second comprehensive income of the period to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, if it expires, or if it is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Property, plant and equipment

Reporting and measurement

Plant and equipment are measured using the cost model. They are carried at their cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs related to the acquisition or construction of qualifying assets are capitalized, if they exceed 3 % of the carrying amount of property, plant and equipment at the beginning of the year, they start after 1 January 2009 and construction or preparation for use lasts over 6 months. In 2010 the group has not made capital expenditures, which would meet the described criteria. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and also capitalized borrowing costs.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal of an item of property, plant and equipment with the net value (carrying amount) recognized in other income/expenses in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

The Group employs the revaluation model to measure the value of land and buildings. The fair values reported are based on periodical, but not less than three-year valuations by an external independent appraiser, less accumulated depreciation. Increases in the carrying amount from land and building

revaluation are reported in the increase of revaluation surplus in equity. Impairment of assets whose value was previously increased directly decreases the value of established revaluation surplus in equity; otherwise, they are recognized in the income statement. Depreciation charge based on revalued value of assets is recognized in the income statement. Useful life and remaining value of buildings is evaluated / appraised annually, by an internal committee of experts, based on events that indicate the need for revaluation of a particular asset.

Reorganization of Mercator Group, which came into force on 1 January 2010, also meant that a new business field was established: Real Estate. Within activities for preparing the analysis of possible ways to monetize Mercator Group real estate, an estimation of fair values of real estate and useful lives was made by independent certified auditors.

When selling old equipment in 2010, some indications were found by the Internal Committee for revaluation of property, plant and equipment about the need to review the useful lives of equipment. In recent years, Mercator has carried out numerous activities that have had a positive effect on the actual useful lives of equipment. Estimation of useful lives of equipment was made by an independent certified appraiser based on data as at 1 January 2010.

Estimation of fair value of property

In compliance with the Accounting Rules, Mercator Group periodically, at least three times per year, reviews the fair values of its real estate. Real estate valuation was made on 1 January 2010 by a certified real estate appraiser in accordance with the International Valuation Standards and International Financial Reporting Standards. The value of real estate was measured based on the measurements, extracts from land registries, folder copies, purchase agreements, expected revenues and expenses of cash-generating unit data, and other sources.

Pursuant to the International Accounting Standards, the company defined already in 2005 its cash-generating units. One unit shall include all real estate at same location - address.

Effect of revaluation in 2010 amounts to EUR 22,094 thousand of asset increases and EUR 1,253 thousand of asset impairments:

In EUR thousand	Land	Buildings	Total
Effect of revaluation in 2010			
Increase	6,765	15,329	22,094
Impairment	-1,253	-	-1,253
Total	5,512	15,329	20,841

Assessment of useful lives of property, plant and equipment

In Mercator Group property, plant and equipment are depreciated by the straight line depreciation method with use of depreciation rates that reflect estimated useful lives of different assets in each company within Mercator Group. Useful lives and reminder of property, plant and equipment values are tested annually by internal experts or external independent appraisers based on any events that indicate the need for revaluation of a particular asset.

Assessment of useful lives of property, plant and equipment was conducted by external independent appraisers as at 1 January 2010.

In recent years, a number of Mercator's business process optimization measures in many fields affected directly or indirectly the useful lives of property, plant, and equipment. These include in particular:

- high investment in current maintenance,
- overall standardization of market formats,

- technological standardization of equipment,
- implementation the category management concept,
- standardization of computer equipment,
- active internal training,
- effective property insurance,
- measures to increase energy efficiency.

Estimation of useful lives of property, plant and equipment was conducted by a certified real estate appraiser and certified machine and equipment appraiser. They determine the useful lives of property, plant, and equipment based on their value and chronological age, empirical data on the frequency of real estate refurbishments and replacement at the Mercator Group, and on data from literature, catalogues, own databases, which are used for determining useful lives of certain assets. Additionally, the changes to the estimated useful lives were supported by data on regular and investment maintenance of property, plant and equipment and the comprehensive property insurance system in Mercator Group.

Evaluation of useful lives was based on the International Financial Reporting Standards in relation to the International Valuation Standards and other applicable and adopted standards, as well as physical, economic, market, and ecological information related to subject of evaluation.

Reclassification to investment property

If property used by the company is reclassified to investment property, the value of such property shall be evaluated at its cost, and the property shall be included among investment property. The Group evaluates its investment property by the cost model. Only independent real estate units entirely leased to a third party are classified as investment property. If only a part of a building/facility is leased to a third party, it is not classified as investment property, as it cannot be sold separately, and because the other important part of the facility is being used for selling or producing goods.

Subsequent costs

The cost of replacing a part of a piece of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of respective parts of an item of property, plant and equipment. Leased assets are depreciated by taking into account the lease term and their useful lives, unless it is reasonably certain that the company will obtain ownership by the end of the lease term. Land is not depreciated.

For the part of the depreciation that relates to revalued property, plant, and equipment, the Group shall continuously eliminate the established revaluation surplus in retained earnings.

The estimated useful lives for the current and comparative periods are as follows:

	2010	2009
Estimated useful lives		
Buildings	20-50 years	20-40 years
Plant and equipment	2-18 years	3-15 years

Useful lives and residual values are reviewed at each reporting date.

Intangible assets

Goodwill

Goodwill (negative goodwill) arises from the acquisition of subsidiaries, associates and joint ventures.

Acquisitions as of the day of transition to IFRS

For acquisitions on or after 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of non-controlling interests

All surpluses or difference between cost of interests and the carrying amount of assets are recognized in equity, at changes in equity interests that do not result in change of control.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including internally generated brands, is recognized in profit or loss as incurred.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

	2010	2009
Estimated useful lives		
patents, licenses, and brands	2-15 years	5-10 years

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Only independent buildings/real estate units that are entirely leased to third parties are classified as investment property. If only a part of a building / facility is leased to third parties, it is not classified as investment property as it cannot be sold separately and because other major part of the facility is used for producing or delivering goods or services (e.g. hypermarket within a shopping centre). Investment property is recorded by the cost model. Depreciation is calculated based on a linear method, so that the purchase value of assets is divided on their respective remaining values throughout the anticipated useful life which is the same as for property.

When the use of property changes so that it is reclassified as property, plant and equipment, the fair value of such asset is measured. Positive difference is recognized in the revaluation surplus, while negative difference is recognized in profit or loss.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of either fair value or the present value of minimum lease payments. Subsequently to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized on the Group's statement of financial position.

Inventories

Inventories are measured at the lower of cost and net realizable value.

Following are the methods of calculating the cost of inventories and relevant expenses:

- FIFO method for merchandise,
- method of average purchase prices for raw materials and packaging; costs of inventory include purchase value, costs of production, transformation, and other costs incurred in bringing them to the current location and in the current condition; with both finished products and semi-products, the costs also include the relevant part of indirect production costs, under the assumption of normal use of means of production.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The estimation of net realizable value of inventory is conducted at least once per year, upon the compilation of regular annual inventory lists.

Write-offs and partial write-offs (write-downs) of damaged, expired and useless inventories are conducted regularly during the year on specific items. At the end of the year, inventories are revalued as of 31 December on groups of related or connected items depending on their aging or obsolescence. They are impaired on the basis of previous years' experience.

Impairment of assets

Non-derivative financial assets

For each financial asset that is not recognized at its fair value through profit or loss, an assessment is made on the reporting date to determine whether there is objective evidence from which the impairment of an asset is seen. Financial asset is impaired if there is objective evidence indicating that after the initial recognition of asset, there was, for one or a number of events, a decrease of expected cash flows from this asset and this difference in cash flows can be measured.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, and economic conditions that correlate with the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale equity security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated on each reporting date. Impairment of cash-generating unit is recognized when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets, which cannot be tested separately, are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which

goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units or groups of units that are expected to benefit from synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

An impairment loss is recognized in income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Employee benefits

Other long-term employee benefits - retirement benefits and jubilee premiums provisions

In the balance sheet, the Group recognized long-term provisions deriving from future liabilities to employees for long service awards, calculated in compliance with the collective labour agreement for this activity / industry, and the mandatory retirement benefits as stipulated by the relevant act. The changes in retirement benefits and jubilee premiums provisions are recognized in the income statement. The provisions are determined based on actuarial calculations that are revised annually. Actuarial gains or losses are the effect of changed facts that affect the actuarial calculation (e.g. change in legislation), or a change in actuarial assumptions.

Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash

flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Revenue

Revenue from sales of goods, products, and material

Revenue from the sale of goods, products and material is measured at the fair value of consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods, products and material can be estimated reliably, there is no continuing management involvement with the quantity of goods sold, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For wholesale of goods, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

Customer loyalty program

The Group issues credit and debit cards Mercator Pika to its customers for collecting bonus points at purchases. Bonus periods last six months. The first bonus period in the year lasts from 1 February to 31 July, the second bonus period from 1 August to 31 January of the following year. During the bonus period, customers collect bonus points. Depending on the amount of purchases and consequently the number of collected points, they can earn 3 to 6% discount. During the year, the Group allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on experience from previous bonus periods. Despite the fact that the second bonus period ends on 31 January the following year, the Group in this way ensures that recorded revenues match expenditures that were necessary for their realization.

Revenue from services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Rental income

Rental income is recognized in profit or loss on a straight-line basis over the term of the lease. Any discounts and benefits granted are recognized as an integral part of the total rental income.

Government grants

All types of government grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Group for the cost of an asset are recognized in profit or loss among other income on a systematic basis over the useful life of the asset.

Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease discounts and benefits received are recognized as an integral part of the total lease expense.

Payments made under financial leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease discounts and benefits received are recognized as an integral part of the total lease expense.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss.

Corporate income tax

Income tax expense for the year comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit,
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future,
- initial recognition of goodwill.

Deferred tax liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net earnings per share

The Group calculates basic earnings per share by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Group has no preference shares, nor does it have any ordinary shares that would represent convertible bonds and stock options; hence, the Group does not calculate dilutive earnings and dilutive earnings per share.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements:

- *Revised IAS 24 Related Party Disclosures (effective date of 1 January 2011)*
Revised IAS 24 is not important for the Group, because it is not a government-related entity. Amended definition of a related entity will not result in new relations that should be disclosed in financial statements.
- *Amendments to IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective date of 1 January 2011)*

Amendments to IFRIC 14 are not relevant to the Group, as it does not have defined benefit pension plans.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective date of 1 July 2010)*

During the year the Group has not issued equity instruments for extinguishing financial liabilities. Therefore the interpretation does not affect the comparable amounts in financial statements of the Group as at 31 December 2010. As the interpretation refers only to transactions, which will happen in the future, the effects of it cannot be estimated in advance.

- *Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (effective date of 1 February 2010)*

Amendments to IFRIC 14 are not relevant to the Group, as it has never issued such instruments.

4: Determination of fair values at business combinations

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant, and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Plant, equipment, fixtures and fittings are measured at cost.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Investment property

The fair values in business or strategic combinations are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion (arm's length transaction).

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is

assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets in business or strategic combinations is determined by reference to their quoted bid price at the reporting date, or if not available, determined using a valuation technique. Valuation techniques which can be employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, in business or strategic combinations is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5: Financial risk management

Active risk management at the Mercator Group pursues the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure. The parent company manages interest rate, currency and liquidity risks centrally for the entire Group, whereas credit risks are managed as a rule by subsidiaries. Risk control measures are incorporated into daily operations in all companies of the Mercator Group.

Actively engagement in risk management at the Mercator Group is the responsibility of the Risk Management Council within which a systematic risk management process is in place, which is also stated in the Risk Management Manual. As risks are monitored and managed from various areas of

expertise, individual committees are formed in support of the Risk Management Council, which cover three main areas of risks.

At Mercator Group, we are constantly studying and analyzing existing and potential new risks and taking measures to control them.

Risk management process includes risk identification, sensitivity analysis, determination of threshold for key risks, taking measures to control risks and the implementation of these in the everyday decision-making in individual areas.

Estimates of exposure to individual risk types are prepared according to the probability and an assessment of damages in case of certain events. Risk exposure is estimated based on sensitivity analysis, which tells a percentage decrease in gross cash flow from operations at the Group or company level at the occurrence of certain event, which is the basis for risk analysis. The probabilities are calculated based on an analysis of historical data and expectations about the frequency of individual events in the following year. The analysis considers various influences and factors that are adjusted to specific type of risk.

Risks that cannot be assessed quantitatively are assessed qualitatively. Estimated key risks, that exceed 1% of gross cash flow from operating activities of the Group or individual company, and for them no measures have been taken so far or they are not hedged in a manner that the risk would be entirely controlled, are most closely monitored and managed with measures, that either minimize the damage at the occurrence of an event, or reduce the level of likelihood of occurrence of an event, thus changing the risk to an acceptable level. Implementation of the measures adopted for managing the key risks is checked by a specific internal-audit review and reported to the audit committee on a quarterly basis.

In 2010, the negative effects of economic and financial crisis are still felt. Despite the improvement in macroeconomic conditions, the Group is still faced with a reduced volume of demand in the retail trade in all markets of operation; non-payment of receivables is still at the forefront, especially in wholesale, which is a result of decreased lending to businesses and households. In 2010, currency risk was also significant. In these circumstances, it was crucial for Mercator Group to carefully manage the risks facing its business operations.

Overview

The Group is constantly monitoring various types of financial risks to which it is exposed through its operations. Among these risks are the following: interest rate risk, foreign exchange risk, credit risk and liquidity risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Credit risk

Credit risk is the risk that the Group will suffer financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all. Credit risk arises mainly from receivables to wholesale customers and receivables from Pika card.

Group's exposure to credit risk is particularly dependent on the characteristics of individual customers. However, Mercator Group's exposure to customers is highly dispersed. In accordance with the adopted policy for each new customer, an analysis of its creditworthiness is performed before the Group offers its standard payment terms. The analysis by the Group comprises external ratings, if they exist. Limits on purchases, which represent the maximum amount of open positions are determined for each customer individually. Group's business with customers who do not meet the benchmark credit rating is taking place only on the basis of advance payments.

Liquidity risk

Liquidity risk is the risk that the Group will in the course of its business activities encounter difficulties in settlement of its current liabilities which are settled in cash or with other financial assets. The Group ensures its liquidity so that it always has ample liquid assets to meet its obligations in due time, both in normal as well as challenging circumstances, without the occurrence of unacceptable losses or decline in the Group's reputation. The financial crisis that has continued in 2010 has significantly reduced the lending activity of banks. Also, the risk that banks will not refinance existing financial liabilities incurred by non-financial firms has occurred.

The Group actively manages liquidity risk by:

- operating a centralized cash management system,
- statistically supported forecasting of cash flows,
- daily contact with its largest wholesale customers, thereby increasing the predictability of its cash flows,
- operating a centralized cash pooling system.

Market risks

Interest rate risk

Interest rate risk of the Group derives from financial liabilities. Financial liabilities expose the Group to cash flow interest rate risk.

The Group is exposed to interest rate risk as its liabilities and assets include such liabilities and assets that are sensitive to changes in interest rates, which means that some of the financial liabilities are linked to the variable interest rate Euribor. Euribor is changing daily, as it is subject to market fluctuations, which can lead to increased finance expenses for the Group. Consequently, the company properly centrally controls the growth of finance expenses. Group policy is to have at least 50% of financial liabilities that finance non-current assets hedged, and at least 25% of all financial liabilities hedged.

Currency risk

Mercator's operations in an international environment necessarily involve exposure to currency risk. Mercator Group is facing currency risk in the markets of Serbia and Croatia; exposure to risk has increased on these two markets according to estimate.

In case of increase in exposure to this type of risk, the Group has prepared a general policy of risk management that involves the following two steps:

- constant monitoring of macroeconomic background against which the movement of a particular exchange rate is taking place, and the related macroeconomic aspects and trends,
- adapting the operations based on the general trends and expectations, towards lesser exposure to currency risk.

In case of increased risk, the Group will decide on implementing any further measures based on the estimated level of exposure; needless to say, such measure will only be implemented following a thorough analysis and with consideration of the 'cost-benefit' principle. The type of measure will depend on its appropriateness or viability, the nature of exposure, planned Group operations, and anticipated economic effects. Effective instruments to hedge currency risk are not available, so the Group currently uses primarily so-called natural hedging or matching.

Capital management

Policy of the Group is oriented to achieving adequate amount of capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management Board therefore monitors on an ongoing basis the return on capital and capital structure.

The target capital structure ratio of the Group is 1:1.5 between equity and provisions, and financial liabilities.

Dividend policy is adopted for the period until 2010; actual amount of dividends in each year is determined by the Shareholders' Assembly.

As of 31 December 2010 the company Poslovni sistem Mercator, d.d., holds 42,192 treasury shares (31 December 2009: 42,381 treasury shares).

Accounting for derivative financial instruments

The Group has signed several agreements on interest rate swaps and interest rate caps, exclusively for the purposes of hedging; all criteria related to such purposes are met. The instruments employed are intended for cash flow hedging and are highly effective in managing the cash flows related to Group's borrowings.

Upon completion of a transaction, Mercator Group documents the relation between derivative financial instruments and hedged items, as well as the goal of its risk management and strategy for effecting various hedging transactions. This process also includes relating all derivative financial instruments to the portfolio of borrowings, or to particular borrowings.

The Group also documents every estimate it makes, both upon the completion of a transaction, as well as later, with regard to the effectiveness of derivative financial instruments employed for hedging in managing the cash flow from borrowings.

The Group employs derivative financial instruments for hedging purposes and recognizes them initially at fair value. If the cash flow hedge is effective, the changes in fair value are recognized directly in equity; otherwise, they are recognized in the profit or loss for the current period. The method for recognizing the profit or loss related to these instruments does not depend on the form of the hedged item.

Fair value estimation

The fair value of interest rate swaps has been calculated as the present value of the estimated future cash flows and deferred in a 'hedging reserve' in equity. Calculation of the fair value changes of each instrument is assessed on a semi-annual basis and recognized in the income statement when the hedged transaction affects the income statement.

6: Tax policy

Slovenia

Tax statements (financial statements for tax authorities) of the company Poslovni sistem Mercator, d.d., and the companies of the Mercator Group in Slovenia, are prepared in accordance with International Financial Reporting Standards and the Corporate Income Tax Act.

In 2010, changes were introduced to the Corporate Income Tax Act relating to the exemption from withholding tax of interest on certain debt securities, incentives for employment of the unemployed

aged under 26 and over 55 years, and relating to incentives for investments in research and development, which increased to 40%.

Corporate income tax rate is 20%. Pursuant to the corporate Income Tax Act, a company's taxable base is the profit as the surplus of revenues over expenses, where the basic criteria for recognition, or inclusion, in a tax statement are still the revenues and expenses as shown in the income statement, defined pursuant to the legislation or accounting standards.

In 2010, Mercator Group companies in Slovenia recognized and derecognized deferred taxes related to the following aspects:

- differences between business and tax recognized depreciation,
- impairment of receivables,
- write-down of inventories,
- provisions made,
- change in fair value of derivative financial instruments,
- revaluation of property, plant and equipment,
- property, plant and equipment, whose value does not exceed EUR 500 and whose useful life is longer than one year,
- change in fair value of available-for-sale financial assets.

The company must provide documentation on transfer prices; general documentation can be common to a group of related entities as a whole.

Serbia

Tax statements of the company Mercator-S, d.o.o., are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ("Zakon o porezu na dobit preduzeća").

Corporate income tax rate amounts to 10%.

In the assessment of corporate income tax, the following tax reliefs can be exercised:

- investment relief in the amount of 20% of the sum invested in the current year (but not over 50% of levied tax);

In 2010, the company Mercator-S, d.o.o., recognized deferred tax liabilities for the differences between depreciation as calculated for business purposes, and tax depreciation, calculated exclusively for the tax statement.

Croatia

Tax statements of the company Mercator-H, d.o.o., are prepared in compliance with International Financial Reporting Standards and the Corporate Income Tax Act ("Zakon o porezu na dobit").

Taxable base is the profit calculated in compliance with accounting principles, from which tax recognized or costs are subtracted, or to which unrecognized costs are added. The company may, among other, decrease its taxable base by the revenues from dividends or share in profit of other companies, and by depreciation that was not recognized as expense during the transitory periods.

Corporate income tax rate is 20%.

In the assessment of corporate income tax, companies can exercise the following tax reliefs:

- investment relief for promoting investments (under terms stated in the relevant act);

- investment relief for training (in part);
- investment relief for taxpayers in areas under special government protection.

In 2010 company Mercator - H, d.o.o., has derecognized deferred tax liabilities due to depreciation and disposal of revalued property. Interpost-H, d.o.o., and Modiana-H, d.o.o., recognized deferred tax liabilities for inventory revaluation.

Bosnia and Herzegovina

Tax statements of the companies Mercator-BH, d.o.o., and Mercator - BL, d.o.o., are prepared in compliance with International Financial Reporting Standards and the Corporate Income Tax Act ("Zakon o porezu na dobit").

Corporate income tax rate is 10%.

In the assessment of corporate income tax, companies can exercise the following tax reliefs:

- investment relief for investments in production on the territory of Bosnia and Herzegovina (taxpayers that invest 5 years successively at least BAM 20 million);
- investment relief for exports;
- investment relief for hiring handicapped persons.

In 2010, the company Mercator - BH, d.o.o., has derecognized deferred tax liabilities due to depreciation and disposal of revalued property.

Montenegro

Tax statements of the company Mercator-Mex, d.o.o., are prepared in compliance with International Financial Reporting Standards and the Corporate Income Tax Act ("Porez na dobit pravnih lica").

Corporate income tax rate is 9%.

In the assessment of corporate income tax, companies can exercise the following tax reliefs:

- investment relief for newly hired, that are employed for indefinite time period, in the amount of their wages;
- investment relief for the acquisition of assets that increase energy efficiency (tax base is decreased for 50% of completed investments).

In 2010 company Mercator - Mex, d.o.o., has not recognized deferred tax assets or liabilities. In 2010 Company Mercator - CG, d.o.o., recognized deferred tax liabilities for amortization.

Bulgaria

Tax statements of the company Mercator-B, e.o.o.d., are prepared in compliance with International Financial Reporting Standards and the "Corporate Tax on the Annual Taxable Profit (Loss)".

Corporate income tax rate is 10%.

In the assessment of corporate income tax, companies can exercise the following tax reliefs:

- investment relief for hiring handicapped persons;
- investment relief for taxpayers in areas, which are less developed (under terms stated in the relevant act);
- investment relief for newly hired employees (under terms stated in the relevant act).

In 2010 company Mercator - B, e.o.o.d., has not recognized deferred tax assets or liabilities.

Albania

Tax statements of the company Mercator-A, sh.p.k., are prepared in compliance with International Financial Reporting Standards and the Corporate Tax on Income.

Corporate income tax rate is 20%.

Companies may recognize a Tax relief for sponsorship.

In 2010 company Mercator - A, sh.p.k., has not recognized deferred tax assets or liabilities.

7: Business segments

For the purpose of reporting by segments, the Mercator Group defined two segments by considering various sets of activities or services performed by the companies within the Group.

Market prices are used for selling goods, products and services between the segments.

The Group is organized into two main business segments:

- Trade, which consists of retail and wholesale of fast moving consumer goods, apparel, hardware and electronics, sportswear and sports equipment. Fast moving consumer goods trade represents the core business of the Mercator Group.
- Non-trade, which consists of food processing, hospitality and other services.

Information about reportable segments

EUR thousand	Trade		Non-trade		Total	
	2010	2009	2010	2009	2010	2009
Information about reportable segments						
Total segment revenue	2,762,559	2,624,196	45,768	44,419	2,808,327	2,668,615
Inter-segment revenue	2,857	2,391	23,866	22,909	26,723	25,300
Interest income	3,351	7,721	76	205	3,427	7,926
Interest expense	44,537	46,140	411	529	44,948	46,669
Depreciation and amortization	76,596	93,918	2,098	2,094	78,694	96,012
Total segment results from operating activities	91,464	69,798	3,046	2,393	94,510	72,191
Assets	2,566,035	2,431,516	55,321	53,738	2,621,356	2,485,254
Liabilities	1,796,264	1,651,819	26,927	28,045	1,823,191	1,679,864
Capital expenditure	114,493	151,073	1,901	6,280	116,394	157,353

Reconciliations of reportable segment revenues, results from operating activities, assets and liabilities and other material items

EUR thousand	2010	2009
Revenue		
Total segment revenue	2,808,327	2,668,615
Elimination of inter-segment revenue	-26,723	-25,300
Consolidated revenue	2,781,604	2,643,315

EUR thousand	2010	2009
Results from operating activities		
Total segment results from operating activities	94,510	72,191
Elimination of inter-segment profits	-5	-349
Consolidated results from operating activities	94,505	71,842

EUR thousand	2010	2009
Assets		
Total assets for reportable segments	2,621,356	2,485,254
Inter-segment elimination	-12,502	-8,906
Consolidated total assets	2,608,854	2,476,348

EUR thousand	2010	2009
Liabilities		
Total liabilities for reportable segments	1,823,191	1,679,864
Inter-segment elimination	-12,502	-8,906
Consolidated total liabilities	1,810,689	1,670,958

EUR thousand	Reportable segment totals	Inter-segment eliminations	Consolidated totals
Other material items 2010			
Interest income	3,427	-	3,427
Interest expense	44,948	-	44,948
Depreciation and amortization	78,694	-	78,694
Capital expenditure	116,394	-	116,394

EUR thousand	Reportable segment totals	Inter-segment eliminations	Consolidated totals
Other material items 2009			
Interest income	7,926	-115	7,811
Interest expense	46,669	-115	46,554
Depreciation and amortization	96,012	-	96,012
Capital expenditure	157,353	-	157,353

Geographical segments

Group's business segments operate in two main geographical areas:

- Slovenia, the location of the parent company, which is also the largest business unit of the Group. Areas of operation in Slovenia are: trade (retail and wholesale), food processing, hospitality and services.

- Foreign countries, including Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Albania. Operations in these countries are carried out in the business segment of trade.

EUR thousand	Revenues from external customers		Non-current assets	
	2010	2009	2010	2009
Geographical segments				
Slovenia	1,694,276	1,744,603	1,087,884	1,097,439
Foreign countries	1,087,328	898,712	928,836	850,117
Total	2,781,604	2,643,315	2,016,720	1,947,556

Revenues from any individual customer do not reach 10% of total revenues of the Group.

Companies of Mercator Group

Mercator Group consists of the following companies as at 31 December 2010 (data in EUR thousand):

TRADE					
Poslovni sistem Mercator, d.d.		Intersport ISI, d.o.o.		Modiana, d.o.o.	
Slovenia		Slovenia		Slovenia	
Equity	824,827	Equity	10,685	Equity	8,509
Profit for the period	36,806	Profit for the period	681	Profit for the period	-1,491
Revenue	1,654,520	Revenue	37,775	Revenue	39,056
Number of employees	10,606	Number of employees	324	Number of employees	616
Mercator - S, d.o.o.		Mercator - H, d.o.o.		Mercator - BH, d.o.o.	
Serbia		Croatia		Bosnia and Herzegovina	
Equity	221,675	Equity	231,096	Equity	38,065
Profit for the period	7,094	Profit for the period	-8,755	Profit for the period	9
Revenue	478,051	Revenue	414,051	Revenue	94,726
Number of employees	3,968	Number of employees	3,600	Number of employees	826
M - BL, d.o.o.		Mercator - Mex, d.o.o.		Mercator - B, e.o.o.d.	
Bosnia and Herzegovina		Montenegro		Bulgaria	
Equity	35,199	Equity	3,258	Equity	1,757
Profit for the period	397	Profit for the period	-1,554	Profit for the period	-3,085
Revenue	32,713	Revenue	27,616	Revenue	3,365
Number of employees	262	Number of employees	326	Number of employees	279
Mercator - A, sh.p.k.		Mercator - K, d.o.o.*		Mercator Makedonija, d.o.o.e.l.*	
Albania		Kosovo		Macedonia	
Equity	1,348	Equity	1	Equity	315
Profit for the period	-2,226	Profit for the period	0	Profit for the period	-90
Revenue	4,488	Revenue	0	Revenue	0
Number of employees	121	Number of employees	0	Number of employees	0

Intersport S-ISI, d.o.o.	100%	Intersport H, d.o.o.	100%	Intersport BH, d.o.o.	100%
Serbia		Croatia		Bosnia and Herzegovina	
Equity	15	Equity	4,669	Equity	758
Profit for the period	16	Profit for the period	222	Profit for the period	-42
Revenue	4,043	Revenue	18,038	Revenue	2,681
Number of employees	114	Number of employees	264	Number of employees	66

Modiana, d.o.o.	100%	Modiana, d.o.o.	100%	Modiana, d.o.o.	100%
Serbia		Croatia		Bosnia and Herzegovina	
Equity	-105	Equity	33	Equity	89
Profit for the period	-110	Profit for the period	31	Profit for the period	79
Revenue	5,970	Revenue	12,981	Revenue	3,919
Number of employees	142	Number of employees	169	Number of employees	79

Mercator - CG, d.o.o.	100%
Montenegro	
Equity	29,843
Profit for the period	-157
Revenue	25,495
Number of employees	1,103

NON-TRADE

Eta, d.d.	100%	Mercator - Emba, d.d.	100%	Mercator IP, d.o.o.	100%
Slovenia		Slovenia		Slovenia	
Equity	10,931	Equity	6,819	Equity	1,760
Profit for the period	1,646	Profit for the period	82	Profit for the period	888
Revenue	19,796	Revenue	17,159	Revenue	7,543
Number of employees	187	Number of employees	119	Number of employees	295

M - Nepremičnine, d.o.o.**	100%	Mercator - Optima, d.o.o.	100%
Slovenia		Slovenia	
Equity	4,000	Equity	2,407
Profit for the period	53	Profit for the period	67
Revenue	458	Revenue	841
Number of employees	0	Number of employees	16

* The company does not perform any activities yet.

** Project real estate companies, which do not perform any activities.

8: Acquisitions of subsidiaries and non-controlling interests

Business combinations

On 17 February 2010, the companies Getro, d.d., and Mercator - H, d.d., completed a strategic business combination based on the agreement to purchase retail trade activities of the Croatian company Getro, d.d., which the partners agreed on 18 December 2009. The strategic business combination includes the purchase of trademark 'Getro' and long-term operating lease of 16 Getro shopping centers and other units with a total area of almost 120 thousand square meters.

Strategic business combination had the following effect on the assets and liabilities of the Mercator Group on the day of acquisition:

EUR thousand	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Effect of strategic business combination with the company Getro, d.d., on the assets and liabilities of the Mercator Group at the acquisition date				
Property, plant and equipment	15	12,500	-	12,500
Investment property	16	4,000	9,225	13,225
Inventories		9,705	-	9,705
Trade and other receivables		15,975	-	15,975
Trade and other payables		-10,300	-	-10,300
Net identifiable assets and liabilities		31,880	9,225	41,105
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	10			-7,626
Consideration				33,479
Obtained cash				-
Cost of acquisition less obtained cash				33,479

In 2010, the acquired business of the company Getro generated revenues of EUR 108,776 thousand and profit before income tax of EUR 2,576 thousand, which includes the excess of acquirer's interest over the cost of business combination, impairment of goodwill of Presoflex units as a result of the transfer of a significant part of acquired Presoflex units to Getro trademark name and costs of integration and restructuring of the retail units of Getro.

On 30 June 2010, the companies Pantomarket, d.o.o., and Mercator - S, d.o.o., signed an agreement on strategic business combination, under which the company Mercator - CG, d.o.o., Montenegro, took over the retail trade activity and employees, and took on long-term operating lease 77 retail units owned by companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., on the market of Montenegro with a total gross sales area of over 31 thousand square meters.

Strategic business combination had the following effect on the assets and liabilities of the Mercator Group on the day of acquisition:

EUR thousand	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Effect of strategic business combination with the company Pantomarket,d.o.o., on the assets and liabilities of the Mercator Group at the acquisition date				
Property, plant and equipment	15	4,452	-	4,452
Inventories		3,023	-	3,023
Net assets and liabilities		7,475	-	7,475
Goodwill	16			-
Consideration				7,475
Obtained cash				-
Cost of acquisition less obtained cash				7,475

In 2010, the acquired business of companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., generated revenues of EUR 25,495 thousand and loss before income tax of EUR 157 thousand.

On 4 January 2010 the company Poslovni sistem Mercator, d.d., established the company Modiana, d.o.o., with contribution of share capital in the amount of EUR 10,000 thousand. The company took over the textile and drugstore business in the Slovenian market. In 2010, the business of Intersport in the Slovenian market was taken over by the company Intersport ISI, d.o.o., which was established at the end of 2009.

On 9 February 2010 the company Intersport ISI, d.o.o., established the company Intersport H, d.o.o., Croatia, with contribution of share capital in the amount of EUR 4,504 thousand, on 6 May 2010 it established the company Intersport BH, d.o.o., Bosnia and Herzegovina, with contribution of share capital in the amount of EUR 800 thousand and on 28 June 2010 it established the company Intersport S-ISI, d.o.o., Serbia, with contribution of share capital in the amount of EUR 1 thousand. The companies took over the business of Intersport in individual markets.

On 18 March 2010 the company Modiana, d.o.o., established the company Modiana, d.o.o., Croatia, with contribution of share capital in the amount of EUR 3 thousand, on 2 June 2010 it established the company Modiana, d.o.o., Bosnia and Herzegovina, with contribution of share capital in the amount of EUR 10 thousand and on 28 June 2010 it established the company Modiana, d.o.o., Serbia, with contribution of share capital in the amount of EUR 1 thousand. The companies took over the business of textile and drugstores in individual markets.

On 23 June 2010 Mercator Group established the company Mercator - CG, d.o.o., Montenegro, with contribution of share capital in the amount of EUR 15,300 thousand.

Acquisition of non-controlling interests

On 17 December 2010 the Group acquired an additional 19-percent ownership share of the company Mercator - Mex, d.o.o., in the amount of EUR 1,140 thousand and thus increased its ownership from 81.0% to 100.0%. Due to the existence of a forward contract to purchase the remaining 19-percent ownership share, which was recognized in accordance with IAS 32 as a financial liability of EUR 803 thousand, the Group has previously accounted for 100.0% ownership interest of the company in its consolidated financial statements. The difference between the consideration paid and financial liability was recognized as a decrease of retained earnings in the amount of EUR 337 thousand.

Notes to consolidated income statement

9: Revenue

Breakdown of revenue by categories

EUR thousand	2010	2009
Revenue		
Sales of goods	2,564,033	2,410,674
Sales of services	198,656	211,559
Sales of products	23,875	25,913
Sales of materials	532	532
Expenses for given early payment discounts	-5,492	-5,363
Total	2,781,604	2,643,315

Sales of goods are also reduced for discounts given to customers, holders of Mercator Pika card.

10: Other income

EUR thousand	2010	2009
Other income		
Net gain on sale of property, plant and equipment	2,513	2,096
Reversal of provisions	4,370	1,794
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	7,626	371
Other operating income	9,114	8,327
Total	23,623	12,588

Other operating income refers to income from insurance compensations and other compensations, and income from benefits for employment of the disabled.

11: Expenses by nature

EUR thousand	2010	2009
Expenses by nature		
Depreciation of property, plant and equipment	68,946	85,463
Amortization of intangible assets	9,575	10,338
Depreciation of investment property	173	211
Employee benefit expenses	291,901	278,273
Costs of materials	79,014	73,598
Costs of services	198,876	178,544
Cost of provisions	3,839	4,877
Other expenses	13,051	13,321
Loss on sale of property, plant and equipment	5,189	673
Change in inventories	-39	3,268
Other operating expenses	5,208	7,491
Cost of goods sold	2,034,989	1,928,004
Total cost of goods sold, selling and marketing costs and administrative expenses	2,710,722	2,584,061

In 2010 production costs amounted to EUR 33,755 thousand (2009: EUR 33,870 thousand), selling and marketing costs amounted to EUR 542,356 thousand (2009: EUR 504,741 thousand) and administrative expenses amounted to EUR 99,622 thousand (2009: EUR 109,955 thousand).

Costs of services include rental expenses in the amount of EUR 34,759 thousand (2009: EUR 23,323 thousand).

In 2010 other operating expenses decreased due to lower compensation costs, which amounted to EUR 1,724 thousand (2009: EUR 3,458 thousand).

In 2009, the Group's costs of services also include the costs of audit in the amount of EUR 474 thousand. The auditors did not provide any other services in 2010.

12: Employee benefit expenses

EUR thousand	2010	2009
Employee benefit expenses		
Wages and salaries	212,802	204,043
Pension insurance costs	20,345	19,961
Health insurance costs	12,779	12,366
Other payroll costs	45,975	41,903
Total	291,901	278,273
Number of employees as at 31 December	23,482	21,404

Average number of employees in the Group during the year (calculated based on hours worked) amounts to 21,632 (2009: 20,266).

13: Finance income and expense

Finance income and expense, recognized in profit or loss

EUR thousand	2010	2009
Finance income and expense		
Recognized in profit or loss		
Interest income	3,427	7,811
Net operating foreign currency translation differences	1,103	100
Dividend income	4	16
Other finance income	1,536	2,318
Finance income	6,070	10,245
Interest expense	-44,948	-46,554
Loss on disposal and impairment of available-for-sale financial assets	-41	-178
Impairment of trade and other receivables	-5,120	-5,528
Net finance foreign currency translation differences	-10,098	-4,224
Other finance expense	-24	-407
Finance expense	-60,231	-56,891
Net finance expense recognized in profit and loss	-54,161	-46,646

Finance income and expense, recognized in other comprehensive income (net)

EUR thousand	2010	2009
Finance income and expense		
Recognized in other comprehensive income (net)		
Foreign currency translation differences on consolidation	-28,515	-12,072
Effective portion of net changes in fair value of cash flow hedges	1,641	-1,206
Net change in fair value of available-for-sale financial assets	-1,163	664
Finance (expense) income recognized directly in comprehensive income	-28,037	-12,614
Attributable to:		
Equity holders of the Company	-28,035	-12,616
Non-controlling interest	-2	2
Finance (expense) income recognized in comprehensive income		
Recognized in:		
Fair value reserve	478	-542
Currency translation reserve	-28,513	-12,074
Non-controlling interest	-2	2
Total	-28,037	-12,614

14: Income tax expense

EUR thousand	2010	2009
Income tax expense		
Current tax expense	10,741	4,844
Deferred tax expense (Note 20)	-784	-767
Total	9,957	4,077

In 2010 income tax liability of the companies in the Mercator Group amounts to EUR 10,741 thousand.

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

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate

EUR thousand	2010	2009
Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate		
Profit for the period	30,387	21,119
Income tax expense	-9,957	-4,077
Profit before income tax	40,344	25,196
Tax calculated at 20 percent tax rate (2009: 21 percent)	8,069	5,093
Tax on income that increase the tax base	353	-
Tax on income that decrease the tax base	-1,226	-1,244
Tax of non-deductible expenses	2,804	2,235
Tax relief	-2,296	-1,815
Effect of different tax rates and other	2,253	-192
Total income tax expense	9,957	4,077

Income tax recognized in other comprehensive income

in EUR	Value before tax	Tax	Value after tax
Income tax recognized in other comprehensive income: 2010			
Change in fair value of real estate*	22,094	-4,309	17,785
Change in fair value of available-for-sale financial assets	-1,457	294	-1,163
Effective portion of changes in fair value of cash flow hedges	1,799	-360	1,439
Foreign currency translation differences	-28,515	-	-28,515
Other changes	-	-14	-14
Other comprehensive income	-6,079	-4,389	-10,468

Income tax recognized in other comprehensive income: 2009			
Change in fair value of real estate**	-	1,904	1,904
Change in fair value of available-for-sale financial assets	841	-177	664
Effective portion of changes in fair value of cash flow hedges	-1,462	256	-1,206
Foreign currency translation differences	-12,072	-	-12,072
Other changes	-	-	-
Other comprehensive income	-12,693	1,983	-10,710

* Change in fair value of real estate refers to disposal and depreciation of revalued property and change in tax rate.

** Change in fair value of real estate refers to change in fair value of property, disposal and depreciation of revalued property and change in tax rate.

Notes to consolidated statement of financial position

15: Property, plant and equipment

EUR thousand	Land	Buildings	Production equipment	Office and other equipment	Construction in progress	Assets, not yet used in operations	Assets not needed for operations	Total
Property, plant, and equipment								
At 1 January, 2009								
Cost or valuation	466,757	1,428,933	181,122	199,224	112,556	71,777	98,409	2,558,778
Accumulated depreciation	0	-488,674	-131,515	-137,343	0	-31	-29,252	-786,815
Carrying amount	466,757	940,259	49,607	61,881	112,556	71,746	69,157	1,771,963
Year ended 31 December, 2009								
Opening carrying amount	466,757	940,259	49,607	61,881	112,556	71,746	69,157	1,771,963
Effect of movements in exchange rates	-2,781	-7,968	-1,029	-778	-358	-617	106	-13,425
Acquisitions through business combinations	7,498	0	-	-	-	4,727	3,523	15,748
Additions	2,555	37,337	9,748	6,010	76,757	17,326	-	149,733
Transfers	0	144,523	39,109	280	-159,260	-	4,642	29,294
Disposals	0	678	-105	-470	-	-	-4,662	-4,559
Depreciation charge	0	-46,955	-18,534	-18,576	-	-80	-1,318	-85,463
Closing carrying amount	474,029	1,067,874	78,796	48,347	29,695	93,102	71,448	1,863,291
At 31 December, 2009								
Cost or valuation	474,029	1,570,565	251,282	162,159	29,695	94,165	100,954	2,682,849
Accumulated depreciation	0	-502,691	-172,486	-113,812	0	-1,063	-29,506	-819,558
Carrying amount	474,029	1,067,874	78,796	48,347	29,695	93,102	71,448	1,863,291

EUR thousand	Land	Buildings	Production equipment	Office and other equipment	Construction in progress	Assets, not yet used in operations	Assets not needed for operations	Total
Property, plant, and equipment								
Year ended 31 December, 2010								
Opening carrying amount	474,029	1,067,874	78,796	48,347	29,695	93,102	71,448	1,863,291
Effect of movements in exchange rates	-9,120	-25,309	-2,595	-1,094	-469	-29	649	-37,967
Acquisitions through business combinations	0	0	16,952	0	0	0	0	16,952
Additions	14,567	995	622	3,521	71,762	181	262	91,910
Transfers*	-11,311	52,293	5,686	17,601	-89,160	-5,535	29,978	-448
Disposals	-5,638	-5,027	-134	-135	3,248	-3,664	-3,855	-15,205
Depreciation charge	0	-42,142	-14,262	-11,153	0	-67	-1,322	-68,946
Revaluation	4,639	14,192	0	0	0	1,137	873	20,841
Closing carrying amount	467,166	1,062,876	85,065	57,087	15,076	85,125	98,033	1,870,428
At 31 December, 2010								
Cost or valuation	467,166	1,724,039	262,032	163,749	15,076	86,221	133,813	2,852,096
Accumulated depreciation	0	-661,163	-176,967	-106,662	0	-1,096	-35,780	-981,668
Carrying amount	467,166	1,062,876	85,065	57,087	15,076	85,125	98,033	1,870,428

* Transfers are related to transfers between groups. Advance payments are included in construction in progress in the amount of EUR 2,704 thousand.

Investments in property, plant and equipment, which are recognized under acquisitions through business combinations and additions in amount of EUR 108,862 thousand, relate to:

EUR thousand	2010
Investments in property, plant and equipment, which are recognized under acquisitions through business combinations and additions	
Acquisitions of equipment through business combinations	16,952
Additions of property, plant and equipment (new facilities)	69,957
Refurbishment of retail and wholesale units	13,796
Other	8,157
Total	108,862

Disposals of property, plant and equipment in the amount of EUR 15,205 thousand are related to the disposal of commercially unviable assets.

All land and buildings of the Mercator Group were appraised on 1 January 2010. Appraisal was prepared on the basis of fair market value determined by independent authorized appraiser.

Effect of revaluation in 2010 amounts to EUR 20,841 thousand:

In EUR thousand	Land	Buildings	Total
Effect of revaluation in 2010			
Increase	6,765	15,329	22,094
Impairment	-1,253	-	-1,253
Total	5,512	15,329	20,841

Depreciation of property, plant and equipment in the amount of EUR 68,946 thousand is included among production costs in the amount of EUR 1,655 thousand, among the selling and marketing costs in the amount of EUR 63,986 thousand, and among the administrative expenses in the amount of EUR 3,305 thousand.

If there had not been the changes in useful lives of property, plant and equipment, depreciation would have amounted to EUR 92,315 thousand in 2010.

Bank borrowings are not secured by land and buildings at 31 December 2009.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

EUR thousand	2010	2009
Amounts if land and building stated on the historical cost basis		
Cost	1,670,024	1,700,706
Accumulated depreciation	-404,410	-362,992
Carrying amount	1,265,614	1,337,714

Carrying amount of property, plant and equipment held under financial leases amounts to EUR 222,338 thousand (2009: EUR 215,373 thousand) and refers to land and buildings.

16: Intangible assets

EUR thousand	Goodwill	Trademarks, rights and licenses	Total
Intangible assets			
At 1 January, 2009			
Cost	12,941	93,994	106,935
Amortization and impairment losses	-	-28,739	-28,739
Carrying amount	12,941	65,255	78,196
Year ended 31 December, 2009			
Opening carrying amount	12,941	65,255	78,196
Effect of movements in exchange rates	92	-3,206	-3,114
Acquisition through business combinations	18	-	18
Additions	-	7,596	7,596
Disposals	-	-36	-36
Transfers	-	-20,277	-20,277
Impairment	-50	-	-50
Amortization charge	-	-10,338	-10,338
Closing carrying amount	13,001	38,994	51,995
At 31 December, 2009			
Cost	13,001	103,178	116,179
Amortization and impairment losses	-	-64,184	-64,184
Carrying amount	13,001	38,994	51,995
Year ended 31 December, 2010			
Opening carrying amount	13,001	38,994	51,995
Effect of movements in exchange rates	-100	-3,449	-3,549
Acquisition through business combinations	-	13,225	13,225
Additions	-	3,532	3,532
Disposals	-	-85	-85
Impairment	-2,917	-	-2,917
Amortization charge	-	-9,575	-9,575
Closing carrying amount	9,984	42,642	52,626
At 31 December, 2010			
Cost	9,984	78,846	88,830
Amortization and impairment losses	-	-36,204	-36,204
Carrying amount	9,984	42,642	52,626

Intangible assets in development as at 31 December 2010 amount to EUR 429 thousand.

Intangible assets as at 31 December 2010, include rights, patents, licenses, trademarks, and investments into software, in total amount of EUR 28,899 thousand (2009: EUR 20,973 thousand); rights to lease property in the company Mercator-S, d.o.o., in the amount of EUR 13,743 thousand (2009: EUR 18,021 thousand); and goodwill in the amount of EUR 9,984 thousand (2009: EUR 13,001 thousand).

Goodwill in the amount of EUR 9,984 thousand, which arose in previous years, is related to: acquisition of the company Presoflex, d.o.o., Croatia, in 2007 in the amount of EUR 7,511 thousand; acquisition of the companies Era Tornado, d.o.o., Croatia, and Trgohit, d.o.o., Croatia, in 2005 in the amount of EUR 1,611 thousand; acquisition of the company Interier, d.o.o., in 2007 in the amount of EUR 457 thousand; acquisition of the companies Evolution, d.d., and Mercator IP, d.o.o., in 2008 in the amount of EUR 405 thousand; and other acquisitions of non-controlling interest in previous years.

Amortization in the amount of EUR 9,575 thousand was included among the production costs in the amount of EUR 21 thousand; among the selling and marketing costs in the amount of EUR 2,992 thousand; and among the administrative expenses in the amount of EUR 6,562 thousand.

Impairment testing of goodwill

Goodwill in the amount of EUR 7,511 thousand, which was created upon the acquisition of the company Presoflex, d.o.o., Croatia was allocated to cash-generating units of the Group, defined according to the store format, and tested for impairment on 31 December 2010.

Goodwill in the amount of EUR 1,611 thousand, which was created in 2005 upon the acquisition of the companies Era Tornado, d.o.o., and Trgohit, d.o.o., in Croatia was allocated to cash-generating units of the Group, defined according to the store format; on 31 December 2010, it was tested for impairment.

Remaining goodwill in the amount of EUR 862 thousand, which relates to various smaller transactions, was not allocated to cash-generating units and was not impaired, because we estimate that the recoverable amount of acquired assets exceeds their carrying amount, including the goodwill.

A summary of the goodwill allocation and impairment is presented below:

EUR thousand	31 December 2009	Effect of movements in exchange rates	Impairment in 2010	31 December 2010
Goodwill allocation and impairment				
Hypermarkets	1,125	-9	-270	846
Supermarkets	10,164	-78	-2,442	7,643
Markets	833	-6	-200	626
Other stores	17	-	-4	13
Unallocated	862	-7	-	855
Total	13,001	-100	-2,917	9,984

When testing goodwill for impairment with regard to the acquisition of the companies Era Tornado, d.o.o., and Trgohit, d.o.o., the recoverable amount of cash-generating unit was determined based on the calculations of value in use. The calculations are based on cash flow projections prepared against the background of business plans for the following year, and projected forwards upon appropriate assumptions. Following are the main assumptions used when calculating the values in use: revenue growth rate of 2.5 % and discount rate of 9 %. Gross cash flow from operating activities in % of sales revenues is based on operation and performance history, structure of sales, and its expectations on the development of the market. The discount rate applied is based on market rates, adjusted to reflect the specific risks related to the business units.

It was determined that the recoverable amount of cash-generating units exceeds their carrying amount, including the goodwill, therefore goodwill was not impaired.

For business combination purposes with company Getro also a revaluation of cash-generated units, related to Presoflex, was made. Under the Getro brand was placed 22 retail units of Presoflex in region of Slavonija. When testing goodwill for impairment with regard to the acquisition of the company Presoflex, d.o.o., the recoverable amount of cash-generating unit was determined based on the calculations of value in use. The calculations are based on cash flow projections prepared against the background of business plans for the following year, and projected forwards upon appropriate assumptions. Following are the main assumptions used when calculating the values in use: revenue growth rate of 2.5 % and discount rate of 9 %. Gross cash flow of operating activities in % of sales revenue is based on operation and performance history, structure of sales, and its expectations on the development of the market. The discount rate applied is based on market rates, adjusted to reflect the specific risks related to the business units.

It was determined that the recoverable amount of cash-generating units does not exceed their carrying amount, including the goodwill, therefore goodwill was impaired in amount of EUR 2,917 thousand impaired.

17: Investment property

EUR thousand	2010	2009
Investment property		
Balance at 1 January	4,127	9,563
Additions	-	24
Transfer to property, plant and equipment	-	-4,314
Disposals	-60	-935
Depreciation charge	-173	-211
Other		
Balance at 31 December	3,894	4,127
Balance at 31 December		
Cost	7,943	8,047
Accumulated depreciation	-4,049	-3,920
Carrying amount	3,894	4,127

Fair value of investment property as at 31 December 2010, amounts to EUR 10,757 thousand (2009: EUR 6,557 thousand).

The following amounts were recognized in the income statement with regard to investment property:

EUR thousand	2010	2009
Amounts regarded to investment property, recognized in the income statement		
Rental income	238	304
Direct operating expenses arising from investment properties that generate rental income	-264	-286
Total	-26	18

Depreciation in the amount of EUR 173 thousand was included among the cost of sales.

18: Available-for-sale financial assets

EUR thousand	2010	2009
Available-for-sale financial assets		
Balance at 1 January	5,473	4,824
Effect of movements in exchange rates	-2	2
Changes in fair value	-1,457	841
Impairment	-	-194
Disposals	-55	-
Balance at 31 December	3,959	5,473

The Group's available-for-sale financial assets also include assets that could not be valued at fair value; thus, these assets are measured at cost.

EUR thousand	2010	2009
Available-for-sale financial assets measured at cost		
Available-for-sale financial assets measured at cost	745	802
Available-for-sale financial assets measured at fair value	3,214	4,671
Total equity securities and shares	3,959	5,473

As at 31 December 2010, the Group does not hold any financial assets at fair value through profit or loss, or held-to-maturity investments.

19: Derivative financial instruments

EUR thousand	2010	2009
Derivative financial instruments		
Assets		
Interest rate caps	70	737
Liabilities		
Interest rate swaps	-2,478	-4,945

The carrying amounts of derivative financial instruments equal fair values.

The amount of borrowings hedged from interest rate risk as at 31 December 2010, amounted to EUR 350,000 thousand; where Mercator held interest rate swaps in the amount of EUR 150,000 thousand (contracted interest rates varied from 3.74% to 3.787%) and interest rate caps in the amount of EUR 200,000 thousand with strike price of 4%. On 31 December the applicable floating rates, i.e. the 3m and 6m Euribor amounted to 1.006 % and 1.227%, respectively. Held derivative financial instruments are designated for cash flow hedging and are very effective at regulating cash flows from borrowings.

As of 31 December 2010, the Group did not hold any derivative financial instruments designated as fair value hedges.

Other than interest rate swaps and interest rate caps, the Mercator Group did not hold any other contracts with third parties that represent derivative financial instruments as at 31 December 2010. Mercator Group manages financial risks in the framework of adopted policy centrally at the parent company level which enters into interest rate swap and currency forward contracts with subsidiaries on

market terms (arm's length principle) based on specific policies for managing specific risks. Such derivative financial instruments are recognized and reported appropriately.

20: Deferred taxes

Deferred taxes are calculated based on temporary differences under the liability method, by applying the tax rate effective in individual countries of the Mercator Group's operations.

The movement in the deferred income tax account is as follows:

EUR thousand	2010	2009
Movement in the deferred income tax account		
At beginning of year – net deferred tax assets (liabilities)	-41,240	-44,116
Effect of movements in exchange rates	431	185
Acquired in a business combination	-	-897
Recognized in profit and loss	784	767
Recognized in other comprehensive income	-4,389	1,983
Recognized in liabilities	1,845	838
At end of year - net deferred tax assets (liabilities)	-42,569	-41,240

The deferred tax assets and liabilities are attributable to the following items:

Deferred tax liabilities

EUR thousand	Revaluation of property, plant and equipment	Change in fair value of available-for-sale financial assets	Depreciation of property, plant and equipment under EUR 500	Difference between tax recognized and business depreciation	Total
Deferred tax liabilities					
At 31 December, 2009	46,735	293	888	1,410	49,326
Effect of movements in exchange rates	-323	-	-	-61	-384
Recognized in profit and loss	-4	-	-35	129	90
Recognized in other comprehensive income	4,310	-228	-	-	4,082
Recognized in liabilities	-1,552	-	-	-293	-1,845
At 31 December, 2010	49,166	65	853	1,185	51,269

Deferred tax assets

EUR thousand	Provisions not recognized for tax purposes	Impairment of trade receivables	Impairment of inventory	Differences between tax recognized and business depreciation	Change in fair value of available-for-sale financial assets and derivatives	Other	Total
Deferred tax assets							
At 31 December, 2009	3,373	1,355	70	1,588	1,306	394	8,086
Effect of movements in exchange rates	-	-	-4	-	-	51	47
Recognized in profit and loss	-289	411	271	485	251	-255	874
Recognized in other comprehensive income	-13	-	-	-	-294	-	-307
As at 31 December, 2010	3,071	1,766	337	2,073	1,263	190	8,700

In 2010 companies of Mercator Group have recognized deferred tax liabilities as well as deferred tax assets. Deferred tax liabilities charged to the income statement decrease tax bases of individual companies of the Group in 2010, whereas the deferred tax assets credited to the income statement in 2010 increase them.

Deferred tax assets and liabilities are not offset in the balance sheet.

21: Inventories

EUR thousand	2010	2009
Inventories		
Raw materials	6,730	4,978
Work in progress	4,086	4,370
Finished goods	1,721	1,597
Merchandise	330,076	297,979
Less: write-down of inventories	-20,532	-16,874
Total	322,081	292,050

Inventories of raw materials, unfinished product, finished products and merchandise as at 31 December 2010, amounted to EUR 322,081 thousand, which represents an increase by 10.3% compared to the beginning of the year; this is mostly the result of business combinations in Croatia and Montenegro.

22: Trade and other receivables

EUR thousand	2010	2009
Trade and other receivables		
Trade receivables	225,427	188,129
Deferred costs	2,813	2,431
Accrued revenues	3,631	2,786
Total trade and other receivables	231,871	193,346

Trade receivables have increased by EUR 38,525 thousand, which is mostly the result of business combinations in Croatia and Montenegro.

As of 31 December 2010, Mercator Group does not have any trade and other receivables from related parties.

Accrued revenues refer to transactions with Pika card, accrued revenues from acquisition or disposal of property under finance lease and accrued revenue from interest of derivative financial instruments.

Carrying amounts of all trade and other receivables are in materially relevant sums consistent with their respective fair values. Receivables and loans are measured at amortized cost.

The amount of provision for the impairment of receivables as at 31 December 2010 amounted to EUR 34,627 thousand (2009: EUR 30,860 thousand). Movements of the provision for impairment of trade receivables are presented in Note 30 (Financial instruments).

23: Loans and deposits

EUR thousand	2010	2009
Loans and deposits		
Non-current deposits for rent payment	73,297	14,686
Loans to other companies	12,709	10,091
Bank deposits	8,453	12,983
Total loans and deposits	94,459	37,760

Non-current deposits for rent payment relate to paid in advance rents for trade facilities abroad and are charged with interests. In 2010 non-current deposits for rent payment increased, which is mostly the result of business combinations in Croatia and Montenegro. They are insured by mortgages on trade facilities.

24: Cash and cash equivalents

EUR thousand	2010	2009
Cash and cash equivalents		
Cash and cash equivalents	20,766	16,844

Cash in the amount of EUR 20,766 thousand includes cash in banks, cash in transit (daily proceeds of retail units), cash in hand, and foreign currency letters of credit.

25: Equity

Share capital

Share capital of the company Mercator, d.d., amounts to EUR 157,128,514.53. It is divided into 3,765,361 ordinary shares.

Approved capital

Pursuant to the resolution adopted at the 13th Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., the Management Board may, subject to previous consent of the Supervisory Board, in five years after the entry of changes to the company Articles of Association and Bylaws into the court register, increase the share capital by up to 20% of the share capital entered on the day of adoption of this resolution at the 13th regular Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., by issuing new shares; preemptive right of the existing shareholders may be waived under the following conditions:

- The newly issued shares are used to acquire shares or shareholdings in other companies, or business assets within strategic alliances and combinations;
- Waiver of preemptive right is approved by the company Supervisory Board;
- Prior to the issuing of new shares, the company Management Board must inform the shareholders of the reasons for the emission and reasons for omission of the preemptive right; these explanations should be published on the stock market's information dissemination system;
- Within individual strategic alliances, no individual recipient of newly issued shares, or a group of associated recipients of newly issued shares, shall acquire more than 10% of the company share capital;
- An independent financial advisor shall issue a positive opinion on the fairness of the issue of new shares from the aspect of shareholders and the company. The Management Board should inform the shareholders of such opinion by publishing it on the stock market's information dissemination system no later than 30 days after entering into a binding commitment or agreement on the issue of new shares.

Conditional capital increase

Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., can adopt a resolution on capital increase on the basis of provisions stated in 46th article of the company Articles of Association and Bylaws; such possibility has not been realized so far.

Treasury shares

As at 31 December 2010, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand (2008: 42,192 treasury shares; EUR 3,235 thousand).

Reserves

Reserves consist of the share premium, revenue reserves, fair value reserve and currency translation reserve. None of those types of reserves can be used for the payment of dividends or other participations in profit.

Share premium amounts to EUR 198,872 thousand as at 31 December 2010. It includes the excess over nominal value of paid-up shares and surplus that was created as the difference between purchase and sales values of disposed treasury shares.

Revenue reserves, amounting to EUR 270,194 thousand as at 31 December 2010, include legal reserves and other revenue reserves.

As at 31 December 2010, the Group holds legal reserves in the amount of EUR 13,389 thousand. Share premium and legal reserves can be used in surplus amount to increase the share capital from company assets, and for covering the net loss of the business year, or to cover the carried forward net loss, if revenue reserves are not used simultaneously to pay dividends to the shareholders.

As at 31 December 2010, the Mercator Group held 42,192 treasury shares in the amount of EUR 3,235 thousand. The reserve for treasury shares is reported among other revenue reserves.

Other revenue reserves as at 31 December 2010 amount to EUR 253,570 thousand. They include residuals of retained earnings from previous years. They can be used for any purpose, except for the amount of the reserve for treasury shares within other revenue reserves.

Currency translation reserve has decreased by EUR 28,513 thousand in 2010, which is related to a decrease due to currency translation differences that occurred upon the integration of financial statements of foreign subsidiaries into the consolidated financial statements.

Fair value reserve which amounts to EUR 200,187 thousand as at 31 December 2010, includes the revaluation reserve of property, measured by the revaluation model, changes to the fair value of available-for-sale financial assets, and changes to the value of effective cash flow hedges.

Changes in fair value reserve are shown below:

EUR thousand	Revaluation reserve of property	Fair value reserve of available-for-sale financial assets	Hedging reserve	Total
Changes in fair value reserve				
At 1 January, 2009	190,574	1,019	-2,842	188,751
Disposal and depreciation of revalued property	-3,112	-	-	-3,112
Effective portion of changes in fair value of cash flow hedges	-	-	-1,462	-1,462
Change in fair value of available-for-sale financial assets	-	841	-	841
Deferred tax	931	-177	257	1,011
At 31 December, 2009	188,393	1,683	-4,047	186,029

EUR thousand	Revaluation reserve of property	Fair value reserve of available-for-sale financial assets	Hedging reserve	Total
Changes in fair value reserve				
At 1 January, 2010	188,393	1,683	-4,047	186,029
Revaluation of property	22,090	-	-	22,090
Disposal and depreciation of revalued property	-4,726	-	-	-4,726
Effective portion of changes in fair value of cash flow hedges	-	-	1,799	1,799
Change in fair value of available-for-sale financial assets	-	-1,457	-	-1,457
Deferred tax	-3,482	294	-360	-3,548
At 31 December, 2010	202,275	520	-2,608	200,187

Dividends

Shareholders' Assembly adopted a resolution to pay dividends in 2010 in total amount of EUR 27,111 thousand (2009: EUR 16,944 thousand), or 7.2 EUR of gross dividend per share (2009: 4.5 EUR gross per share). 42,192 treasury shares were considered in calculation of dividends payout, the amount of EUR 304 thousand related to treasury shares was transferred back to retained earnings. Therefore undistributed profit of the period for the purposes of dividend payout was actually decreased to EUR 26,807 thousand (2009: EUR 16,754 thousand).

The proposed payment of dividends for 2011 amounts to EUR 30,123 thousand (EUR 8.0 per share); this proposal is yet to be confirmed by the Shareholders' Assembly.

26: Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of treasury shares.

	2010	2009
Earnings per share		
Profit attributable to shareholders (EUR thousand)	30,396	21,232
Weighted average number of ordinary shares	3,723,169	3,723,169
Basic earnings per share (in EUR)	8.2	5.7

Weighted average number of ordinary shares:

	2010	2009
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	3,765,361	3,765,361
Effect of treasury shares	-42,192	-42,192
Weighted average number of ordinary shares at 31 December	3,723,169	3,723,169

Weighted average number of ordinary shares is calculated by the following formula: (Number of ordinary shares at the beginning of period + number of additional ordinary shares in the period) × time weight factor

The time weight factor represents the number, or share, of days when the shares are exercised, i.e. as of the day when cash was due for payment.

Since the Group does not have any preference shares or convertible bonds, diluted earnings per share are the same as basic earnings per share.

27: Financial liabilities

EUR thousand	2010	2009
Financial liabilities		
Non-current financial liabilities		
Bank borrowings	465,488	442,845
Finance lease liabilities	208,867	203,329
Bonds	-	36,540
Borrowings from other companies	20	30
Other financial liabilities	-	803
Total	674,375	683,547
Current financial liabilities		
Bank borrowings	140,550	190,948
Borrowings from other companies	2,010	1,873
Current portion of finance lease liabilities	13,471	12,044
Current portion of bank borrowings	198,911	155,225
Current portion of bonds	36,540	-
Current portion of other financial liabilities	4,371	7,765
Total	395,853	367,855
Total financial liabilities	1,070,228	1,051,402

In 2004, Mercator Group issued 365,400 bonds with nominal value of EUR 100 per bond. Bonds are freely transferable, subject to relevant effective regulations and rules laid out by the Central Securities

Clearing Corporation (KDD). The fixed interest rate on these bonds is 4.80% per annum. Interest payments are due each year on 27 September for the previous year, until the maturity of the bond. Face value is due for payment entirely upon the maturity of the bond, i.e. on 27 September 2011. On 31 December 2010 Mercator Group recognized a total of EUR 36,540 thousand financial liabilities relating issued bonds.

	2010	2009
Effective interest rates as at the balance sheet date		
Bank borrowings	3.85%	3.30%
Other borrowings	3.47%	3.15%

As at 31 December 2010, the Group does not have any pledged property.

Floating interest rates are mostly interest rates related to Euribor. Fixed interest rates are mostly related to borrowings from domestic banks, with fixed nominal interest rate, and interest rate on bonds. Financial liabilities are hedged with the use of derivative financial instruments, i.e. by interest rate swaps and caps.

As of 31 December 2010, Mercator Group met all financial covenants and other terms, stated in loan agreements with banking partners. Mercator Group does not have a contracted clause in any of its loan agreements on loan becoming due in case of important change in ownership (Change of Control Clause).

Finance lease

EUR thousand	2010	2009
Finance lease liabilities - minimum lease payments		
Less than one year	18,229	16,862
Between one and five years	110,440	92,407
More than five years	116,965	133,358
Total	245,634	242,627
Future finance charges on finance leases	23,296	27,254
Present value of finance lease liabilities	222,338	215,373

The present value of finance lease liabilities is as follows:

EUR thousand	2010	2009
The present value of finance lease liabilities		
Less than one year	13,471	12,044
Between one and five years	96,821	76,570
More than five years	112,046	126,759
Total	222,338	215,373

Carrying amounts of all financial liabilities approximate their fair values. The share of non-current financial liabilities in total financial liabilities as at 31 December 2010 amounted to 63% (65% as at 31 December 2010).

Financial liabilities based on creditors rating (credit rating of S&P Agency*):

in EUR thousand	2010	No. of financial partners
Financial liabilities based on creditors rating (credit rating of S&P Agency*):		
"AAA" - "AA-"	378,304	6
"A+" - "A-"	324,747	4
"BBB+" - "BBB-"	304,402	7
Not rated or BB+ and less	62,774	8
Total	1,070,228	25

*Creditors have ratings in different rating agencies; for comparison purpose this ratings were adjusted to ratings as they are shown by Standard & Poor's.

28: Provisions

EUR thousand	Restitution claims	Restructuring provisions	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
Provisions						
At 31 December, 2009	3,272	488	11,973	20,937	518	37,188
Increase	-	-	4,251	2,454	2,008	8,713
Utilization	-147	-340	-1,337	-1,915	-1,927	-5,666
Reversal	-8	-38	-4,324	-	-	-4,370
Effect of movements in exchange rates	-	-	-19	-135	-2	-156
At 31 December, 2010	3,117	110	10,544	21,341	597	35,709

Provisions for restitution claims

Restitution claims as at 31 December 2010 amount to EUR 3,117 thousand. Provision has decreased for EUR 155 thousand compared to previous year for payments of restitution claims in the amount of EUR 147 thousand and reversals of restitution claims in the amount of EUR 8 thousand.

Provisions for restructuring costs

Provisions for restructuring costs as at 31 December 2010 amount to EUR 110 thousand and have decreased by EUR 378 thousand compared to previous year. As a debit of the amount of provisions severance payments have been made in connection with the reorganization of the company Mercator, d.d., amounting to EUR 340 thousand, and reversal of provisions of EUR 38 thousand.

Legal claims

In 2010 provisions for legal claims have been reversed in the amount of EUR 4,324 thousand. In 2010 legal claims have been paid out as a debit to provisions in the amount of EUR 1,337 thousand. On the basis of received legal claims and legal opinion the Group recognized additional provisions in the total amount of EUR 4,251 thousand, Total recognized provisions for reimbursing transportation costs of former employees amount to EUR 1,041 thousand.

Retirement benefits and jubilee premiums provisions

As of 31 December 2010 retirement benefits and jubilee premiums provisions amount to EUR 21,341 thousand. Provisions have increased for EUR 404 thousand compared to previous year. The

difference is included in other operating expenses of the current year. In 2010 payment of severance and jubilee bonuses has been debited to provisions in the total amount of EUR 1,915 thousand.

Other provisions

Increases and decreases in other provisions in net amount of EUR 79 thousand are in large part related to the provisions of the companies Mercator, d.d., and Mercator IP, d.o.o. Other provisions have increased on behalf of provisions made for improvement of working conditions of the disabled in the amount of EUR 2,008 thousand. In 2010 provisions for improvement of working conditions of the disabled have been used in the amount of EUR 1,927 thousand for: investments in fixed assets related to work of disabled employees, improvement of working conditions of disabled employees, maintaining and creating new jobs for disabled persons, covering the loss of revenue related to sick leaves, education and training of employees at Mercator IP, d.o.o., as well as for covering the costs of auditing its financial statements, rents for property, plant and equipment related to work of disabled employees, and website maintenance costs.

29: Trade and other payables

EUR thousand	2010	2009
Trade and other payables		
Trade payables	558,739	468,996
Obligations to employees	24,076	18,531
Social security and other taxes	18,124	8,996
Other payables	3,576	7,512
Accrued costs	23,583	14,791
Deferred revenues	17,015	9,107
Total	645,113	527,933

In 2010 trade and other payables have increased by EUR 117,180 thousand, which is the result of business combinations in Croatia and Montenegro.

As at 31 December 2010, Mercator Group does not have any liabilities towards the members of the Supervisory Board, while towards Management Board and other employees it has liabilities on account of recognized undisbursed compensation for December 2010.

30: Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

EUR thousand	2010	2009
Credit risk		
Trade and other receivables	231,871	193,346
Deposits in banks	73,297	14,686
Deposits in banks	12,709	10,091
Loans	8,453	12,983
Total	326,330	231,106

Trade receivables derive from wholesale of goods, material, and services, and sale of goods to individuals, Mercator Pika card holders. Both wholesale and retail customers are dispersed; hence,

there is no major exposure to an individual customer. The Group is also constantly monitoring customer payment defaults and checks the rating of external customers and Mercator Pika card holders.

Measures prepared in case of a considerable increase in risk include above all obtaining appropriate security, introduction of more strict control of customers in default, more active collecting procedures, and, if required, establishment of an expert rating department that would evaluate and monitor credit risk systematically.

Maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was as follows:

EUR thousand	2010	2009
Maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region		
Slovenia	153,698	141,949
Foreign countries	172,632	89,157
Total	326,330	231,106

Maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was as follows:

EUR thousand	2010	2009
Maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer		
Retail partners	84,239	50,050
Wholesale and other partners	242,091	181,056
Total	326,330	231,106

In the category of retail partners the Group included receivables from individuals related to purchases in company retail units with Mercator Pika card; the category of wholesale and other partners includes all receivables from sale of goods, material, and services, to legal/corporate entities, and receivables from employees and state/government bodies.

Security of trade and other receivables (in gross amounts, without the allowance for impairment):

EUR thousand	2010	2009
Security of trade and other receivables (in gross amounts, without the allowance for impairment)		
Secured receivables	167,626	107,680
Unsecured receivables	193,331	154,286
Total	360,957	261,966

Impairment of receivables

The aging of trade and other receivables at the reporting date:

EUR thousand	Gross	Impairment	Gross	Impairment
	2010	2010	2009	2009
The aging of trade and other receivables at the reporting date				
Not past due	267,337	-	193,725	-
Past due 0-60 days	51,946	-	33,532	-
Past due 61-74 days	4,818	2,109	2,082	851
Past due 75-89 days	4,667	3,365	1,494	1,131
More than 90 days	32,189	29,153	31,133	28,878
Total	360,957	34,627	261,966	30,860

The movement in the allowance for impairment in respect of trade and other receivables:

EUR thousand	2010	2009
The movement in the allowance for impairment in respect of trade and other receivables		
Balance at 1 January	30,860	31,202
Effect of movements in exchange rates	-484	-49
Impairment loss recognized during the year	9,387	3,784
Collected receivables written off during the year	-2,049	-1,861
Decrease of allowance for impairment during the year	-3,087	-2,216
Balance at 31 December	34,627	30,860

Liquidity risk

The following are the maturities of liabilities:

2010	EUR thousand	Carrying amount	Contractual cash flow	1 year or less		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
				Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Liquidity risk															
Non-derivative liabilities															
Bank borrowings	804,949	868,544	339,461	24,270	135,223	16,105	152,587	11,399	92,672	5,125	24,795	3,392	60,211	3,304	
Bonds	36,540	38,294	36,540	1,754	0	0	0	0	0	0	0	0	0	0	0
Borrowings from other companies	2,030	2,050	2,010	19	10	1	10	0	0	0	0	0	0	0	0
Finance lease liabilities	222,338	260,813	13,471	6,782	13,910	6,353	24,192	5,909	39,867	4,931	18,852	3,268	112,046	11,232	
Other financial liabilities	4,371	4,371	4,371	0	0	0	0	0	0	0	0	0	0	0	0
Trade and other payables and current tax liabilities	651,005	651,005	648,558	0	2,447	0	0	0	0	0	0	0	0	0	0
Total	1,721,233	1,825,077	1,044,411	32,825	151,590	22,459	176,789	17,308	132,539	10,056	43,647	6,660	172,257	14,536	

2009	EUR thousand	Carrying amount	Contractual cash flow	1 year or less		1-2 years		2-3 years		3-4 years		4-5 years		Over 5 years	
				Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative liabilities															
Bank borrowings	789,018	840,504	346,173	19,155	179,414	11,268	99,831	7,435	48,253	5,170	53,364	3,599	61,983	4,859	
Bonds	36,540	40,048	0	1,754	36,540	1,754	0	0	0	0	0	0	0	0	0
Borrowings from other companies	1,903	1,920	1,873	15	10	1	10	1	10	0	0	0	0	0	0
Finance lease liabilities	215,373	254,289	12,044	6,280	12,516	5,971	12,828	5,588	23,086	5,193	28,140	4,243	126,759	11,641	
Other financial liabilities	8,568	8,568	7,765	0	0	0	803	0	0	0	0	0	0	0	0
Trade and other payables and current tax liabilities	528,097	528,097	525,225	0	2,872	0	0	0	0	0	0	0	0	0	0
Total	1,579,499	1,673,426	893,080	27,204	231,352	18,994	113,472	13,024	71,349	10,363	81,504	7,842	188,742	16,500	

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and their impact on profit or loss.

EUR thousand	Carrying amount	Contractual cash flow	1 year or less	1-2 years	2-5 years	Over 5 years
Periods in which the cash flows associated with derivatives that are cash flow hedges, are expected to occur and their impact on profit or loss in 2010						
Interest rate swaps and caps						
Assets	70	-	-	-	-	-
Liabilities	-2,478	-3,794	-3,794	-	-	-
Periods in which the cash flows associated with derivatives that are cash flow hedges, are expected to occur and their impact on profit or loss in 2009						
Interest rate swaps and caps						
Assets	737	-	-	-	-	-
Liabilities	-4,945	-6,207	-3,404	-2,803	-	-

Currency risk

The Group's exposure to foreign currency risk was as follows:

EUR thousand	EUR	HRK	RSD	BAM	BGN	ALL
Group's exposure to foreign currency risk as at 31 December 2010						
Trade and other receivables	173,014	73,219	71,326	5,512	1,740	1,519
Available-for-sale financial assets	3,757	202	-	-	-	-
Cash and cash equivalents	5,382	1,676	9,570	851	2,731	556
Financial liabilities	-1,057,660	-12,558	-	-10	-	-
Trade and other payables	-361,654	-116,778	-149,662	-15,597	-5,577	-1,737
Balance sheet exposure	-1,237,161	-54,239	-68,766	-9,244	-1,106	338
Forward exchange contracts	-	-	-	-	-	-
Net exposure	-1,237,161	-54,239	-68,766	-9,244	-1,106	338

* HRK (Croatian kuna), RSD (Serbian dinar), BAM (convertible mark), BGN (Bulgarian lev), ALL (Albanian lek).

Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts) as at 31 December 2010.

EUR thousand	EUR	HRK	RSD	BAM	BGN	ALL
Group's exposure to foreign currency risk as at 31 December 2009						
Trade and other receivables	146,203	16,630	63,576	4,358	1,817	1,161
Available-for-sale financial assets	5,271	202	-	-	-	-
Cash and cash equivalents	3,271	282	11,141	1,133	4	1,013
Financial liabilities	-1,050,396	-	-	-1,006	-	-
Trade and other payables	-346,590	-57,140	-103,887	-14,418	-1,509	-4,553
Balance sheet exposure	-1,242,241	-40,026	-29,170	-9,933	312	-2,379
Forward exchange contracts	-	-	-	-	-	-
Net exposure	-1,242,241	-40,026	-29,170	-9,933	312	-2,379

The following significant exchange rates applied during the period:

Units per EUR	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
Significant exchange rates				
HRK	7.289	7.341	7.383	7.300
RSD	102.762	93.785	107.470	95.025
BAM, BGN	1.956	1.956	1.956	1.956
ALL	137.981	131.547	138.790	138.900

Sensitivity analysis

A 5 percent change in the exchange rate of local currencies against the Euro at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

EUR thousand	Profit and loss	
Analysis of the impact of a 5 percent change in the exchange rate of local currencies against the Euro at 31 December 2010		
Change in exchange rate	-5%	5%
2010		
HRK	-2,855	2,583
RSD	-3,619	3,275
BAM, BGN	-1,140	493
ALL	18	-16
2009		
HRK	-2,107	1,906
RSD	-1,535	1,389
BAM, BGN	-506	458
ALL	-125	113

Interest rate risk

Exposure

The following table presents the Group's exposure to interest rate risk:

EUR thousand	31 December, 2010		31 December, 2009	
	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Group's exposure to interest rate risk				
Fixed rate instruments				
Financial assets	4.24	85,765	2.65	2,761
Financial liabilities	3.63	-96,528	5.67	-150,230
Total		-10,763		-147,469
Variable rate instruments				
Financial assets	3.89	8,694	2.91	20,313
Financial liabilities	4.91	-973,700	2.90	-901,172
Total		-965,006		-880,859

Fair value sensitivity analysis for fixed rate instruments

The Group does not hold any fixed rate financial instruments at fair value through profit or loss, nor derivative financial instruments designated as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

EUR thousand	Profit and loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Analysis of the impact of a change of 100 basis points in interest rates at the reporting date				
2010				
Variable rate instruments	-9,650	9,650	-	-
Interest rate swaps and caps	-	-	650	-850
Cash flow sensitivity (net)	-9,650	9,650	650	-850
2009				
Variable rate instruments	-8,809	8,809	-	-
Interest rate swaps and caps	-	-	1,500	-1,500
Cash flow sensitivity (net)	-8,809	8,809	1,500	-1,500

Fair values

Fair values of assets and liabilities and carrying amounts shown in the balance sheet:

EUR thousand	31 December, 2010		31 December, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Fair values				
Derivative financial instruments	-2,408	-2,408	-4,208	-4,208
Trade and other receivables	231,871	231,871	193,346	193,346
Current tax assets	-	-	2,639	2,639
Loans and deposits	94,459	94,459	37,760	37,760
Available-for-sale financial assets	3,959	3,959	5,473	5,473
Cash and cash equivalents	20,766	20,766	16,844	16,844
Fixed rate bank borrowings	-57,785	-57,785	-104,841	-104,841
Floating rate bank borrowings	-743,790	-743,790	-684,177	-684,177
Bonds	-36,540	-36,851	-36,540	-36,905
Borrowings from other companies	-5,404	-5,404	-1,903	-1,903
Other financial liabilities	-4,371	-4,371	-8,568	-8,568
Finance lease liabilities	-222,338	-222,338	-215,373	-215,373
Trade and other payables	-645,113	-645,113	-527,933	-527,933
Tax liabilities	-5,892	-5,892	-164	-164

Fair value of bonds is for purposes of reporting calculated on the basis of last available quoted price of Mercator bond on the Ljubljana Stock Exchange before date of reporting, whereas their yield to maturity was 5.33%. Fair values of other non-derivative financial liabilities are not determined, as the carrying amount represents a reasonable approximation of fair value.

Fair value hierarchy

Related to calculation of their fair value financial instruments are divided into three levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data.

EUR thousand	Level 1	Level 2	Level 3	Total
Fair value hierarchy of financial instruments in 2010				
Available-for-sale financial assets	3,214	-	745	3,959
Derivative financial instruments - assets	70	-	-	70
Derivative financial instruments - liabilities	-2,478	-	-	-2,478
Fair value hierarchy of financial instruments in 2009				
Available-for-sale financial assets	4,671	-	802	5,473
Derivative financial instruments - assets	737	-	-	737
Derivative financial instruments - liabilities	-4,945	-	-	-4,945

31: Operating leases

Operating lease liabilities (Mercator group as lessee) - minimum lease payments:

EUR thousand	2010	2009
Operating lease liabilities (Mercator group as lessee) - minimum lease payments		
Less than one year	17,216	11,107
Between one and five years	68,612	41,679
More than five years	141,732	110,237
Total	227,560	163,023

32: Capital commitments

Capital expenditures (investment into property, plant and equipment), defined in contracts and agreements, which were not yet recognized in the financial statements as at the balance sheet date:

EUR thousand	2010	2009
Capital commitments		
Property, plant and equipment	49,476	35,358

33: Contingencies

EUR thousand	2010	2009
Contingencies		
Coupons	7,074	6,316
Merchandise in consignment	10,632	5,582
Guarantees	9,695	11,482
Other	2,461	3,992
Total	29,862	27,372

As at 31 December 2010, the Group does not have any mortgages or pledged property.

Tax authorities may, in the period of five or ten years after the tax return date, review the operation of the companies in the Group, which may result in additional taxation, including the liability of default interest payment and penalty related to corporate income tax or other taxes and duties. The companies of the Group are not aware of any circumstances that could cause such material liability.

34: Related party transactions

Related parties of the Group are its management personnel. Included in the management personnel are members of Management Boards and Supervisory Boards in the companies of Mercator Group.

In 2010, the Group paid out the following compensation in gross amounts to Management Board members and Supervisory Board members of group companies:

EUR thousand	2010		2009	
	Amount	Number of recipients	Amount	Number of recipients
Paid out compensation in gross amounts to Management Board and Supervisory Board members of the Group				
Members of Management Boards of companies in Mercator Group	2,004	22	2,273	18
- basic salaries	1,893	22	1,683	18
- performance bonuses	-	22	483	18
- other employment benefits	111	22	107	18
Members of the Supervisory Board of the company Mercator, d.d.	195	10	247	16
Total	2,199	32	2,520	34

Members of Supervisory Boards at Mercator Group subsidiaries do not receive any compensation for their work; therefore the disclosed amounts refer solely to the parent company.

Gross payments to Management Board and Supervisory Board members of companies in Mercator Group represent 0.8% of total employee benefit expenses (2009: 0.9%).

35: Events after the balance sheet date

- In January 2011, the company Mercator-S, d.o.o., Serbia, acquired retail units of Group Coka in Serbia.
- On 10 January 2011, Mercator-CG, d.o.o., Montenegro, acquired the company Mercator Mex, d.o.o., Montenegro.
- On 16 February 2011, the company Mercator, d.d., signed an agreement to sell 100 percent stake of the company Eta, Food Industry, d.d., Kamnik.

Independent auditor's report



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Poslovni sistem Mercator, d.d. and its subsidiaries (Mercator Group), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Mercator Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying consolidated financial statements.

Danilo Bukovec, B.Sc.Ec.
Certified Auditor

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

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

Ljubljana, 16 February 2011

KPMG Slovenija, d.o.o.
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Audited financial statements of the company Poslovni sistem Mercator, d.d.

Statement of financial position

EUR thousand

2010

2009

Statement of financial position

ASSETS

Non-current assets

Property, plant and equipment	1,014,704	1,011,915
Investment property	3,894	4,127
Intangible assets	9,652	10,870
Deferred tax assets	8,216	8,174
Trade and other receivables	286	315
Investment into equity of subsidiaries	618,813	587,177
Available-for-sale financial assets	3,547	4,972
	1,659,112	1,627,550

Current assets

Inventories	153,926	178,091
Trade and other receivables	207,755	136,408
Current tax assets	5	2,028
Derivative financial instruments	70	737
Cash and cash equivalents	3,829	2,457
	365,585	319,721

Total assets

2,024,697 **1,947,271**

EQUITY

Ordinary equity	157,129	157,129
Share premium	198,872	198,872
Treasury shares	-3,235	-3,235
Revenue reserves	238,015	238,015
Fair value reserve	194,435	168,155
Retained earnings	3,612	7,872
Profit for the period	36,806	19,281
	825,634	786,088

EUR thousand

2010

2009

Statement of financial position**LIABILITIES****Non-current liabilities**

Trade and other payables	2,447	2,872
Financial liabilities	456,547	447,100
Deferred tax liabilities	40,814	38,051
Provisions	29,459	32,131
	529,267	520,154

Current liabilities

Trade and other payables	341,239	355,811
Current tax liabilities	5,759	-
Financial liabilities	320,320	280,273
Derivative financial instruments	2,478	4,945
	669,796	641,029

Total liabilities**1,199,063****1,161,183****Total equity and liabilities****2,024,697****1,947,271**

*Due to the transfer of part of the Mercator d.d. business on company Intersport ISI, d.o.o. and Modaina, d.o.o. the financial statements of Mercator, d.d. during the periods are not comparable. For economic analysis is reasonable to use only consolidated financial statements which are presenting the financial performance of the Mercator Group, as a single economic entity.

Income statement

EUR thousand

2010

2009

Income statement

Revenue	1,654,520	1,745,129
Cost of sales	-1,500,300	-1,612,996
Gross profit	154,220	132,133
Administrative expenses	-75,568	-77,459
Other income	12,336	6,827
Results from operating activities	90,987	61,501
Finance income	3,466	8,141
Finance expense	-48,236	-44,962
Net finance expense	-44,770	-36,821
Profit before income tax	46,217	24,680
Income tax expenses	-9,411	-5,399
Profit for the period	36,806	19,281
Basic and diluted earnings per share (in EUR)	9.9	5.2

*Due to the transfer of part of the Mercator, d.d. business on company Intersport ISI, d.o.o. and Modaina, d.o.o. the financial statements of Mercator, d.d. during the periods are not comparable. For economic analysis is reasonable to use only consolidated financial statements which are presenting the financial performance of the Mercator Group, as a single economic entity.

Statement of comprehensive income

EUR thousand	2010	2009
Statement of comprehensive income		
Profit for the period	36,806	19,281
Other comprehensive income		
Change in fair value of available-for-sale financial assets	-1,368	728
Effective portion of changes in fair value of cash flow hedges	1,799	-1,462
Change in fair value of investment into equity of subsidiaries	15,306	-18
Revaluation of property	17,850	-
Deferred tax	-4,041	1,942
Acquisition of companies	-	1,291
Other comprehensive income for the period	29,546	2,481
Total comprehensive income for the period	66,352	21,762

Statement of changes in equity

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total
Statement of changes in equity								
Balance at 1 January 2009	157,129	198,848	-3,250	235,461	173,340	3,444	16,070	781,042
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	19,281	19,281
Other comprehensive income	-	-	-	-	-5,185	7,666	-	2,481
Total comprehensive income for the period	-	-	-	-	-5,185	7,666	19,281	21,762
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders*	-	-	-	-	-	-16,754	-	-16,754
Treasures shares disposal	-	24	15	-15	-	15	-	39
Transfer of profit for the period to retained earnings	-	-	-	-	-	16,070	-16,070	-
Allocation of disposable income following the Shareholders' Assembly resolutions	-	-	-	2,569	-	-2,569	-	-
Total contributions by and distributions to owners	-	24	15	2,554	-	-3,238	-16,070	-16,715
Total transactions with owners	-	24	15	2,554	-	-3,238	-16,070	-16,715
Balance at 31 December 2009	157,129	198,872	-3,235	238,015	168,155	7,872	19,281	786,088

* The amount of dividends to equity holders differs from the amount declared by the Shareholders' Assembly, due to consideration of treasury shares in dividends calculation.

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total
Statement of changes in equity								
Balance at 1 January 2010	157,129	198,872	-3,235	238,015	168,155	7,872	19,281	786,088
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	36,806	36,806
Other comprehensive income	-	-	-	-	26,280	3,266	-	29,546
Total comprehensive income for the period	-	-	-	-	26,280	3,266	36,806	66,352
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders*	-	-	-	-	-	-26,807	-	-26,807
Treasures shares disposal	-	-	-	-	-	-	-	-
Transfer of profit for the period to retained earnings	-	-	-	-	-	19,281	-19,281	-
Allocation of disposable income following the Shareholders' Assembly resolutions	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-7,526	-19,281	-26,807
Total transactions with owners	-	-	-	-	-	-7,526	-19,281	-26,807
Balance at 31 December 2010	157,129	198,872	-3,235	238,015	194,435	3,612	36,806	825,634

* The amount of dividends to equity holders differs from the amount declared by the Shareholders' Assembly, due to consideration of treasury shares in dividends calculation.

Proposal for the allocation of distributable profit

The distributable profit for the year 2010 consists of the following components:

EUR

Distributable profit for the year 2010

Net profit for the year 2010	36,806,049.84
Retained earnings	3,612,048.62
Distributable profit for the year	40,418,098.46

The proposal for the allocation of distributable profit which amounted to EUR 40,418,098.46 as at 31 December 2010, is as follows:

- a part of the distributable profit in the amount of EUR 30,122,888 EUR shall be allocated for the payment of dividends in gross value of EUR 8.0 per ordinary share,
- the remaining part of the distributable profit in the amount of EUR 10,295,210.46 remains unallocated.

3,765,361 ordinary shares which were entered into the court registry as at 31 December 2010 were considered for the proposed dividend payment, while dividends will not be paid for the amount of treasury shares of the company.

Statement of cash flows

EUR thousand	2010	2009
Statement of cash flows		
Cash flows from operating activities		
Profit for the period	36,806	19,281
Adjustments:		
Income tax expense	9,411	5,399
Depreciation of property, plant and equipment	36,356	51,630
Depreciation of investment property	173	211
Amortization of intangible assets	3,465	3,020
Gain on sale of property, plant and equipment	-1,846	-1,291
Change in provisions	861	4,042
Gain on sale of available-for-sale financial assets	1,253	-16
Interest received	-3,035	-5,944
Interest paid	44,402	44,600
Gross cash flow from operating activities	127,846	120,932
Change in inventories	24,164	2,767
Change in trade and other receivables	-19,897	97,513
Change in trade and other payables	-7,291	-84,323
Interest paid	-44,402	-44,600
Income tax paid	-9,748	-4,825
Net cash from operating activities	70,672	87,464

EUR thousand

2010

2009

Statement of cash flows**Cash flows from investing activities**

Acquisition of subsidiaries	-35,135	-29,013
Acquisition of property, plant and equipment and investment property	-39,635	-44,801
Acquisition of intangible assets	-2,269	-3,248
Bank deposits made	-118,911	-16,000
Proceeds from sale of subsidiaries	14,161	-
Proceeds from sale of property, plant and equipment and investment property	16,711	6,265
Proceeds from sale of intangible assets	10	30
Proceeds from sale of available-for-sale financial assets	56	-
Interest received	3,035	5,944
Dividends received	-	14
Bank deposits received	71,050	34,305
Net cash used in investing activities	-90,927	-46,504

Cash from financing activities

Proceeds (repayments) from borrowings	52,888	-26,138
Dividends paid	-31,262	-12,366
Net cash from (used in) financing activities	21,626	-38,504

Net increase in cash and cash equivalents

Net increase in cash and cash equivalents	1,372	2,457
Cash and cash equivalents at the beginning of the year	2,457	-
Cash and cash equivalents at the end of the year	3,829	2,457

Independent auditor's report



Independent Auditor's Report

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

We have audited the accompanying financial statements of Poslovni sistem Mercator, d.d., which comprise the statement of financial position as at 31 December 2010, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Poslovni sistem Mercator, d.d., as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.


Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.


Danilo Bukovec, B.Sc.Ec.
Certified Auditor

Ljubljana, 16 February 2011

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


Marjan Mahnič, B.Sc.Ec.
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Partner

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Head office	Ljudevita Posavskog 5, 10360 Sesvete, Croatia
President of the Management Board	Stanislav Brodnjak E: stanislav.brodnjak@mercator.hr, T: +385 1 657 21 01
Category Management and Marketing, Management Board Member	Jug Kalogjera E: jug.kalogjera@mercator.hr, T: +385 1 657 22 01
Retail, Wholesale, and Logistics, Management Board Member	Rajko Tetičković E: rajko.tetickovic@mercator.hr, T: +385 1 657 22 01

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Head office	Ložionička br. 16, 71000 Sarajevo, Bosnia and Herzegovina
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Finance and Other Support Functions, Procurator	Franc Lokar E: franc.lokar@mercator.si, T: +387 33 286 162

M - BL, d.o.o.

Head office	Aleja Svetog Save 69, 78000 Banja Luka, Bosnia and Herzegovina
Managing Director	Damjan Davidović E: damjan.davidovic@mercator.si, T: +387 51 337 304
Marketing and Sales, Procurator	Sonja Novak E: sonja.novak@mercator.si, T: +387 51 337 304
Finance and Other Support Functions, Procurator	Franc Lokar E: franc.lokar@mercator.si, T: +387 51 337 304

Mercator - CG, d.o.o.

Head office	Put Radomira Ivanovića br. 2, 81000 Podgorica, Montenegro
Executive Director	Ivan Karadžić E: ivan.karadzic@mercator.me, T: +382 20 442 403
Marketing and Sales, Deputy Executive Director	Miha Abrahamsberg E: miha.abrahamsberg@mercator.si, T: +382 20 442 403
Finance and Other Support Functions, Deputy Executive Director	Klemen Bibič E: klemen.bibic@mercator.si, T: +382 20 442 407

Mercator - B, e.o.o.d.

Head office	51B, Cherni Vruh Blvd., 1407 Sofia, Bulgaria
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Mercator - A, sh.p.k.

Head office	Fshati Gjokaj, Komuna Kashar, Km. 12, Autostrada Tirana - Durres, Tirana, Albania
Managing Director	Peter Kocen E: peter.kocen@mercator.si, T: +355 42 388 814
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Mercator - Makedonija, d.o.o.e.l.

Head office	50. Divizija 24 a, 1000 Skopje, Macedonia
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Mercator - K, I.I.c.

Head office	Qamil Hoxha nr 3/6, Priština, Republika Kosovo
Managing Director	Mensud Lagumdžija E: mensud.lagumdzija@mercator.ba

Eta, d.d.

Head office	Kajuhova pot 4, 1240 Kamnik, Slovenia
Managing Director	Andrej Stušek E: andrej.stusek@eta-kamnik.si, T: +386 1 830 84 04

Mercator - Emba, d.d.

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Modiana, d.o.o.

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Intersport ISI, d.o.o.

Head office	Cesta na Okroglo 3, 4202 Naklo, Slovenia
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Mercator - IP, d.o.o.	
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Mercator - Optima, d.o.o.	
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M - nepremičnine, d.o.o.	
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Managing Director	Janez Gutnik E: janez.gutnik@mercator.si, T: +386 1 560 19 38

The Annual Report 2010 in English language is the translation of the Slovene version of the Annual Report 2010. The official version of the annual report is a document approved by the Supervisory Board.