

**Business Report of the
Mercator Group and
the company Poslovni sistem Mercator, d.d.,
for the period I – VI 2007**



Poslovni sistem Mercator, d.d.
Management Board

August 2007

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SUMMARY

Successful performance in the first half of the year: revenues up nearly by one fifth, profit rose by a quarter

In the first half 2007, Mercator Group generated EUR 1,121 million of net sales revenues, which is 19.4 % more than in the same period of 2006. Net profit of the Group in the first half of 2007 amounts to EUR 21.3 million, which is 70 % of the planned profit for the entire year 2007 and exceeds the net profit of the same period in 2006 for 26 %.

Excluding the revenues of the company M-Rodić, d.o.o., which was merged with the Mercator Group in the last quarter of 2006, net sales revenues of the Mercator Group would have grown by 6.9 %. The growth of Group's net sales revenues was positively affected by successful sales in Slovenia and in other markets of the Group's operation.

Net profit of the Mercator Group in the first half of this year also includes extraordinary profits related to the disposal of business and financial assets. Excluding the effect of these extraordinary profits, the comparable profit of the Mercator Group in the period I – VI 2007 amounts to EUR 19.3 million which is 26.2 % more than comparable profit in the first half of 2006 (EUR 15.3 million).

As at June 30th 2007, the Group had 19,298 employees, of which 30.7 % were employed abroad.

In the first half of 2007, Mercator Group generated EUR 78.1 million of gross cash flow from operating activities, which is 25.3 % more than in the same period in 2006 and represents 51.0 % of the planned figure for 2007. High growth of gross cash flow is mostly the result of the growth of sales volume and reaping the economies of scale, as well as increased business efficiency resulting from cost optimization of operations, and inclusion of the company M - Rodić, d.o.o., into the Mercator Group.

Among the events and features that positively affected the operations and performance of the Mercator Group in the second quarter of 2007 were successful marketing activities, improved operations in foreign markets, the contributions from the newly opened and refurbished retail units, merging of the company M - Rodić, d.o.o., into the Group, and the effects yielded by the implementation of the cost optimization project for the Mercator Group operations.

Among the events and features that have negatively affected the operations and business performance of the Mercator Group in the second quarter of 2007 was above all further growth of interest rates.

The company management finds the business operations of the Mercator Group in the first half of 2007 successful, especially in view of increasingly harsh competition in all markets of our operations and high growth of interest rates.

KEY EVENTS IN THE PERIOD I- VI 2007

CORPORATE GOVERNANCE

In the first half of 2007, the Supervisory Board of the company Poslovni sistem Mercator, d.d., met three times and discussed the report on implementation of the strategic optimization projects in 2006, revision of the financing policy of the Mercator Group, and the report on the operations and performance of the Mercator Group and the company Poslovni sistem Mercator, d.d., in the period 1 – 3 2007. Furthermore, the Supervisory Board discussed the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., and adopted the Annual Report for 2006, Supervisory Board report on the review of the Annual Report, the opinion on the allocation of distributable profit for 2006, and the dividend policy. The Supervisory Board also adopted the new Rules of Procedure of the Supervisory Board of the company Poslovni sistem Mercator, d.d., and the criteria for evaluating the performance of the Management Board of the company Mercator, d.d., as well as assessed the emolument for the Management Board of the company Poslovni sistem Mercator, d.d., for 2006. At its last meeting, the Supervisory Board confirmed the convocation of the 13th regular Shareholder's Assembly of the company Poslovni sistem Mercator, d.d.

On June 27th 2007, 13th regular Shareholder's Assembly of the company Mercator, d.d., took place. Shareholders adopted the resolutions on the translation of the share capital and nominal value of shares into Euros, introduction of no par value shares, changes of the company activities, approved capital, and allocation of distributable profit, granted discharge to the Supervisory and Management Board, assessed the emolument of the Supervisory Board and adopted the changes in the amount of attendance fee and other compensation to the Supervisory Board members. The shareholders appointed the company KPMG SLOVENIA, auditing company, d.o.o., as the company auditor for the year 2007; they were also presented the findings of the special auditor that conducted a special audit of some transactions from the last five-year period.

DEVELOPMENT OF RETAIL NETWORK

- On January 18th 2007, a new Hura! discount store was opened in Radovljica, and a Supermarket was opened in Bovec;
- On February 14th 2007, a Beautique was opened in Mercator Center Koper;
- On March 21st 2007, a Modiana was opened in Europark in Maribor;
- On March 22nd 2007, a refurbished Mercator Center Pula was opened;
- On March 29th 2007, an extended and refurbished Modiana in Mercator Center Koper was opened;
- On March 30th 2007, a Trade center in Bohinjska Bistrica was opened;
- On April 5th 2007, a Supermarket in Radeče was opened;
- On April 11th 2007, we opened a Hura! discount store in Bučna Vas near Novo mesto;

- On May 10th 2007, we opened a specially designed Intersport store in Mercator center Čakovec;
- On May 24th 2007, we opened a refurbished hardware and electronics warehouse Novo Celje in Žalec;
- On June 29th 2007, we opened a hypermarket Rodić Megamarket, Intersport, Modiana, and Beautique drugstore in the M - Rodić shopping center in Belgrade.

MARKETING ACTIVITIES

- In January 2007, we won the silver prize at the EFFIE competition of communication efficiency, for our advertising campaign for the private label line 'Zdravo življenje – Zdravo je pravo' ('Healthy life' – 'Healthy is the way to go'), and bronze prize for the advertising campaign for the project '5 na dan' ('Five a day').
- Consistently with Mercator's plan to maintain or improve the reputation of the Maximarket department store, we founded on February 1st 2007 a special club Maxi that offers our loyal customers additional benefits and services in their favorite department store, including the loyalty program. Simultaneously with the club's founding, we launched the www.klubmaxi.si website.
- In Mercator hypermarkets in Celje, Koper, Maribor - Pobrežje, and Nova Gorica, we installed four self-check-outs called 'tik-tak', on which the customers may complete their shopping by themselves.
- In Mercator, we started to include organically produced products in the existing private label lines; these products are indicated with a special 'EKO' symbol.
- On February 14th 2007, we organized eighth Mercator marketing days, intended to meet the business partners of the Mercator Group; on March 30th 2007, the traditional meeting with all financial partners of the Mercator Group was held.
- As of March, the '**M – srečka**' ('M - Lottery Ticket') was introduced; the product was prepared in cooperation with the Sports Lottery.
- In April, we extended Mercator's offer with the service M Holidays which includes offering tourist arrangements, prepared in cooperation with the tourist agency Kompas.
- As a socially accountable company, we started to include the Fair Trade products into the assortments offered in our major trade centers. In six outlets (hypermarkets Ljubljana, Koper, Nova Gorica, Kranj Primskovo, Celje, and Maximarket), 78 various Fair Trade products are offered (cosmetics, dry program, and fruit). In the second phase, we included the Fair Trade assortment into the offer of the Novo mesto hypermarket. Over the summer, we are planning to offer these products in hypermarket Maribor Pobrežje. Special shelves or aisles were installed at the outlets to call attention to this project.

- We also launched a new customer loyalty program in Slovenian market. This time, customers were awarded with discounts on Sivilanit towels made of Egyptian cotton and on Bosch products for body care and household. Customer loyalty program will be completed in September.
- New customer loyalty programs were also developed in foreign markets. In May, we launched the program Chic in Croatia and Bosnia and Herzegovina; in Serbia, customer loyalty program in cooperation with the local supplier Metalac was introduced.

STRATEGIC ALLIANCES

On March 29th 2007, the owner and president of the Swisslion-Takovo Group and the President of the Management Board of the company Poslovni sistem Mercator, d.d., signed a letter of intent on a strategic alliance, defining the key areas of strategic partnership (trade, procurement and sales of alimentary products, manufacturing). Following a detailed analysis of the trade activities of the Swisslion-Takovo Group and having conducted the due diligence process the partners found that combining in the field of trade activities would not yield expected benefit and synergies for both partners; hence, the intent of combination in the field of trade operations was abandoned. With regard to procurement of the Swisslion-Takovo Group products, the partners agreed on cooperation in the field of manufacturer's brands and private labels; with respect to potential combination between the Swisslion-Takovo Group and the manufacturing company Eta, d.d., Kamnik, the partners, following the activities conducted hitherto, confirmed mutual interest in the combination; however, activities related to such cooperation are presumed to be completed by the end of October 2007 when the final decision regarding the combination or alliance in this field will be made.

On May 21st 2007, the President of the Management Board and the owner of the Croatian trade company Presoflex, d.o.o., the President of the Management Board of the company Poslovni sistem Mercator, d.d., and the director of the company Mercator – H, d.o.o., signed an agreement on strategic alliance between the companies Presoflex, d.o.o., and Mercator – H, d.o.o.; the alliance was completed on July 18th 2007. Thereby, the companies Poslovni sistem Mercator, d.d., and Mercator – H, d.o.o., became 100 % owners of the company Presoflex, d.o.o. Mercator paid for a part of the purchase price with own shares from the treasury shares fund, in compliance with the authorization of the Shareholder's Assembly. Thus, the selling party received 21,525 MELR shares at a price of EUR 334.51 per share, which corresponds to the average market price per MELR share in June 2007. By forging this strategic alliance, Mercator's market share in Croatian market rose to approximately 6 %. This strategic alliance is consistent with the pursuit of Mercator's growth strategy and the ambition to attain the position of the leading FMCG retailer in Southeastern European region.

ISSUE OF NEW SECURITIES

Based on the decision dated December 28th 2006, the Ljubljana Stock Exchange included on January 3rd 2007 the 174,517 newly issued shares, issued for the purpose of partial payment of the 76 % share in the company M - Rodić, d.o.o., into the stock market listing. The number of Mercator shares being traded on the Ljubljana Stock Exchange thus amounts to 3,765,361.

KEY INFORMATION FOR THE SHAREHOLDERS

As at June 30th 2007, the average price per share of the company Poslovni sistem Mercator, d.d., as traded in the regular official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 360.92.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at June 30th 2007, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 168.70.

Basic net earnings per ordinary share, calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares, amounts to EUR 4.36.

KEY EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the accounting period 1 - 6 2007, the following major events affected the operations of the Mercator Group:

- On July 11th 2007, the company Mercator - BH, d.o.o., signed with the company Euro Best - M, d.o.o., Kakanj, an agreement on the purchase of retail unit in Kakanj, which started to operate as a Mercator trade center. The trade center includes a hypermarket, café, restaurant, and additional outlets leased out.
- On July 12th 2007, the change in the company share capital was entered into the Court Register, consistently with the resolution adopted at the 13th Shareholders Assembly of Mercator, d.d. Share capital of the company Mercator, d.d., thus amounts to EUR 157,128,514.33; it is divided into 3,765,361 ordinary registered no par value shares.
- On August 23rd 2007, we opened Mercator center Novi Sad. The facility has a total area of 20,822 m² and it includes 499 parking spots. The Mercator center includes a Mercator hypermarket on 6,431 m², Intersport, Fashion Avenue, Beautique, Santana café, and 67 outlets with supplementary offer leased out to selected service providers.

FINANCIAL HIGHLIGHTS FOR THE PERIOD I – VI 2007

Mercator Group					
	1 - 6 2006	Plan 2007	1 - 6 2007	Index 1-6 07 / 1-6 06	Index 1-6 07 / plan 07
Net sales revenues (in EUR 000)	938,952	2,338,722	1,121,381	119.4	47.9
Profit / loss from operating activities (in EUR 000)	32,015	81,463	42,310	132.2	51.9
Profit / loss before taxes (in EUR 000)	23,054	43,798	27,028	117.2	61.7
Net profit for the financial period (in EUR 000)	16,912	30,436	21,306	126.0	70.0
Gross cash flow from operating activities (in EUR 000)	62,355	153,093	78,132	125.3	51.0
Capital expenditure (in EUR 000)	76,768	202,282	50,812	66.2	25.1
Long - term financial investments (in EUR 000)	1,326	0	2,219	167.3	-
Return on equity*	6.2%	4.9%	6.6%	107.1	135.5
Return on sales	1.8%	1.3%	1.9%	105.6	146.0
Gross cash flow from operating activities / sales	6.6%	6.5%	7.0%	105.6	106.4
Number of employees based on hours worked	16,449	19,363	18,436	112.1	95.2
Number of employees as at the end of the period	17,403	20,683	19,298	110.9	93.3

* The indicator is adjusted to the annual level.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 52.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry number	1/02785/00
Court registry date	October 12 th 1995
Company share capital as at June 30 th 2007	SIT 37,653,610,000.00
Nominal value of one share	SIT 10,000
Number of shares quoted at the Ljubljana Stock Exchange as at June 30 th 2007	3,765,361
Share listing	Ljubljana Stock Exchange, official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
Chairman of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

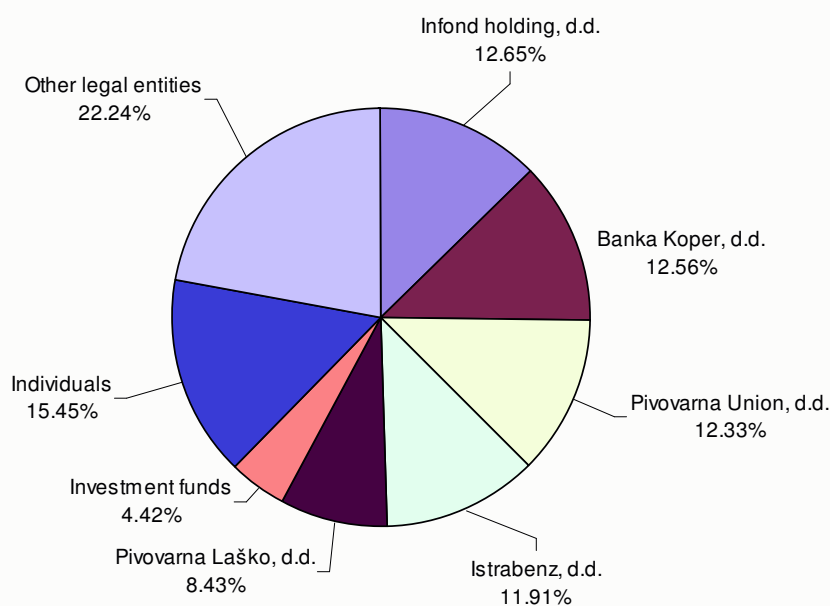
December 31 st 2006	June 30 th 2007
TRADING COMPANIES IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADING COMPANIES IN FOREIGN MARKETS	
M - H, d.o.o., Hrvaška (99.9 %)	M - H, d.o.o., Hrvaška (99.9 %)
M - S, d.o.o., Srbija (100.0 %)	M - S, d.o.o., Srbija (100.0 %)
M – Rodić, d.o.o., Srbija (76.0 %)	M – Rodić, d.o.o., Srbija (76.0 %)
M - BH, d.o.o., Bosna in Hercegovina (100.0 %)	M - BH, d.o.o., Bosna in Hercegovina (100.0 %)
Mercator Makedonija, d.o.o., Makedonija (90.0 %)	Mercator Makedonija, d.o.o., Makedonija (100.0 %)
NON – TRADING COMPANIES	
Pekarna Grosuplje, d.d. (79.9 %)	Pekarna Grosuplje, d.d. (81.1 %)
- Belpana, d.o.o., Hrvaška (100.0 %)	- Belpana, d.o.o., Hrvaška (100.0 %)
Eta, d.d. (97.3 %)	Eta, d.d. (97.3 %)
M - Emba, d.d. (76.8 %)	M - Emba, d.d. (97.1 %)
M - Optima, d.o.o. (100.0 %)	M - Optima, d.o.o. (100.0 %)
M Hotel, d.o.o. (100.0 %)	M Hotel, d.o.o. (100.0 %)

* The company was founded in 2006, but it has not yet commenced its operating activities.

COMPANY OWNERSHIP STRUCTURE

On June 30th 2007 the Share Register of the company Poslovni sistem Mercator, d.d., indicated 17,065 shareholders or 132 less compared to the situation as at December 31st 2006.

As at June 30th 2007, the ownership structure of the company Poslovni sistem Mercator, d.d., was the following:



Major shareholders

As at June 30th 2007, the following ten largest shareholders combined owned 70.23 % of the company:

	Shareholder	Country	Number of shares	Share
1	Infond Holding, d.d.	Slovenia	476,486	12.65%
2	Banka Koper, d.d.	Slovenia	472,915	12.56%
3	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
4	Istrabenz, d.d.	Slovenia	448,337	11.91%
5	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
6	Rodić M & B Trgovina	Serbia	174,517	4.63%
7	Radenska, d.d., Radenci	Slovenia	96,952	2.57%
8	Smallcap World Fund	USA	67,735	1.80%
9	Poslovni sistem Mercator, d.d.	Slovenia	63,906	1.70%
10	KLM Naložbe, d.d.	Slovenia	61,490	1.63%

Foreign shareholders

As at June 30th 2007, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to 13.87 %, which is 0.47 percentage points more than at the end of 2006.

CORPORATE GOVERNANCE

Management Board

Management Board of the company Poslovni sistem Mercator, d.d., consists of the President and three board members who assumed their respective five-year terms on January 1st 2006.

As at June 30th 2007, members of the Management Board owned the following number of company shares:

First and last name	Number of shares	Ownership share
Žiga Debeljak	1,100	0.02921%
Vera Aljančič Falež	30	0.00080%
Mateja Jesenek	1,000	0.02656%
Peter Zavrl	60	0.00159%
TOTAL	2,190	0.05816%

Supervisory Board

As at June 30th 2007, Supervisory Board of the company consisted of ten members. The following table shows the number of Mercator shares and the total share of the company owned by individual members of the Supervisory Board of the company Poslovni sistem Mercator, d.d.

	President of the Supervisory Board	Number of shares	Ownership share
1.	Robert Šega	0	0.00000%
	Members of the Board (representatives of capital)		
2.	Matjaž Božič	0	0.00000%
3.	Dušan Mohorko	0	0.00000%
4.	Kristjan Sušinski	300	0.00797%
5.	Mateja Vidnar	0	0.00000%
	Members of the Board (workers representatives)		
6.	Ksenija Bračič	0	0.00000%
7.	Jože Cvetek	2,000	0.05312%
8.	Dragica Derganc	0	0.00000%
9.	Jelka Žekar	500	0.01328%
10.	Ivica Župetič	0	0.00000%
	TOTAL	2,800	0.07436%

On August 1st 2007, member of the Supervisory Board of the company Poslovni sistem Mercator, d.d., Mr. Kristjan Sušinski, sold 300 company shares with the code MELR, at a price of EUR 399.50 per share. After this transaction, Supervisory Board member Mr. Kristjan Sušinski does not hold any shares of the issuing company with the code MELR.

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

Vision

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

Mission

Our business is aimed at creating:

- benefit for customers,
- benefit for employees,
- benefit for suppliers,
- benefit for owners,
- benefit for wider environment.

Corporate values

- We are bound by trust and mutual respect.
- Nobody understands customer preferences better than us.
- Our operations are diligent and transparent in each moment and at all levels.
- We are expanding with solid corporate culture.

Strategic policies

- Remain the largest retailer in Slovenia;
- Become leading retailer on neighboring markets of SE Europe: in Croatia, in Serbia, and in Bosnia and Herzegovina;
- Enter other SE Europe markets on long-term;
- Develop non-market programs;
- Provide profitable business operations.

Strategic objectives

- Growth of net revenues from trading operations in the annual average of 5 % (organic growth without partnerships).
- Target market quotas until the year 2010:
 - Slovenia 40 %,
 - Croatia 12 %,
 - Serbia 10 %,
 - Bosnia and Herzegovina 5 %,The said market shares include growth by strategic partnerships.

- Investments: EUR 130 – 150 million per year.
- Improve business performance and boost efficiency.

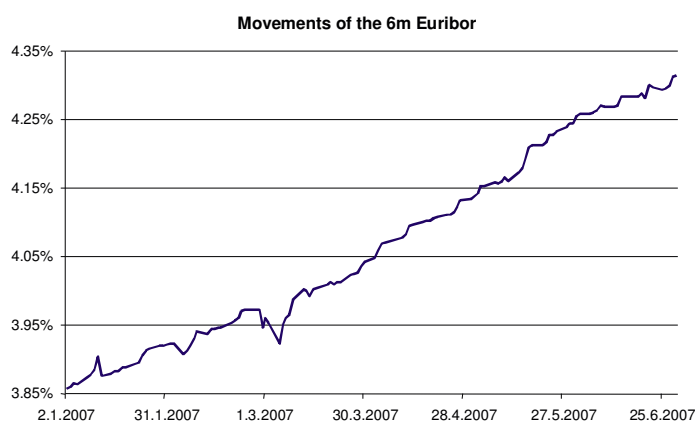
Detailed explanations regarding the business strategy and plans of the Mercator Group can be found in the Mercator Group Annual Report for the year 2006 and in the Mercator Group Business Plan for the year 2007. Both documents have been published on the electronic dissemination information system of the Ljubljana Stock Exchange, d.d., called SEOnet, and on the company website www.mercator.si.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD I - VI 2007

Economic conditions in the period 1 – 6 2007 had a positive effect on Mercator's performance in all markets of the company's operations as high economic growth fueled consumption, particularly in non-alimentary segments. One aspect that influenced company operations was high growth of interest rates and increased level of competition.

In 2007, **Slovenia** successfully adopted euro as its national currency, which will positively affect further economic development. Contrary to some expectations that retail prices would rise due to the introduction of euro, the results of the Slovenian Consumers Association indicate that price increases following the adoption of euro were much more common with service providers than with the retailers. In 2006, average annual rate of inflation amounted to 2.5 %; for 2007, the inflation is estimated to amount to 3 %. Slovenian economic growth in 2006 amounted to 5.2 %, and the analysts expect the growth to accelerate even further in 2007, to reach 5.7 %. Main generators of high economic growth are strong investment dynamics and growing exports.

The first half of 2007 also saw high growth of the European inter-bank offered interest rate – Euribor. Six-month Euribor rose by 0.46 percentage point in the first half of 2007, causing additional increase in variable interest rates.



After several months of negotiation, **Serbia** got a new government in May 2007. The delay in formation of the new government brought the implementation of structural reforms and privatization of strategically relevant companies to a halt. Fiscal and monetary policy have

been consistent thus far; fiscal policy in particular has been restrictive and the government is expected to carry on with such policy. A new agreement between the IMF and the government is seen as very likely, particularly because of positive signal it would represent for foreign investors. At the same time, this will increase IMF's control over the country's fiscal and monetary policy. Real GDP growth in 2006 amounted to 5.7 %, mainly fueled by the service sector. Growth forecast for 2007 is somewhat lower, yet still considerably high at 5.5 %. Average rate of inflation in 2006 was 11.7 %; at the end of 2006, it amounted to 6.6 %. With the assumption that fiscal and monetary policy remain at least as restrictive as in 2006, deceleration of inflation is expected to continue, possibly reaching 5.4 % at the end of 2008.

In the beginning of 2007, **Croatia** resumed its negotiations on accession to the European Union; however, final decision on the date of entry into the EU has not been set yet. Croatian political arena is gradually preparing for the parliamentary elections that are to take place by the end of November 2007. In 2006, GDP growth rate amounted to 4.8 %; for 2007, similar growth level as in the year before is projected, as Croatia retained considerably high domestic demand and investment dynamics in the first half of this year. Average annual inflation in 2006 amounted to 3.2 %, but is expected to fall below 3 % again in 2007. Exchange rate HRK/EUR has also remained stable in the first half of 2007 without major interventions by the Croatian Central Bank.

In early 2007, **Bosnia and Herzegovina** carried on its preparations for privatization of national companies, attracting great interest of the international stock market investors. Due to last year's elections and lengthy post-election negotiations on the formation of new government left the reforms in a standstill for a while. Bosnia and Herzegovina still has not managed to sign the important Stabilization and Association Agreement with the European Union; such agreement would positively affect the country's further development. Despite numerous political, economic, and social problems, progress is discernible in the country. The Central Bank has maintained the current monetary regime of the Currency Board with full foreign exchange coverage for the domestic currency. In 2007, price growth is expected to settle. Apart from cutting inflation, the main goals of the Central Bank remain restriction of credit and further centralization of control over banks.

DEVELOPMENT AND INVESTMENT ACTIVITIES

Capital expenditure

In the period 1 – 6 2007, capital expenditure of the Mercator Group amounted to EUR 50,812 thousand, which is 25.4 % of total planned annual amount of capital expenditure; of this amount, EUR 25,768 thousand (50.7 %) were invested abroad. Investment volume complies with annual planned dynamics; major share of total investment was allocated for the construction of shopping centers.

Country	Investment 1-6 2007 (thousand EUR)	Composition (in %)
Slovenia	25,044	49.3
Total investment within trade operations	24,371	48.0
Total investment within non-trade operations	673	1.3
Croatia	12,800	25.2
Bosnia and Herzegovina	144	0.3
Serbia	12,824	25.2
Total	50,812	100.0

SLOVENIA:

- On March 30th 2007, Trade Center Bohinjska Bistrica was opened, operating in the ground floor of a commercial-residential building. The facility is located in a landed property of 7,003 m². The Trade Center has a total area of 1,517 m² and it includes 92 outdoor parking lots. It comprises a 992 m² supermarket with a sales area of 668 m², a Modiana, and four outlets with a total area of 160 m² that are leased to select supplementary service providers.
- Opening of other facilities:
 - opening of the supermarket Bovec (total area of 718 m²),
 - opening of a Hura! discount store in Radovljica (total area of 537 m²),
 - opening of a Modiana in Europark Maribor (total area of 154 m²),
 - opening of a Beautique and an expanded and refurbished Modiana in Mercator Center Koper (combined total area of both 578 m²),
 - opening of supermarket Radeče (total area of 791 m²),
 - opening of Hura! discount store Novo mesto – Bučna vas (total area of 988 m²),
 - opening of a refurbished hardware and electronics warehouse Novo Celje in Žalec (facility 6,912 m², 7,800 m² in seven tents).

FOREIGN MARKETS:

- On June 29th 2007, a Rodić Megamarket (total area of 12,152 m²), Intersport (total area of 612 m²), Modiana (total area of 618 m²), and a Beautique (total area of 95 m²) were opened in the shopping center M - Rodić in Belgrade
- The second phase of refurbishment of the MC Pula was carried out (opening: March 22nd 2007), as well as the preparation of Intersport in MC Čakovec (opening: May 10th

2007), and redesign of hypermarket into outlets to be leased and the refurbishment of MC Split (opening: June 20th 2007).

Projects MC Novi Sad, MC Zagreb III, MC Rijeka, extension of MC Ljubljana, supermarket Dobrna, supermarket in the Importanne Galery in Zagreb, Intersport Šibenik, and MC Niš, are in their final phase and are being completed with intensified pace; they are to be completed by August, September, October, and December, respectively; other facilities are also being constructed consistently with the investment plan.

Investment into available-for-sale financial assets

Mercator Group's investment into available-for-sale financial assets in the period 1 – 6 2007 amounted to EUR 2,219 thousand; they relate to the additional purchase of minority interest in subsidiaries Mercator – Emba, d.d., and Pekarna Grosuplje, d.d.

MARKETING

Foundations of long-term marketing strategy

Mercator Group's marketing strategy is based on the development of high-quality and price competitive offer upgraded by a high level of service. Thus we create added value for our customers as we offer them products and services that contribute to improvement of the quality of their leisure time, an aspect that is increasingly important in contemporary lifestyle. We are continuously monitoring the wishes and preferences of our customers and we direct our efforts towards their satisfaction, hence winning their trust and loyalty to the Mercator Group.

Mercator Group strives to provide the following for its customers:

- ❑ **The best offer of fresh products**
 - daily best offer of fruit and vegetables at the most favorable prices,
 - focus on all fresh program categories,
 - offer of healthy products, and
 - offer of ready-made products.

- ❑ **The most interesting and fashionable offer of non-alimentary products**
 - offer of impulse products, and
 - attractive offer of products for the home and pleasant ambiance.

- ❑ **The most interesting offer of seasonal products**
 - favorable shopping for the most interesting season-related products.

- ❑ **Innovative offer of products and services**
 - development of new technologies,
 - development of new store formats, and

- development of supplementary services: M Mobil, M Holidays, clubs, customer loyalty programs, and new partners.

Customer Relationship Management

As at June 30th 2007, there were **714,406** Mercator Pika card holders in Slovenia, **144,276** in Croatia, **60,710** in Serbia, and **65,678** in Bosnia and Herzegovina. In all markets combined, there are **985,070** Mercator Pika card holders (70,355 more than at the end of 2006).

In Slovenian market, the share of payments made by the Mercator Pika card reached **49.1 %** of total retail revenues of the period 1 – 6 2007. In Croatian market, payments with the Mercator Pika card represented **32.6 %** of total revenues, while the figure amounted to **27.4%** in the Serbian market, and **35.9 %** in Bosnia and Herzegovina. Share of payments made by Mercator Pika card in total retail revenues of the Mercator Group in the period 1 – 6 2007 amounts to **40.6 %**; this figure does not include revenues from the company M – Rodić, d.o.o., as the Mercator Pika card is not yet available for the customers shopping in this company's retail units.

In the period 1 – 6 2007, the following activities were successfully carried out in the field of customer relation management:

- With regard to **Mercator Pika card** we carried out the Pika Day upon the completion of the 16th customer benefit period; we also carried out monthly sales promotion activities for the Mercator Pika card holders, and we included another contract partner into the Mercator Pika card system, namely Terme Dobrna (a spa resort). Activities related to Mercator Pika card were carried out in all markets of Mercator's operation.
- In February 2007, we founded the **Maxi Club** and developed a customer loyalty program for the club members. We also launched the website www.klubmaxi.si, enabling subscription for the e-news. By June 30th, 3,760 Mercator Pika card holders joined the club. Club members are regularly informed of any events, offer, and benefits in the Maxi convenience store.
- We also introduced new services related to the strategy of combining the **M Mobil** project with our retail offer – "More on the line, more on Pika"; this which involves communicating a new M Mobil bonus system that links usage on the M Mobil account.
- With regard to the **Healthy Living** club, we redesigned the website www.uzivajmozdravo.si. This website enables the members to keep up to date with the latest club contents. At the end of June, the club featured 13,700 members.
- Extension of the **Mercator Web Store** involved the commencement of preparation for introduction of new units in Kranj and Zagreb. In the period 1 – 6 2007, **sales of the Mercator Web Store rose by 90 % compared to the same period last year.**

- Implementation of the project of **redesigning or setting up Mercator corporate web portals and Mercator Pika card websites** was carried on in all markets of Mercator's operations; these activities will be completed in August 2007.

Development of private label lines

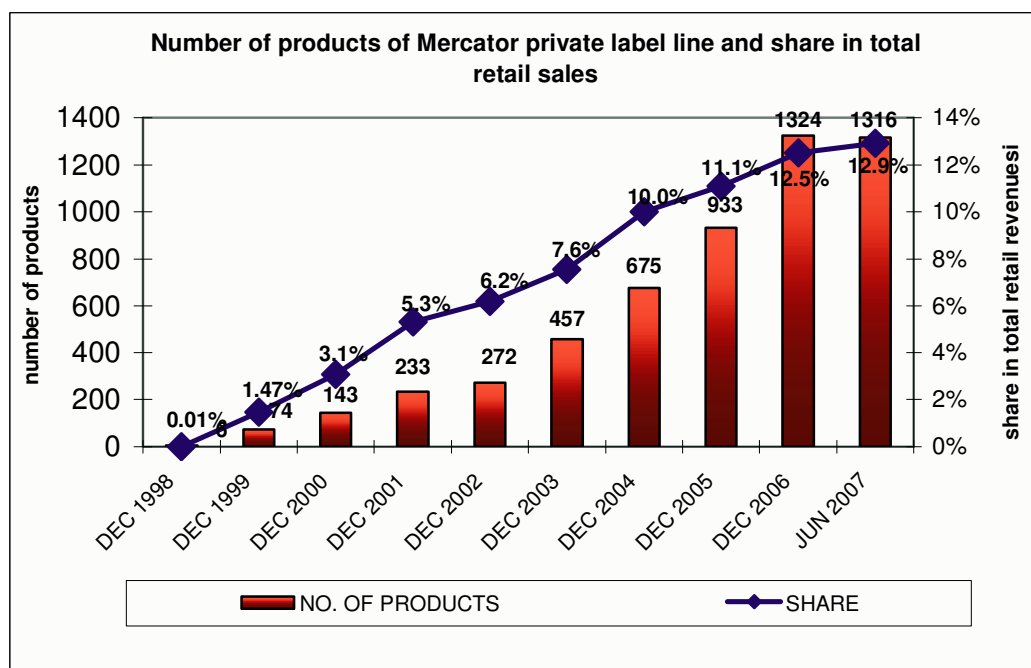
SLOVENIA

- In the first quarter of 2007, we actively commenced the redesign of packaging for the **Mercator Line** (linija Mercator) products. At the end of June 2007, the line comprised 441 products, of which 194 already featured redesigned packaging. In March, **M – Lottery Ticket** (M - srečka) was introduced in Mercator's aisles; it was prepared in cooperation with the Sports Lottery. We also carried out a sales promotion campaign of the Mercator private label, which included a flyer presenting all private labels under the Mercator brand.
- We also commenced the activities of redesigning the **Total Body Care** line (Popolna nega), in order to raise the quality and the price segment of the product line and to endow it with an image of a distinctive line of products for body care. At the end of June 2007, the line included 67 products.
- In February 2007, we made a final decision to introduce a new line that will replace and upgrade the **M-line (M – linija)**. This is the **Ambient** line (Ambient) which will include products for the home. The line also features a new comprehensive graphic image and will be related to the new sales format called Home ('Dom'). Simultaneously, the cancellation of M-line has started, which also involves relocation of particular products; at the end of June 2007, the line still featured 351 products.
- At the beginning of the year, we concentrated a lot of our efforts on the revision of the **Lumpi** line (products for children aged up to 6), in order to make it more friendly for both children and parents. Hence, Lumpi took part in various events, and we also made arrangements with the Ljubljana Zoo to enable our customers the purchase of entry tickets to the Zoo by Mercator Pika card in the hypermarkets; this arrangement is backed by Lumpi's presence in the Zoo. At the end of June 2007, the line included 230 products.
- At the end of June 2007, the line **Wishing Table** (Mizica pogrni se!) included 118 products. Upon the introduction of new products, we also 'refreshed' the packaging.
- With regard to the **Healthy Living** line (Zdravo Življenje) we started the adjustment of declarations to the new European regulations. In April, we carried out an extensive promotion campaign with the key message "Do something good for yourselves", and in June we completed the now traditional activity "Žogarija" ('Play Ball!') that took place in twelve Mercator centers across Slovenia. At the end of June 2007, the line included 78 products.
- Due to increased demand for organic products, we decided to include them in all existing lines of our private label. Hence, we developed the **EKO** symbol.

- The goal of the new **generic line** (generična linija) is to offer the most favorable shopping in the market. In March, marketing of this line took place, and the products were also presented on the private label flyer. At the end of June 2007, the line included 31 products.
- With regard to development of Mercator private label line products, we are also developing the project '**Five a day - let some color into your life**' ('**5 na dan – obarvajmo življenje**') aimed at promotion of fruit and vegetables consumption among our customers. In January, we carried out an extensive marketing campaign in order to boost fruit and vegetables sales, which involved handing out presents to our customers, according to the total of the receipts they had collected. We also focused on the introduction of fresh squeezed juices – smoothies which will presumably be offered in September 2007.

As at June 30th 2007, a total of **1,316** products were included in the Mercator private label line in Slovenian market, of which 125 were newly developed in the first half of 2007. The number of products included in the Mercator private label line dropped somewhat in the first half of the year, due to the optimization of categories that is under way as a part of the category management process. In Slovenian market, products of the Mercator private label line accounted for nearly 13 % of total retail sales in the first half of 2007.

Number of products of Mercator private label line and share in total retail revenues in Slovenian market



Products of the Mercator private label line are also being developed in all foreign markets of Mercator's operations.

Number of products and share of Mercator private label line product sales in total retail revenues in foreign markets as at June 30th 2007

	Number of products	Share of sales
Croatia	410	3.1 %
Serbia	546	1.2 %
Bosnia and Herzegovina	592	2.2 %

Sales promotion projects

Among the projects that were carried out in Slovenia in the first half of the year are "**Every Day Low Price**" (Trajno nizka cena) (855 products), "**Exclamation Mark!**" (Klicaj!) (206 products), and "**Slovenian basket**" (Slovenska košarica) (from 37 to 45 products). As of the end of June 2007, we started to revise the projects Exclamation Mark! and Every Day low Prices in order to combine them in a single project called 'Every Day Low Prices'.

Short-term activities included **regular campaigns**, **hypermarket campaigns**, and **cash & carry** campaigns. We stepped up the focus on **weekend campaigns** that were also revised in June; their offer is based on fruit and vegetables. Sale of fruit and vegetables is also promoted with the project '**Vitamin of the Day**' (Vitamin dneva) which takes place every week from Tuesday to Wednesday.

In **Hura!** discount stores we carried out several regular and one opening campaign in the period from January to June 2007. Campaigns rounded in currently relevant topics are also backed by Hura! news.

Sales promotion projects were also carried out in non-market programs:

- **Hardware and electronics program:** we carried out regular, specialized, and local campaigns.
- **Textile and beauty program:** in the field of textile, we carried out a post-season clearance sale and other activities, and offered to our customers the service of fashion consulting; in Beautique perfume and drugstores, we carried out regular campaigns, make-up days, and customer loyalty activities based on collecting the stamps for bonuses.
- **Intersport:** we were among the sponsors of the event Jure Košir Ski Legend, we co-organized the event Hit Cup & INTERSPORT Ski Test 2007, we published a revised web presentation on the Internet, and we carried out regular, special, and co-brand campaigns, as well as a season clearance sale, and we prepared several theme-oriented guides.

We carried on the campaign "**YES! Coupon**", in which customers who purchase products in the amount of EUR 50 or more on any Tuesday, receive a "YES! Coupon" which entitles them to discount at shopping on next Tuesday.

We also carried out the **Chic customer loyalty program** that was extended to April 30th 2007 due to its popularity; on April 5th 2007, we launched a new customer loyalty program with the slogan '**Collect, enjoy, and live comfortably**'. This time, customers are rewarded with discounts on Svilanit towels made of Egyptian cotton and Bosch products for body care and

home. Customer loyalty program 'Collect, enjoy, and live comfortably' will be completed in September 2007.

From June 18th 2007 to September 9th 2007, **prize contest "We are getting a car in Mercator..."** is taking place. Customers collect prize coupons with stickers that they are given when shopping in FMCG (or alimentary) outlets, or which they may find in regular campaign flyers. The main prize is two-year free use of an automobile Opel Corsa.

Sales promotion activities that have proven successful in Slovenia are also carried out in foreign markets. In 2007, we focused in all markets primarily on improving price competitiveness and localization of all marketing approaches. We carried out long-term and short-term projects. Among the more notable ones were Tognana and Chic in Croatia and Bosnia and Herzegovina, and customer loyalty program in cooperation with the supplier Metalac in Serbia.

CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category management

In the first half of 2007, we carried on our category management activities. Category management is a business process where supplier and retailer work together in order to improve customer satisfaction and at the same time boost sales of supplier and retailer, or improve the performance of individual categories; therefore, we invited our major suppliers from particular categories to take part in the category management process.

In the beginning of 2007, we carried out the implementation of measures prepared for the improvement of pilot categories in the test hypermarkets. We implemented measures in the field of assortment and space, we introduced the system of structured reporting on overlapping of planograms and realograms, prepared a template, and carried out the first analyses for monitoring financial results of the implementation.

We submitted our demand for quotations to current and new potential suppliers for major categories in the private label, analyzed results, collected and tested the samples, and started the negotiations. Based on this approach, we expect to achieve savings that will be manifest in the second half of the year.

Consistently with our active category management, we adjusted our organization. We prepared a standard organization model for all executive areas, with clearly defined control and decision procedures, tasks, and responsibilities. Executive field of market program has already adopted the new organization; hence, all conditions for the transition to category management and its implementation in regular, daily work, have been provided.

Procurement of trade goods and supplier relations

In the first half of 2007, cooperation with the suppliers was based on

- establishment of mutual relations based on the principles of category management concept,
- increasing benefit or efficiency for both partners, based on costs reduction and improvement of productivity, and
- marketing healthy and safe food and products.

We demand from our suppliers that their assortment is marketable and appealing, and adjusted to the requirements of a contemporary consumer. In line with the said concept, the assortment is constantly optimized or redesigned in compliance with the category management principles. Special attention was paid to the assortment of target categories.

We also focused extensively on creating innovative sales promotion activities that are especially oriented towards marketing the products from target categories (e.g. fruits and vegetables, fresh programs, non-alimentary products), and other long-term projects, such as 'Every Day Low Prices', Slovenian Basket, and private labels. We also commenced the operationalization of contracts signed with the suppliers for this business year. We also concentrated on our business relations with suppliers in foreign markets, especially to the optimization of supplier relations (improving purchasing terms and conditions through negotiation) in Croatia and Serbia.

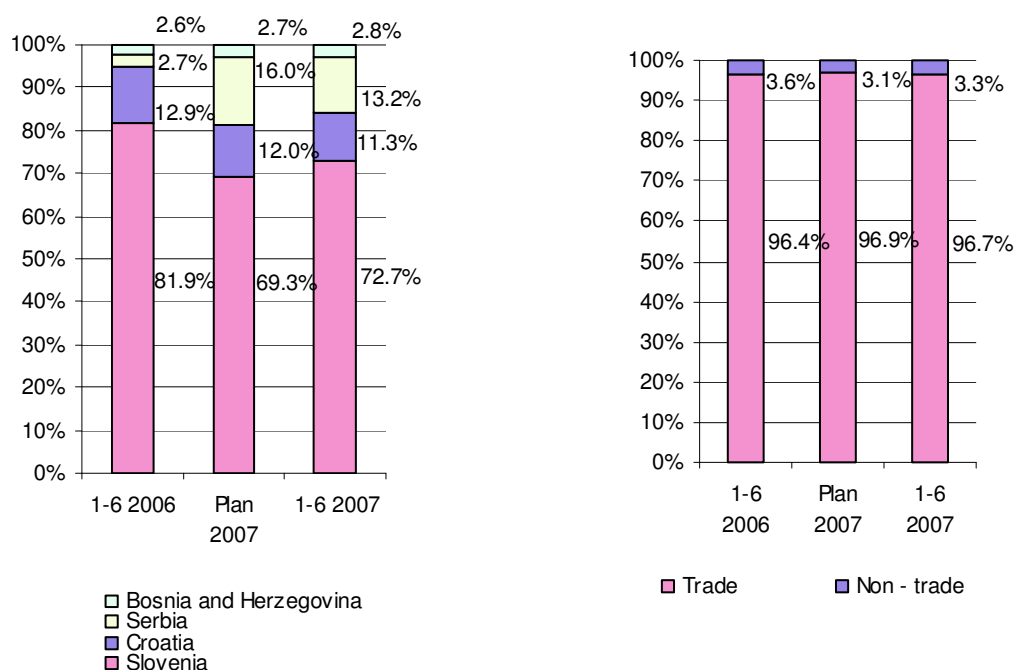
SALES AND STORE FORMATS

Mercator Group

In the period 1 – 6 2007 Mercator Group realized EUR 1,121,381 thousand of net sales revenues, which is 19.4 % more than the same period last year and represents 47.9 % of the planned figure for the year 2007.

Within the trading segment Mercator Group realized 96.7 % of net sales revenues, of which 72.7 % in Slovenia and 27.3 % abroad.

Net revenues from sales for the Mercator Group by branches and regions



In the period 1 – 6 2007 trading companies in Slovenia recorded nominal increase in sales revenues of 5.6 % compared to the same last year period, which is mainly the consequence of successful marketing activities, opening of new and refurbished retail outlets, and working on Sundays.

Trading companies abroad recorded in the period 1 – 6 2007 nominal increase in net sales revenues of 82.6 % compared to the same period last year, which is mostly the consequence of integrating the business of the company M – Rodić, d.o.o., into the Mercator Group in the last quarter of the year 2006.

Without the integration of the company M – Rodić, d.o.o., into the Mercator Group the increase of net sales revenues for the Mercator Group would be 6.9 %.

Structure of retail units

Structure of retail units of the Mercator Group by the type of shops, particular selling programs, and by particular markets as at June 30th 2007:

ACTIVITY	Slovenia	Croatia	Serbia	BiH	Mercator Group		
	Number of units				No. of units	Gross sales area (in m ²)	Net sales area (in m ²)
Hypermarkets	19	11	8	4	42	210,625	130,401
Supermarkets	123	24	19	1	167	189,835	120,558
Superettes	306	47	17	-	370	153,838	87,692
Self - service stores	93	20	7	-	120	19,635	10,421
Cash & Carry	9	-	-	-	9	13,318	10,357
Hard discount stores	15	-	-	-	15	11,696	8,751
TOTAL FMCG programme	565	102	51	5	723	598,946	368,179
Technical programme	119	13	2	-	134	157,727	83,174
Technical programme	84	11	-	-	95	118,649	54,100
Furniture programme	35	2	2	-	39	39,078	29,074
Clothing programme and drugstores	100	28	6	5	139	50,937	42,182
Clothing programme	83	28	4	4	119	48,366	40,166
Drugstores and perfumeries	17	-	2	1	20	2,572	2,016
Intersport	26	14	2	4	46	22,769	17,514
Restaurants	28	15	4	8	55	17,242	9,989
TOTAL specialised programmes	273	70	14	17	374	248,676	152,860
TOTAL	838	172	65	22	1,097	847,622	521,039
Franchise stores	204	34			238	45,312	29,215
TOTAL with franchise stores	1,042	206			1,335	892,934	550,254

Note: The table also comprises retail units of the company Presoflex, d.o.o.; strategic alliance with this company was completed on July 18th 2007.

Development of new technologies in Mercator outlets

Development of new store formats

In the first half of 2007, intensive efforts were devoted to the development of store formats, with emphasis on the development of a new hypermarket concept intended for the most demanding customers. A customer defined in this way expects a neatly arranged and attractive shopping environment with extensive choice of quality goods at appropriate prices. This hypermarket concept will be implemented for the first time in the refurbished Mercator hypermarket in Ljubljana, where the customer will be offered the following:

- Rich and high-quality offer – particularly within fresh program, some categories of the dry program (e.g. winery, organic program), cosmetics, products for the home, etc.
- Care for health and conduct consistent with ecological awareness; this includes the demand for offer that is focused primarily on quality, freshness, nutrition without additives, etc., within the fresh program.
- Comfort during shopping and awareness of novelties; distinctiveness of the hypermarket will also be based on excellent service at the point of sale and some novelties related to technological equipment.

The hypermarket concept will be furnished with attractive, pleasant, colorful, and diverse shopping environment with a dynamic layout and shopping path, and well deliberated concept of particular departments with emphasis on visual elements (lighting, comprehensive image of individual departments and indications, equipment, accessories, etc.).

Parallel to the development of the new hypermarket concept, some other store formats are being developed as well, such as comfort shops, stores with products for the home, and other concepts that will be implemented at points of sale in the remaining part of the year.

Introduction of self-check-out cash registers in Mercator outlets

Following the models of numerous trading companies in Western Europe who had introduced the self-check-outs, Mercator also started to introduce the first self-check-outs in Slovenia in the hypermarkets of the Mercator center Celje and Mercator Center Koper in the beginning of 2007. In June, introduction of this technology at points of sale was carried on, as it took place in the hypermarkets of Mercator center Nova Gorica and Mercator center Maribor Pobrežje; the introduction is also planned in some of the remaining hypermarkets, as well as in the first hypermarket in Croatian market.

The self-check-outs enable the customer to personally read the EAN code of all selected articles after filling the trolley, enter any discounts and bonuses, and independently complete the shopping by paying for the goods, selecting also the desired mode of payment. First reactions of customers using the new method are extremely positive; on average, 15 % to 17 % of shopping is completed on these check-outs, in some hypermarkets even more.

LOGISTICS

In the field of logistics, we continued to provide quality logistics services for all consumers in the first half of 2007. Implementation of four strategic projects for improving competitiveness also included further execution of logistics infrastructure optimization project; the following activities were among the major ones in this period:

- Integration and consolidation of warehouses:
 - moving logistics activity from Postojna to the new location in Novo Celje;
 - providing additional warehousing capacity and their furnishing at the location Novo Celje;
 - changing the activity of the Levec warehouse to C&C;
 - additional equipment was installed in other warehouses in order to facilitate work and improve the warehouse throughput.

- Transport route planning support program RPS – the program was introduced in the warehouses Slovenčeva and Ptuj, refrigerated warehouse Zalog, and frozen goods warehouse Naklo. Furthermore, IT support enabling paperless commissioning and exit control of goods by weighing was introduced in the warehouses Slovenčeva and Ptuj, refrigerated warehouse Zalog, and frozen goods warehouse Naklo. Such system is the

base for elimination of acceptance control in retail. Simultaneously, intensive education and training of key users and preparation of starting conditions for the implementation of G.O.L.D. in the Nova Gorica warehouse is under way.

- Activities for the construction of Mercator Logistics Center (MLC):
 - we are currently negotiating with the Domžale municipality on the arrangement of sanitary and other facilities at the land lot in Želodnik where geo-mechanical surveys have already been conducted;
 - new studies were obtained and are being carefully examined in order to select the most favorable and suitable engineering service provider.

- Logistics in foreign markets – activities are oriented towards unification of logistics activities of the Mercator Group. In Croatia, logistics activities are taking place at two locations: in Velika Gorica and Karlovac. In Bosnia and Herzegovina, logistics activities are carried out at the rented warehouse in Sarajevo. In companies Mercator – S, d.o.o., and M – Rodić, d.o.o., in Serbia, operations in warehouses that were acquired from the company M – Rodić, d.o.o., are currently being consolidated and optimized.

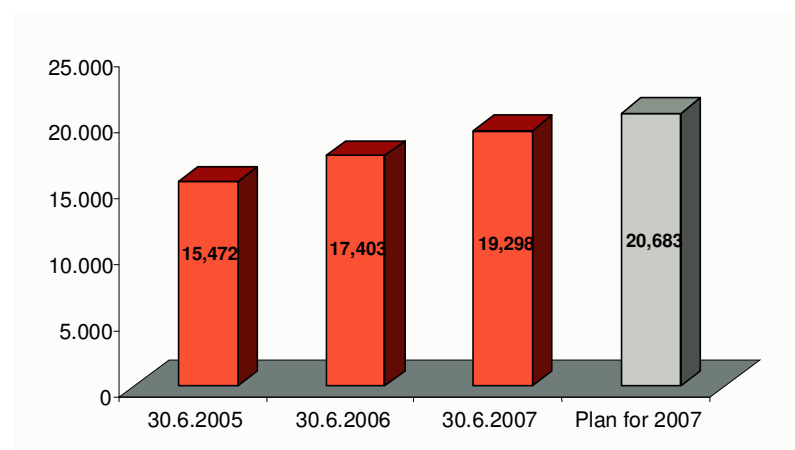
HUMAN RESOURCES

In the first half of 2007 we:

- received the basic certificate of a Family-Friendly Company,
- defined authorities for key management and expert employees,
- carried out negotiations with the trade unions on the new collective labor agreement of the Poslovni sistem Mercator, d.d., Ljubljana.

Number of employees

At the end of the first half of 2007, Mercator Group employed 19,298 employees, of which 30.7 % were employed in foreign markets. The company Poslovni sistem Mercator, d.d., employed 12,723 people or 65.9 % of all employees of the Mercator Group. Compared to the end of 2006, the number of employees in the Group dropped by 1.2 %, mostly as a result of human resource optimization in the parent company.



Despite this drop, our company remains the largest employer in the region. In the first half of 2007 we were recruiting new employees for Mercator Centers (already opened shopping center M - Rodić in Belgrade and planned openings of MC Rijeka, MC Zagreb III, and MC Novi Sad), for the extended MC Ljubljana, and for smaller retail units.

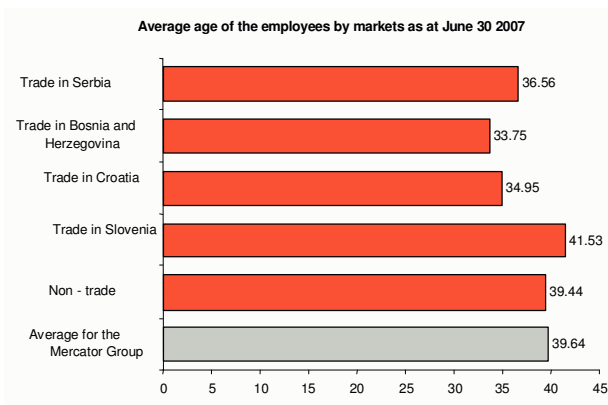
Number of employees by companies of the Mercator Group:

	No. of employees based as at 31 December 2006	No. of employees based as at 30 June 2007	Planned no. of employees based as at 31 December 2007	Plan realisation of no. of employees based as at 30 June 2007 (in %)	No. of employees based on hours worked in 1 - 6 2007
Poslovni sistem Mercator, d.d.	12,957	12,723	13,079	97.28	12,080
Trade in Slovenia	12,957	12,723	13,079	97.28	12,080
Mercator - H, d.o.o.	2,484	2,458	2,547	96.51	2,253
Mercator - S, d.o.o.	512	464	751	61.78	452
M - Rodić, d.o.o.	2,300	2,398	2,988	80.25	2,432
Mercator - BH, d.o.o.	596	596	628	94.90	570
Mercator Makedonija, d.o.o.	0	0	0	0.00	0
Trade abroad	5,892	5,916	6,914	85.57	5,706
Total trade	18,849	18,639	19,993	93.23	17,786
Pekarna Grosuplje, d.d.	246	243	248	97.98	247
Belpana, d.o.o.	0	0	0	0.00	0
Eta, d.d.	235	225	225	100.00	214
Mercator - Emba, d.d.	121	121	125	96.80	119
Mercator - Optima, d.o.o.	37	21	41	51.22	21
M Hotel, d.o.o.	51	49	51	96.08	49
Total non - trade	690	659	690	95.51	650
Total Mercator Group	19,539	19,298	20,683	93.30	18,436

Average age of the employees in the Mercator Group is 39.6 years; 71.5 % of all employees are female. In the company Poslovni sistem Mercator, d.d., average age of the employees amounts to 41.5 years, and the share of women is 84.9 %.

Staff turnover

In the first half of 2007, staff turnover in Mercator Group amounts to 6.0 % and rose by 1.5 percentage point compared to the first half of 2006. Highest rates were recorded in Serbia (11.1 %), Croatia (8.8 %), non-trade activity (6.4 %), and Bosnia and Herzegovina (6.7 %). Staff turnover was lowest in trade activity in Slovenia, amounting to 4.2 %.



1,000 workers were newly employed in the Mercator Group, of which 308 were employed in the company Poslovni sistem Mercator, d.d. 1,241 employees left the Group, of which 558 were from the parent company.

Composition by education and type of work

Average education level is increasing every year. In the Mercator Group, most of the employees – 15,971 (or 82.8 % of all employees) had completed 4th or 5th level of education by the end of the first half of 2007. The first education group (1st to 3rd level of education) accounted for 2,031

employees (or 10.5 % of all employees), while the third group (6th level and above) included 1,296 employees (or 6.7 % of all employees).

In the company Poslovni sistem Mercator, d.d., there were 1,146 (or 9.0 %) employees in the first group, 10,785 or 84.8 % in the second, and 792 or 6.2 % in the third.

80.4 % of all employees were sales personnel, warehouse operators, and other operative workers. Management (operative, middle, and top) included 8.5 % of employees, and support functions accounted for 11.1 % of employees (of which 5.7 % were experts and 5.4 % were administration employees).

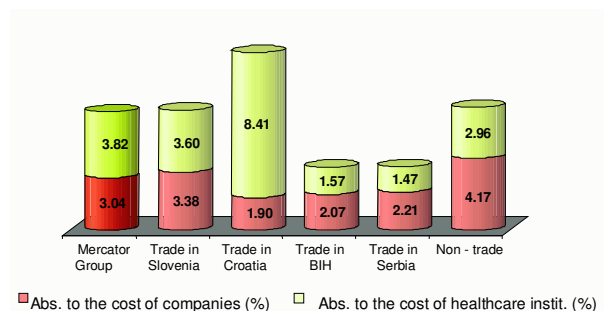
Employment of the disabled

Mercator employs 915 disabled persons; 872 of them are employed in the parent company. The share of disabled employees in the parent company amounts to 6.9 %, which is 4.9 % above the quota stipulated by the disabled persons employment system for trade industry (2.0 %).

Absenteeism

In the first half of 2007, total level of sick leave absenteeism in the Mercator Group amounted to 6.8 %, of which 3.0 % was to the cost of companies and 3.8 % was to the cost of healthcare institutions. Sick leaves of all employees combined amounted to 1,320,151 hours, of which 584,336 hours were to the cost of companies and 735,815 hours were to the cost of healthcare institutions.

In the company Mercator, d.d., sick leaves of all employees amounted to 914,606 hours.



In the Mercator Group, 627 female employees asserted their right to maternity leave, and 62 male employees took paternity leaves in the first half of 2007.

On May 14th 2007, Mercator won the **basic certificate of Family-Friendly Company** for thoughtfulness for family affairs of its employees. The project is organized by the Development Partnership for Young Mothers / Family-Friendly Employment.

ORGANIZATION AND QUALITY OF OPERATIONS

In the period 1 – 6 2007, activities related to organization and quality of operations were focused on the development of organizational structures, rationalization of business processes and standards of operation, and prevention of any discrepancies:

- We unified the organization of trade companies in foreign markets. We introduced new standards for determining the minimum and correction number of service providers for business units and entered any changes into the register of organizational units, keeping it

up to date at all times. We also took part in the revision of the compensation system and updating of the work post catalogue. We are actively involved in the maintenance of the document collection on Mercator Standards.

- We carried out external assessments of the ISO 9001 quality management system in the companies Poslovni sistem Mercator, d.d., and Mercator – H, d.o.o. Spring and summer part of the internal assessment were also conducted. Based on the findings, corrective measures were initiated. We developed an application for electronic management of councils that is being implemented as a pilot for the council of the Management Board.
- We conducted internal controls in business units, coordinated inspection examinations and goods withdrawal, and carried out training. We took part in the finalization of the Guidelines of Sound Hygienic Practice based on the principles of the HACCP system in fresh meat and fish departments, which took place within Ministry of Economy of the Republic of Slovenia, and the Slovenian Chamber of Commerce, and implemented these guidelines in our own internal control system. We also complied Rules and Regulations on Sound Hygienic Practice based on the HACCP principles in catering, along with all pertaining documentation.

In the period 1 – 6 2007, performance of the **strategic project of general operations optimization** of the Mercator Group included improvement of efficiency and reduction of operating costs:

- We completed the development and introduction of tools for more accurate planning of flexible work time allocation in retail outlets, automatic generation of orders in retail outlets and in procurement department, and introduction of warehouse management system and transport route planning system.
- Upon changing the organization of work and transition to the new SAP IT solutions we optimized the processes in the field of centralized procurement, non-trade goods, and services.

INFORMATION TECHNOLOGY

Consistently with the strategic project of redesigning the IT system, activities were carried out in the first half of 2007 in the following key areas:

- In the field of support functions, we started to employ as of January 1st 2007 the IT solution SAP. At the same time, we carried out the transition to euro. New software solution has been introduced in all planned segments.
- We adopted the decision to introduce SAP solutions in the field of human resource and investment management.
- Within the material operation project we completed in the first half of the year the project business model and thus defined the functional requirements for the implementation of the software solution G.O.L.D. Also prepared is the implementation time schedule for the entire material operation, including central management, retail, wholesale, logistics, and supply chain management. According to the plan, the software

solution G.O.L.D. will have been implemented and put into operation by December 2009, in all trade companies of the Mercator Group.

- We completed the work on the operative project team "Central retail management" (compiling reports, user training, etc.).
- In the company Mercator – H, d.o.o., pilot system for automatic ordering of goods in outlets was implemented.
- We additionally included 20 new suppliers into the computer data exchange system (total count of participating suppliers now amounts to 191).
- In the company M - Rodić, d.o.o., we continued the harmonization of IT support for retail and wholesale in compliance with the standards of support to the companies of the Mercator Group in new markets.

FINANCIAL OPERATIONS

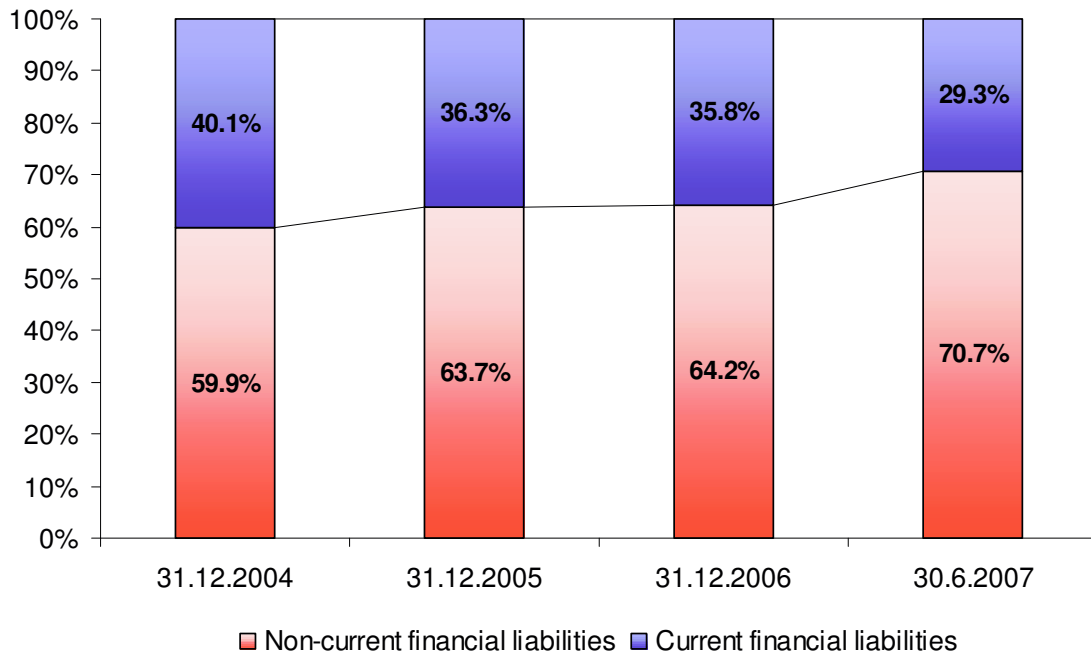
Financial liabilities, including liabilities from financial lease, fell by 5.6 % in the Mercator Group in the first half of 2007 compared to the end of 2006; this is primarily the result of revised policy of current liability management in 2007.

As at June 30th 2007, the Mercator Group reached the capitalization ratio of 1 : 1.13 (this ratio was 1 : 1.21 at the end of the year 2006) between share capital which includes balance sheet share capital and provisions for other liabilities and charges, and debt capital which includes non-current and current financial liabilities and non-current liabilities from financial lease.

As at June 30th 2007, the long- term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 87.3 %, which is an improvement compared to the end of 2006, when the coverage was 85.7 %.

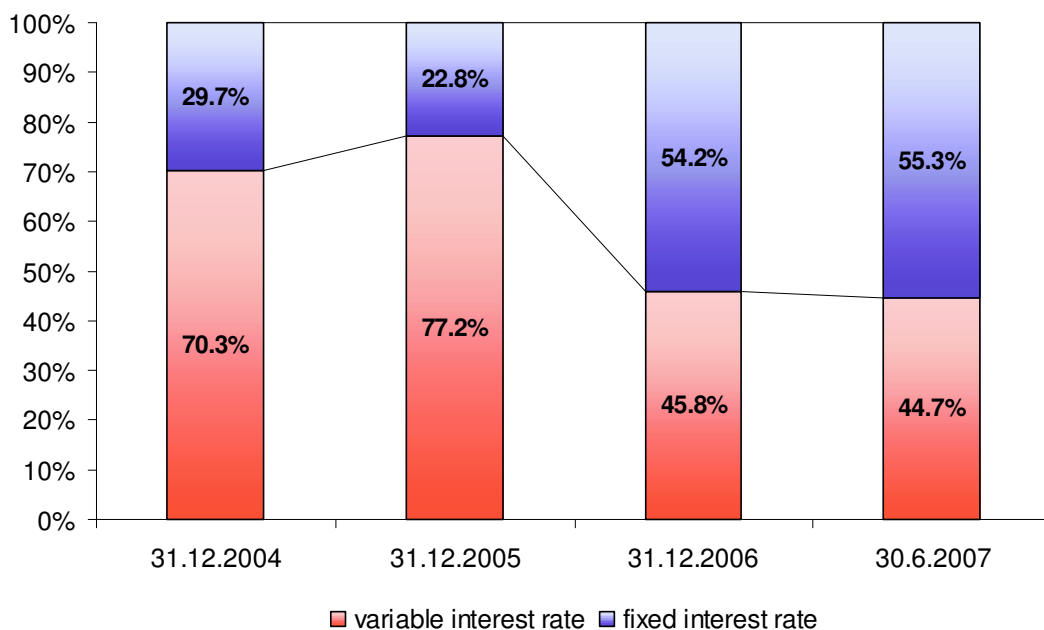
The share of non-current financial liabilities in total financial liabilities as at June 30th 2007 amounted to 70.7 %, while current financial liabilities represented the remaining 29.3 %; this indicates a slight increase in the share of non-current financial liabilities in total financial liabilities, compared to the end of 2006.

Ratio between current and non-current financial liabilities of the Mercator Group



In the recent years, the company mostly signed agreements with variable interest rate, while borrowing at fixed interest rate, particularly with current financial liabilities. As the last year and a half has seen a considerable growth in variable interest rates, we protected a part of Mercator's financing liability portfolio already in 2006, in the sum of EUR 350 million, by employing interest rate swaps and free interest rate collars.

Ratio between variable and fixed or. hedged financial liabilities of the Mercator Group



In the period 1 – 6 2007, Mercator granted both long-term and short-term bilateral loans for financing new investment activities, as well as for refinancing the existing sources. During this period, we also signed three agreements on financial lease for the facilities of MC Rijeka, MC Pobrežje, and TC Nove Jarše, in the total value of EUR 34.2 million.

SHAREHOLDER RELATIONS

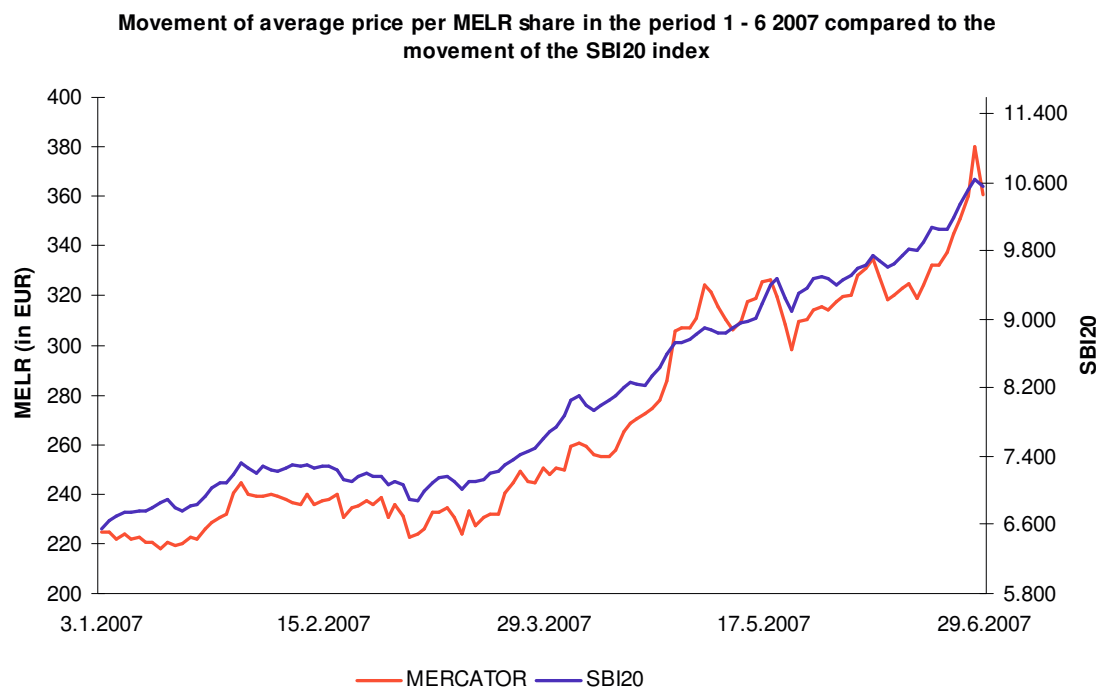
Key Information for the Shareholders

Shareholder information	30.6.2007
Number of shares registered in Court Register	3.765.361
Market capitalization (in EUR)	1.358.994.092
Market value per share (in EUR)	360.92
Book value per share (in EUR)	168.70
Annual low (in EUR)	217.82
Annual high (in EUR)	379.75
Weighted average market price, excluding block and cross traders (in EUR)	267.79
Earnings per share (in EUR)	4.36

Mercator Share

Share capital of the company Poslovni sistem Mercator, d.d., as at June 30th, was divided into 3,765,361 shares. They are listed on the prime market of the Ljubljana Stock Exchange, d.d., under the trading code MELR.

The following chart shows the movement of average price per MELR share in the period 1 – 6 2007, compared to the movement of the SBI20 index:



Dividend Policy

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

Treasury shares

In the period 1 – 6 2007, the company Poslovni sistem Mercator, d.d., did not acquire or dispose of own shares. As at June 30th 2007, the company Poslovni sistem Mercator, d.d., held 63,906 treasury shares, with their value amounting to EUR 4,900 thousand.

RISK MANAGEMENT

In compliance with the Rules and Regulations on Risk Management in the Mercator Group, the company carried on with its risk management process in 2007. By systematic monitoring, analysis, and control of risks, we perceive effectively the critical factors that may occur or that occur in all process of company operations, particularly in the critical ones.

In Mercator, the risks that are monitored and controlled are classified into three groups: business risks, financial risks, and operational risks; the established register of risks is supplemented as required, and the exposure to individual types of risks is continuously evaluated.

The analysis includes all programs and markets of Mercator's operations, since the documentation of the Risk Management Council of the Mercator Group for the year 2007 will also be the basis for preparing a new medium-term economic plan of the Mercator Group.

Compared to the end of 2006, exposure of the Mercator Group to critical risks did not change considerably in the period 1 – 6 2007.

ENVIRONMENT PROTECTION ACTIVITIES

Consistently with the relevant legislation, activities of Mercator Group's trade companies are oriented towards continuous reduction of harmful effects on the environment, and towards prevention of pollution. Among the activities of reducing the usage of raw materials and energy, the following ones were of key importance in the first half of 2007:

- ▶ The collective scheme of the company Zeos for handling waste electrical and electronic equipment, which Mercator previously agreed to join, was formally launched. Furthermore, we are in the process of negotiating the agreement on the services of handling the waste electrical and electronic equipment related to the services of collection, transport, and temporary storage of waste electrical and electronic equipment in the company Poslovni sistem Mercator, d.d.
- ▶ We introduced a new harmonized method of organic waste treatment in approximately 300 locations where such waste is generated. This type of waste includes side products in meat processing, waste cooking oil and fats, kitchen waste, and waste fruit and vegetables.
- ▶ With the aid of SAP information technology, we compiled records of all service providers in the field of environment protection and energy management; data on quantities of raw materials and fuels are not available yet.
- ▶ Based on the agreement with the new power suppliers GEN-i, d.o.o., the supplier is submitting us monthly records of power consumption by individual power-consuming locations. Thus, we established centralized control over power consumption by particular locations.
- ▶ The company is also collecting data on types of fuels employed for heating the facilities and on technical characteristics of power-consuming locations (type of fuel, power suppliers, fuel storage, and nominal heating power).
- ▶ Based on conducted analyses and data on power consumption in 2006 submitted by the power supply companies, a report was compiled titled "Proposals for Reduction of Investment and Operational Costs of Electricity"; the report includes three proposals for reduction of power costs, as follows:
 - reporting the optimum input power upon connecting an individual facility to the power network;
 - compensation of idle power by installing compensation devices;
 - classification of respective consumption locations into appropriate power demand groups upon construction of new facilities, or changing the power demand classification for existing facilities (to TP collectors or medium voltage).
- ▶ Investment study for the trade center Šentjernej was confirmed; the study includes an investment into wooden biomass boiler plant which was prepared based on an internal feasibility study of wooden biomass heating.
- ▶ In collaboration with the company Procter&Gamble, d.o.o., and Slopak, company for the handling of waste packaging, we prepared a sponsorship campaign called "Ločujmo, varčujmo!" (Separate and Save). We succeeded in attaining the purpose of the campaign, which was to raise the consciousness of the public on the importance of separate collection of waste at the source and at the same time provide to the children from 60

selected Slovenian primary schools with facilities required to start separating waste packaging in their respective schools.

- ▶ We also contacted Slovenian Power Plant Holding Company and discussed the possibility of cooperation in a development-oriented pan-Slovenian campaign called Energija.si (Energy.si). The philosophy of the brand Energy.si is to connect and promote cooperation between various partners in order to encourage efficient use of energy.
- ▶ In order to educate our employees, the monthly internal magazine started publishing the series of popular articles dealing with the protection of environment and safe consumption of energy.

SOCIALLY ACCOUNTABLE ACTION

Integration into the social environment

Socially accountable action of the Mercator Group in all markets was consistent with the adopted strategy and concept that place Mercator among the major socially accountable companies in the region. Mercator is a notable sponsor and donator in all environments of its presence, and in all areas where our help is needed: humanitarian aid, culture, education, sports, etc.

SLOVENIA

- In Mercator centers, tolar coins were collected to support four humanitarian organizations and their activities. Mercator sponsored the Humanitarian Institute Vid (Vision), as well as organizations offering aid to women and children in distress, and the so-called safe houses.
- Among Mercator's major donations in the beginning of 2007 were the donations to the Postojna Hospital for Women Conditions, Ljubljana Rehabilitation Institute, and Clinical Department of Anesthesiology and Surgical Intensive Therapy.
- Among sponsorships in the field of science we supported the University of Ljubljana, Faculty of Arts of the University of Ljubljana and Faculty of Economics of the University of Ljubljana (preparation of the EFA – European Financial Association- International Conference); Mercator is also the co-founder of the Research and Innovation Institute of University of Ljubljana.
- In the field of culture, Cankarjev Dom and National University Library were the two major recipient of Mercator's sponsorship funds in the first half of 2007; we also supported the institute 'Plavajoče Gledališče' (Swimming Theatre), the Prešeren Theatre, organization of Borštnik Meeting, an exhibition in the National Gallery, and the International Biennial of Graphic Arts.
- With regard to sports, Mercator remains loyal to handball by sponsoring the National Handball Association, as well as numerous local sport clubs and projects in the field of basketball, football, and swimming; Mercator is also the traditional sponsor of the Alpe Adria (Alps & Adriatic) bicycle race and the Franja marathon.
- Among interesting projects Mercator importantly contributed to the activities called 'Z glavo na zabavo' (Think and Party), an incentive for healthy fun and party without harmful substances, as well as the aforementioned activity "Ločujmo, varujmo!" ('Separate and Protect!') which teaches the young generation to handle waste responsibly. We also

contributed to the campaign of the Slovenian Association of Friends of Youth which involved taking 200 children to holiday. Each year, Mercator provides funds for summer activities of pre-school children.

CROATIA

- The company Mercator - H, d.o.o., sponsored a children masquerade carnival and the graduation parade, Athlete of the Year pageant, and donated funds for the dental prevention care program in kindergartens.
- Our company was the sponsor of the Center for Raising and Education of Children and Youngsters, Association of Dystrophy Patients and Patients Suffering from Cerebral Palsy and Poliomyelitis (Infantile Paralysis), and the Sports Association of Blind People.

SERBIA

- The company Mercator - S, d.o.o., carried on its donation activities by donating funds for the visual arts workshop "Praise the hand" for children with the Down syndrome, as well as sponsored the Institute for Mothers and Children from New Belgrade and provided aid to the Center for Promotion of the Works of Nikola Tesla.

BOSNIA AND HERZEGOVINA

- The company Mercator - BH, d.o.o., sponsored the members of the Karate Association of BH, the European vice champions, who are very successful in top level competitions both at home and abroad; the company also sponsored the Željezničar Table Tennis Club and the Tuzla bicycle race.
- In Mercator centers we organized the promotion of healthy food, and we also organized public measuring of blood pressure and provided advice to the visitors with regard to the prevention of hypertension.
- We donated funds to the Association "Education is Building BH" which provides holidays for children, as well as to Ljubica Ivezić Children's Shelter from Bjelava and Tuzla Shelter for Homeless Children.

Communication with Customers

- In the period 1 – 6 2007 we carried on the development of the monthly magazine Mesec ('Month') in Slovenia and in Croatia. The copies 'Mesec April' and 'Mesec June' were issued. We also prepared the monthly electronic version of the magazine, called 'eMesec'. (<http://mesec.mercator.si>). The magazine Mesec contains news regarding different events, latest news and presentations of products from the Mercator outlets, as well as useful and interesting tips for improving the quality of life.
- In the middle of February, we presented for the second time in a row the Best Sales Person Award. Over 15,000 voting cards were submitted by customers from Slovenia, Croatia, and Bosnia and Herzegovina, giving awards to 14 saleswomen and salesmen.
- In the first months of this year, we enhanced the monthly event paper **The Event Roundabout** that we started publishing at the end of 2006. The purpose of the paper is to provide to our customers more than merely information on events and other features in Mercator centers; hence, it also includes categories such as Do Not Miss, Mercator News,

Roundabout Advice, Interview, Roundabout Entertainment, Column, Roundabout Pulse, and many other interesting features.

Communication with employees

Our human resource strategy was pursued consistently with the relevant plan. We devoted attention primarily to the following activities:

1. Career planning of key and promising employees:

- We defined the competencies of the company, separately for experts and managers, which our key employees should have in order to perform successfully and efficiently. We selected 25 most promising young employees from all markets of our operations. They will be included in the first Mercator Business Academy which will commence at the end of 2007. We prepared a proposal for systemization with parallel work posts for expert and management staff.

2. Dialogue with the employees at all levels (internal communication):

- This year, managers conducted for the first time annual discussions with employees at all levels and markets of the Mercator Group. Managers discussed the attainment of operative goals with expert staff, and any beneficial proposals on improvement of work process, work conditions, and employee satisfaction, with the operative employees.
- Mercator internal magazine was launched in all markets in local languages. The internal magazine has a chief editor and four copy editors and it seeks to adapt to the interest of the employees in respective countries. Approximately 20 % of the contents are devoted to topics, and the remaining 80 % are local issues.
- In Mercator, d.d., intensive negotiations took place with the representative trade unions on the new company collective labor agreement that will presumably be signed in the beginning of September. As early as on April 3rd 2007, an agreement was signed on reimbursement of costs for meals during work and transport costs according to the Collective Labor Agreement of the Slovenian Trade Industry. We hold regular monthly meetings with the two trade unions, where we discuss current affairs.

3. Internal and external staff recruitment:

- In the beginning of the year, we adopted the internal staff recruitment system which promotes the fundamental idea that department heads enable transfers of successful employees in line with human resource requirements. Thus, we are making an effort to keep successful employees and enable their personal and professional development.
- A lot of attention was also paid to staff recruitment when opening major retail units in Croatia, Serbia, and Slovenia.
- We are seeking new ways of recruiting staff through websites and Employment Offices. We enhanced the design and contents of our employment advertisements, prepared special flyers for human resource advertising in our major retail units, and examined the possibilities of employing citizens from foreign, non-European countries for work at the warehouses.

4. Transfer of knowledge and experience:

- In the first half of 2007, 14,381 employees took part in education programs in the Mercator Group. 325 employees were paid off-the-job education, 541 high-school and university students were admitted to practical work, 67 interns were included in the internship program, scholarships were provided for 24 high-school and college students, and 6 apprentices were trained.
- We revised the training program for safety at work, launched the human resource academy for all human resource employees, and prepared program proposals for School for Operating Officers and Business Academy. We started to develop a coaching network in all markets of Mercator's operations in order to improve the efficiency and quality of the transfer of knowledge to sales employees.
- We work closely with vocational high schools offering programs in trading and commerce: we are present at their presentation events and open-door days, we organized open-door days for over one hundred freshmen students at our retail units, and prepared a meeting with the headmasters of vocational high schools offering programs in trading and commerce to improve our mutual cooperation.
- We started to compile an e-booklet with a list of all Mercator books, graduation papers and master thesis related to Mercator.

5. Compensation and motivation:

- In the parent company, 806 employees were promoted within the project Promotion 2007; celebrations were prepared for these employees, thus conveying public recognition of their successful service; a total of 1,524 employees were promoted in the entire Group in the first half of 2007.
- Project and annual awards for successful work in 2006 were presented to 542 employees of the Mercator Group. 15 employees who stand out exceptionally with their efforts and results were presented special Mercator prizes and the 'Mercatoriada' event.
- Employees in posts from the level of project head upwards are no longer required to record their working hours. This implies confidence that their work will be carried out even without control over their work time. Simultaneously, it means greater freedom at work.
- President of the Management Board motivated employees in retail for successful introduction of euro by special messages, and conveyed his gratitude at the end of this period.

6. Inter-cultural organizational development:

- On June 9th 2007, 23 thousand employees and their family members took part in the Mercator Day – the traditional festivity of employees of the Mercator Group. Apart from daytrips and sports activities, employees and their families were entertained by musicians from all countries of Mercator's operations.
- We prepared a proposal of the Rules of Procedure for international managers and experts. These Rules of Procedure are expected to improve the transparency of performing the work and particular tasks in international markets, and to harmonize the procedures of selection, work methods, preparations, and required knowledge and experience.
- We studied the characteristics of national cultures in Slovenia, Croatia, Bosnia and Herzegovina, and Serbia in order to improve cultural sensibility, transfer of organizational

culture, and consequentially to improve our understanding of conduct and communication in these markets.

- To improve the atmosphere among our employees in expert services, the so-called comfortable Fridays were introduced when the dress code at work is more casual.

7. Safety and health of our employees:

- Labor agreements with 58 disabled employees were cancelled for business reasons, with the mediation of the National Committee. After the end of notice period, they will be transferred to the National Employment Office; until their retirement, they will be paid compensation by the Pension and Disability Insurance Institute.
- We prepared human resource and legal starting points for founding of a Mercator sheltered workshop (an enterprise employing persons with disabilities). In May 2007, we received the basic certificate of a Family-Friendly Company.
- Through the Humanitarian Fund, we offered aid to 41 employees, allocating EUR 39,548. Employees were paid out 175 solidarity aids in the total sum of EUR 143,934, and 8 solidarity scholarships were granted in the total sum of EUR 5,481.

Communication with shareholders and financial community

In 2007, we continue to pursue the policy of prompt, transparent, and professional communication with the shareholders and financial community. In February 2007 the management published the non-audited financial statements of the company and the Group for the year 2006 in the electronic information and dissemination system SEOnet. Likewise, via the SEOnet the shareholders and financial community were kept informed in regard to all major business events and issues.

At the end of March 2007, Mercator organized the 7th traditional meeting of financial partners of the Mercator Group. The participants were presented the business results for the previous year and business plans and financial policy for the year 2007.

On April 11th we took part in the Day of Slovenian Capital Market in Ljubljana, organized by Ljubljana Stock Exchange, d.d., and the Central Securities Clearing Corporation, d.d. Domestic and International portfolio investors were presented the performance in the previous year and our plans for the future. We also took part in the Day of Slovenian Capital Market for Croatian institutional investors, which took place in Zagreb on June 12th under the sponsorship of the Ljubljana Stock Exchange.

Communication with business partners

- On February 14th 2007, Mercator prepared for the eighth year in a row the Mercator **Marketing Days**, a traditional meeting of the company management with the major suppliers and partners from Slovenia, Croatia, Serbia and Bosnia and Herzegovina. Over four hundred participants of this year's meetings gathered in Cankarjev dom where they were presented the development strategy of the Mercator Group for the current year.

TRADING COMPANIES ABROAD

Mercator – H, d.o.o.

On July 18th 2007, the companies Mercator – H, d.o.o., and Poslovni sistem Mercator, d.d., entered the strategic alliance based on the agreement on the purchase of majority interest in the Croatian trade company Presoflex, d.o.o., signed by the said partners on May 21st 2007. As a result, Mercator acquired 44 retail facilities and 38,934 m² of sales area. Company investments in the first half of 2007 were oriented primarily towards construction of new retail units such as Intersport Šibenik, supermarket in the Importanne Gallery in Zagreb, MC Zagreb III, and MC Rijeka, which will be opened in August, September, and October 2007, respectively. Number of Mercator Pika card holders increased in the first half of 2007 to 144,276, or by 15 %.

Mercator – S, d.o.o.

In the first half of 2007, the company Mercator – S, d.o.o., worked with the company M - Rodić, d.o.o., to integrate the expert services; thus, the two companies signed an agreement on business cooperation. Integration of expert services was carried out in order to promote and accelerate the attainment of business objectives and to improve the efficiency of both companies' operations. The company Mercator - S, d.o.o., signed an agreement with the M Centar Group on a joint venture construction of Mercator center Niš and trade center Kragujevac. Company investment activities were oriented towards the construction of the Mercator center Novi Sad, which was opened on August 23rd 2007. Number of Mercator Pika card holders rose in the first half of the year by 18 % to 60,710.

M – Rodić, d.o.o.

In the first half of 2007, the companies M - Rodić, d.o.o., and Mercator – S, d.o.o., carried out the integration of expert services and reorganized administrative activities in order to optimize the operations. On June 29th 2007, the new trade center M - Rodić was opened in New Belgrade; this facility includes a Rodić Megamarket, retail outlets of the company Mercator – S, d.o.o. (Intersport, Modiana, and Beautique), and other outlets leased out. Facility investor is Rodić MB Invest, d.o.o., while the companies M - Rodić, d.o.o., and Mercator – S, d.o.o. hold long-term rental contracts for its trade facilities.

Mercator – BH, d.o.o.

In the first half of 2007, the company signed a letter of intent with the Distrikt Brčko on the construction of Mercator center Brčko. On July 11th 2007, the company Mercator – BH, d.o.o., signed an agreement with the company Euro Best - M, d.o.o., Kakanj, on the purchase of a retail facility in Kakanj. On July 16th, this facility started its operation as trade center Kakanj; it

includes a hypermarket, café, and a restaurant. Number of Mercator Pika card holders rose by 12 % in the first half of 2007, to amount to 65,678.

NON-TRADE COMPANIES

Pekarna Grosuplje, d.d. (Grosuplje bakery)

In the first half of 2007, the company retained a high volume of own production and total sales, as sales rose with the majority of the customers. Such development is particularly favorable in view of the company's planned reduction of sales to the company Spar, as the latter is constructing its own bakery. Increasingly stringent sales terms had a negative effect on operations. Investments were oriented towards manufacturing equipment, in particular two chambers for deep freezing, state-of-the-art line for separation and shaping of very tender dough, and metal detectors at key points in the production process. Activities for merging the company with the parent company are under way.

Eta, d.d.

In the first half of 2007, the company made profit, with sales improving in the domestic market and imports rising to amount to one fifth of total company sales. The key reasons for improvements in business performance compared to 2006 are appropriate allocation of product assortment and selection of customers, harmonization of input and output prices, and consistent cost control. In 2007, the company successfully underwent restructuring and rationalization of operations. It also carried on the project of acquiring its own fresh water well, and examined the possibilities of more efficient power supply and reduction of environmental protection expenditure. Activities for identifying an appropriate strategic partner for the company are also under way.

Mercator – Emba, d.d.

Changes in sales terms in Slovenian market had a negative effect on company operations in the first half of 2007. Physical sales volume in Slovenian market in the period at hand fell by 10 % compared to the same period last year, while sales to foreign markets dropped by 5 %. The company also commenced activities for transferring its operations to the new location in Logatec, which involves drawing plans for the new production plant and other activities of acquiring relevant permits for carrying out the company operations. Company investment was mostly allocated to new manufacturing equipment. By the end of 2007, the company is planned to be divided into real estate and business part. In July 2007, procedures were launched for squeezing out the minority interest holders in compliance with Article 384 of the Companies Act-1. In the future, activities of identifying an appropriate strategic partner for the business part of the company are expected to continue.

Mercator – Optima, d.d.

In the first half of 2007, the company carried out reorganization of operations, which involved transferring a part of its activities to the parent company Poslovni sistem Mercator, d.d. In this

period, the company was involved in all projects of the Mercator Group, which means it took part in the construction of all newly opened and refurbished sales facilities in all markets of Mercator's operations. Since reorganization, the company only performs the activities of planning and project engineering.

M Hotel, d.o.o.

The company reinforced its position in the market for business guests, attaining approximately 60 % of all customers. Revenues of the company are lower than in the same period last year, which is the result of the disposal of the hotel Bor (in May 2007) and Planinka (in November 2006). Company investment in the first half of 2007 was allocated predominantly to maintenance and refurbishment of hotel rooms. Activities for identifying an appropriate strategic partner for the company are in progress.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1 – 6 2007, were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

In the preparation of financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., the same accounting policies were applied as in the most recent Annual Report 2006.

Data for the comparable period 1 – 6 2006 in the following financial statements are translated from tolar to euros according to closing exchange rate EUR/SIT as at the balance sheet date.

CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 11 subsidiaries, in which the controlling company holds directly or indirectly a majority interest. These subsidiaries are the following:

- **in Slovenia:** Eta, d.d., Pekarna Grosuplje, d.d., Mercator – Emba, d.d., Mercator – Optima, d.o.o., M Hotel, d.o.o.
- **abroad:** Mercator – H, d.o.o., Croatia, Belpana, d.o.o., Croatia, Mercator – S, d.o.o., Serbia, M – Rodić, d.o.o., Serbia, Mercator – BH, d.o.o., Bosnia and Herzegovina, Mercator Makedonija, d.o.o., Macedonia.

Consolidated Income Statement

in EUR 000

	Type of revenue / expense / cost	1 - 6 2006	Plan 2007	1 - 6 2007	Index 1 - 6 2007 / 1 - 6 2006	Index 1 - 6 2007 / Plan 2007
A.	NET SALES REVENUES	938,952	2,338,722	1,121,381	119.4	47.9
1.	Revenue from products sold	13,131	29,225	14,820	112.9	50.7
2.	Revenue from services sold	56,469	160,111	79,381	140.6	49.6
3.	Revenue from goods and material sold	869,352	2,149,386	1,027,180	118.2	47.8
B.	COST OF GOODS SOLD	-675,170	-1,714,619	-818,346	121.2	47.7
1.	Production costs	-20,959	-44,343	-22,841	109.0	51.5
2.	Purchase value of goods and material sold	-662,968	-1,677,969	-798,886	120.5	47.6
3.	Received discounts	10,347	8,743	3,814	36.9	43.6
4.	Other expenses	-1,590	-1,050	-433	27.2	41.2
C.	GROSS PROFIT	263,782	624,103	303,035	114.9	48.6
D.	Selling and marketing costs	-190,039	-435,242	-214,917	113.1	49.4
E.	Administrative expenses	-47,590	-115,650	-51,772	108.8	44.8
F.	Other gains - net	5,862	8,252	5,964	101.7	72.3
G.	OPERATING PROFIT	32,015	81,463	42,310	132.2	51.9
H.	Finance income	6,635	6,070	5,313	80.1	87.5
I.	Finance costs	-15,596	-43,736	-20,595	132.1	47.1
J.	PROFIT BEFORE INCOME TAX	23,054	43,798	27,028	117.2	61.7
K.	Income tax expense	-6,622	-12,705	-4,981	75.2	39.2
L.	Deferred income tax	480	-657	-741	-	112.9
M.	PROFIT FOR THE FINANCIAL PERIOD	16,912	30,436	21,306	126.0	70.0
N.	Profit attributable to equity holders of the Company	16,689	29,352	20,751	124.3	70.7
O.	Profit attributable to minority interest	223	1,084	555	248.7	51.2
P.	GROSS CASH FLOW FROM OPERATING ACTIVITIES	62,355	153,093	78,132	125.3	51.0
R.	Number of employees based on hours worked	16,449	19,363	18,436	112.1	95.2

Consolidated Balance Sheet

in EUR 000

	Type of assets / liabilities	31.12.2006	Plan 31.12.2007	30.6.2007	Structure 30.6.2007	Index 30.6.2007/3 1.12.2006
	ASSETS					
A.	NON-CURRENT ASSETS	1,418,675	1,510,712	1,423,248	75.3%	100.3
I.	Property, plant and equipment	1,303,811	1,404,411	1,310,234	69.3%	100.5
II.	Investment property	13,094	13,094	12,795	0.7%	97.7
III.	Intangible assets	86,678	82,636	82,107	4.3%	94.7
IV.	Deferred income tax assets	5,572	2,665	4,820	0.3%	86.5
V.	Derivative financial instruments	1,986	903	7,506	0.4%	377.9
VI.	Trade and other receivables	2,147	0	540	0.0%	25.1
VII.	Available-for-sale financial assets	5,387	7,003	5,246	0.3%	97.4
B.	CURRENT ASSETS	442,500	420,586	466,752	24.7%	105.5
I.	Inventories	225,803	219,509	235,302	12.4%	104.2
II.	Trade and other receivables	198,415	191,369	216,031	11.4%	108.9
III.	Current income tax receivables	247	0	0	0.0%	-
IV.	Cash and cash equivalents	18,035	9,708	15,419	0.8%	85.5
	TOTAL ASSETS	1,861,175	1,931,298	1,890,000	100.0%	101.5
A.	EQUITY	647,880	648,984	656,786	34.8%	101.4
	Majority interest	606,975	608,395	617,864	32.7%	101.8
I.	Ordinary shares	157,126	157,126	157,129	8.3%	100.0
II.	Share premium	193,298	193,298	193,298	10.2%	100.0
III.	Revenue reserves	143,801	145,219	193,842	10.3%	134.8
IV.	Revaluation reserve	48,537	48,537	47,299	2.5%	97.4
V.	Retained earnings	57,912	47,699	0	0.0%	-
VI.	Profit for the financial period	0	12,527	20,751	1.1%	-
VII.	Currency translation reserve	6,301	3,989	5,545	0.3%	88.0
	Minority interest	40,905	40,589	38,922	2.1%	95.2
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	567,397	635,703	586,153	31.0%	103.3
I.	Financial liabilities	515,057	586,696	535,824	28.4%	104.0
II.	Derivative financial instruments	180	0	0	0.0%	-
III.	Deferred income tax liabilities	16,211	16,514	15,817	0.8%	97.6
IV.	Retirement benefit obligations	19,045	19,470	19,019	1.0%	99.9
V.	Provisions for other liabilities and charges	16,904	13,023	15,493	0.8%	91.7
C.	CURRENT LIABILITIES	645,898	646,611	647,061	34.2%	100.2
I.	Trade and other payables	356,805	384,049	420,171	22.2%	117.8
II.	Current income tax payables	1,724	0	5,351	0.3%	310.4
III.	Financial liabilities	287,369	262,562	221,539	11.7%	77.1
	TOTAL LIABILITIES	1,213,295	1,282,314	1,233,214	65.2%	101.6
	TOTAL EQUITY AND LIABILITIES	1,861,175	1,931,298	1,890,000	100.0%	101.5
	Number of employees as at the end of the period	19,539	20,683	19,298	-	98.8

Consolidated Cash Flow Statement

in EUR 000

	Cash flows	1 - 6 2006	Plan 2007	1 - 6 2007
A	OPERATING ACTIVITIES			
	Cash generated from operations	44,189	218,393	106,850
1	Interest paid	-13,577	-43,736	-20,027
2	Income tax paid	-6,142	-12,705	-4,981
I	Net cash generated from operating activities	24,470	161,952	81,842
B	INVESTING ACTIVITIES			
1	Acquisition of subsidiaries, net of cash acquired	0	0	-2,219
2	Purchases of property, plant and equipment (PPE)	-75,549	-191,007	-50,276
3	Purchases of intangible assets	-1,219	-11,275	-536
4	Purchases of non-current investments	-1,534	0	0
5	Purchases of current investments	0	0	0
6	Loans made	-939	-204	-266
7	Proceeds from sale of PPE	7,397	12,193	5,820
8	Proceeds from sale of intangible assets	14	21	82
9	Proceeds from sale of non-current investments	0	207	155
10	Proceeds from sale of current investments	0	375	0
11	Interest received	3,807	6,033	3,950
12	Dividends received	0	0	0
13	Loan repayments received	2,345	0	4,014
II	Net cash used in investing activities	-65,678	-183,656	-39,276
C	FINANCING ACTIVITIES			
1	Proceeds from issuance of shares	20,512	0	0
2	Proceeds / repayments of borrowings	23,766	33,250	-45,063
3	Dividends paid to Company's shareholders	-8,713	-10,213	0
III	Net cash used in financing activities	35,565	23,037	-45,063
1	Increase of cash and cash equivalents	-5,643	1,333	-2,497
2	Cash at the beginning of the period	16,532	8,250	18,035
3	Currency translation differences	26	125	-119
IV	Cash at the end of the period	10,915	9,708	15,419

Consolidated Statement of Changes in Equity

in EUR 000

	Share capital		Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Currency translation reserve	Minority interest	Total
	Ordinary shares	Share premium	Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves						
Balance as at 1 January 2006	140,050	159,863	13,389	5,220	-5,220	109,329	50,263	76,658	-	-4,476	5,951	551,027
Restatement:												
Adjustment according to IAS 12	-	-	-	-	-	-	-7,666	-10,313	-	-	-	-17,979
Balance as at 1 January 2006 (Restated)	140,050	159,863	13,389	5,220	-5,220	109,329	42,597	66,346	-	-4,476	5,951	533,048
Revaluation of PP&E to fair value	-	-	-	-	-	-	3,303	-8,014	-	-	-	-4,711
Cash flow hedge net of tax	-	-	-	-	-	-	-	-18	-	-	-	-18
Currency translation differences	-	-	-	-	-	-	-	-	2,132	-	-	2,132
Income tax refund from previous year	-	-	-	-	-	-	-	2,268	-	-	-	2,268
Net income (expense) recognised directly in equity	-	-	-	-	-	-	3,303	-5,765	-	2,132	-	-330
Profit for the financial period	-	-	-	-	-	-	-	-	16,688	-	223	16,911
Total recognised income and expense in the financial period	-	-	-	-	-	-	3,303	-5,765	16,688	2,132	223	16,581
Issue of share capital	5,330	15,181	-	-	-	-	-	-	-	-	-	20,511
Registration of shares issued in 2005	4,463	-4,463	-	-	-	-	-	-	-	-	-	-
Dividend payout	-	-	-	-	-	-	-	-8,820	-	-	-	-8,820
Change in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-	52	52
Balance as at 30 June 2006	149,843	170,580	13,389	5,220	-5,220	109,329	45,900	51,761	16,688	-2,344	6,226	561,372

in EUR 000

	Share capital		Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Currency translation reserve	Minority interest	Total
	Ordinary shares	Share premium	Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves						
Balance as at 1 January 2007	157,126	193,298	13,389	4,900	-4,900	130,412	48,537	57,912	-	6,301	40,905	647,880
Revaluation of PP&E to fair value	-	-	-	-	-	-	-1,238	1,238	-	-	-	-
Cash flow hedge net of tax	-	-	-	-	-	-	-	5,700	-	-	-	5,700
Currency translation differences	-	-	-	-	-	-	-	-	-756	-	-	-756
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-1,238	6,938	-	-756	-	4,944
Profit for the financial period	-	-	-	-	-	-	-	-	20,751	-	555	21,306
Total recognised income and expense in the financial period	-	-	-	-	-	-	-1,238	6,938	20,751	-756	555	26,250
Dividend payout	-	-	-	-	-	-	-	-14,806	-	-	-	-14,806
Allocation of net profit in line with the Management/Supervisory Board/Shareholders Assembly resolution	3	-	-	-	-	50,041	-	-50,044	-	-	-	-
Change in share capital of subsidiaries	-	-	-	-	-	-	-	-	-	-	-2,538	-2,538
Balance as at 30 June 2007	157,129	193,298	13,389	4,900	-4,900	180,453	47,299	-	20,751	5,545	38,922	656,786

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

- **Net sales revenues**

Net sales revenues for the period 1 – 6 2007 amounted to EUR 1,121,381 thousand and arrived at 47.9 % of planned net sales revenues for the year 2007, and exceed the figures from the comparable period last year by 19.4 %.

Revenues resulting from the sale of goods and materials take 91.6 % of total net sales revenues, while the remaining 8.4 % originates from sales of products and services.

Without revenues originating from the company M - Rodić, d.o.o., the Mercator Group would have realized EUR 1,003,588 thousand of net sales revenues in the period 1 – 6 2007, which would have represented a 6.9 % increase compared to the same period in the year 2006.

- **Cost of goods sold**

Costs of goods sold including production costs, purchase value of sold goods and material and other operating expenditures in the relevant period amounted to EUR 818,346 thousand, and exceed the same category by 21.2 % compared to the same period last year, which is mostly the consequence of increased scale of operations.

- **Gross profit**

Gross profit for the period 1 – 6 2007 amounted to EUR 303,035 thousand, which is a 14.9 % increase compared to the period 1 – 6 2006 and represents 48.6 % of the 2007 plan.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses amounted to EUR 266,689 thousand and exceed the figures for the comparable period last year by 12.2 %, representing 48.4 % of the 2007 plan. Growth of costs is a result of the increased scale of operations, inclusion of the company M - Rodić, d.o.o., into the Group, and the growth of prices in some cost elements (power, transport, etc.).

Expenses by nature

in EUR 000

	Type of Cost	1 - 6 2006	Plan 2007	1 - 6 2007	Index 1-6 07 / 1-6 06	Index 1-6 07 / Plan 2007
1	Costs of material	32.687	78.906	33.717	103.2	42.7
2	Costs of services	64.980	160.856	75.819	116.7	47.1
3	Depreciation and amortisation	32.150	74.969	39.073	121.5	52.1
4	Labour costs	122.547	296.224	132.791	108.4	49.3
5	Other expenses	7.814	10.250	8.563	109.6	83.5
6	Cost of goods sold	652.621	1.671.305	795.072	121.8	47.6
7	TOTAL COSTS	912.799	2.265.511	1.085.035	118.9	47.9

Cost of material amounted to EUR 33,717 thousand, and recorded a 3.2 % increase compared to last year, which is mostly the result of the inclusion of the company M - Rodić, d.o.o., into the Group, and higher power costs.

Costs of services amounted to EUR 75,819 thousand, and have risen by 16.7 % compared to the same period of the last year. Increase in the costs of services is predominantly a result of the inclusion of the company M - Rodić, d.o.o., into the Group, and intensive marketing activities.

Labor costs amounted to EUR 132,791 thousand, which is 8.4 % more than in the same period last year; the growth is lesser than the increase in the number of employees due to inclusion of the new company and newly opened outlets.

Also included among the administrative expenses are the losses from the disposal of PPE in the amount of EUR 491 thousand, and adjustments in current assets in the amount of EUR 804 thousand.

- **Other revenues from operations**

Other revenues from operations amounted to EUR 5,964 thousand, of which EUR 2,720 thousand is related to proceeds from disposal of PPE, while the remaining other revenues from operations relate to various other revenues (compensations, donations, subsidies, written-off receivables). In the period 1 – 6 2006, proceeds from the disposal of PPE amounted to EUR 2,284 thousand.

- **Operating profit**

Operating profit for the period 1 – 6 2007 amounts to EUR 42,310 thousand, which is EUR 10,295 thousand, or 32.2 % more than the same figure for the period 1 – 6 2006; this is mostly the result of higher net revenues and improved cost efficiency. Operating profit represents 51.9 % of the 2007 plan.

- **Finance income**

Finance income amounted to EUR 5,313 thousand, which is EUR 1,322 thousand less than in the period 1 – 6 2006. Financial revenues were mostly generated by positive currency translation differences, revenues from default interest, revenues from shares, and regular interest from financing.

- **Finance costs**

Finance costs for the relevant period amount to EUR 20,595 thousand, of which a major portion relates to costs from interest paid to commercial banks, financial lease, and bonds, and the related currency translation differences. Compared to the same period last year, they represent a 32.1 % increase, mostly resulting from increases in interest rates and higher financial liabilities.

in EUR 000

	1 - 6 2006	1 - 6 2007	Index 1-6 07 / 1-6 06
Net regular interest	13,863	17,865	128.9
Net default interest	-2,897	-1,311	45.3
Net currency translation differences	-1,196	-477	39.9
Net gains from disposal of financial assets	-389	-406	104.5
Other net finance costs (income)	-420	-389	92.6
Total net finance costs	8,961	15,282	170.5

- **Profit for the financial period**

In the period 1 – 6 2007 the Mercator Group realized EUR 21,306 thousand of net profit, which is EUR 4,394 thousand more than in the same period last year, and represents 70.0 % of net profit planned for the year 2007.

Profit for the periods 1 – 6 2007 and 1 – 6 2006 were also affected by extraordinary accounting events, such as proceeds from disposal of PPE and financial assets. Excluding these effects, the comparable net profit for the period 1 - 6 2007 amounts to EUR 19,277 thousand, which is 26.2 % more than the comparable net profit for the period 1 - 6 2006 (EUR 15,270 thousand).

- **Gross cash flow from operating activities**

Gross cash flow from operating activities of the Mercator Group for the period 1 – 6 2007 amounted to EUR 78,132 thousand, which is 25.3 % more compared to the period 1 – 6 2006, arriving at 51.0 % of the 2007 plan.

The calculation is indicated in the following chart:

in EUR 000

	1 - 6 2006	Plan 2007	1 - 6 2007	Index 1-6 07/ 1-6 06	Index 1-6 07/plan 07
Profit for the financial period	16.912	30.436	21.306	126.0	70.0
Income tax expense	6.142	13.362	5.722	93.2	42.8
Depreciation and amortisation	32.150	74.969	39.073	121.5	52.1
Net gains from disposal and impairment of property, plant and equipment	-1.801	-3.708	-2.229	123.7	60.1
Net movements in provisions	-429	368	-1.411	328.9	-
Net gains/losses from disposal of financial assets	-389	-37	-406	104.5	1,098.3
Net interest paid	9.770	37.703	16.077	164.6	42.6
Gross cash flow from operating activities	62.355	153.093	78.132	125.3	51.0

NOTES TO THE CONSOLIDATED BALANCE SHEET

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

As at June 30th 2007, the value of PPE, investment property, and intangible assets amounts to EUR 1,405,136 thousand, which is EUR 1,553 thousand more than at the beginning of the year; these assets represent 74.3 % of total assets. The change in value was affected by new investment, depreciation, disposal of commercially unviable assets, and currency translation differences.

- **Derivative financial instruments**

As at June 30th 2007, the positive fair value of derivative financial instruments intended for the hedging the risks related to cash flow, amounts to EUR 7,506 thousand, which is EUR 5,520 thousand more than at the end of 2006. In the period 1 – 6 2007, no new agreements on derivative financial instruments were signed.

- **Non-current trade and other receivables**

Non - current trade and other receivables as at June 30th 2007 amount to EUR 540 thousand; they include long-term loans granted and deposits.

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

Available-for-sale financial assets as at June 30th 2007 amount to EUR 5,246 thousand, which is EUR 141 thousand less than as at December 31st 2006.

- **Inventories**

Inventories of raw materials, material, and trade goods as at June 30th 2007 amount to EUR 235,302 thousand, and represent 50.4 % of the total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 9,499 thousand, or 4.2 %.

- **Current trade and other receivables**

As at June 30th 2007, current trade and other receivables amounted to EUR 216,031 thousand, which is EUR 17,616 thousand or 8.9 % more than at the beginning of the year.

Other current receivables include short-term granted loans, deposits, and short-term financial investments, which together amount to EUR 3.579 thousand as at June 30th 2007, as well as prepaid expenses in the amount of EUR 6,135 thousand.

- **Equity**

In the period 1 – 6 2007, the majority interest of the Group rose by EUR 10,889 thousand. The changes are primarily related to the following:

- increase by net profit of the majority interest holder attained in the period 1 - 6 2007, in the amount of EUR 20,751 thousand;
- increase in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 5,700 thousand;
- decrease in equity due to currency translation differences in the translation of financial statements of foreign companies into the representation currency, in the amount of EUR 756 thousand;
- decrease in equity due to the payment of dividends in the amount of EUR 14,806 thousand.

Minority interest of the Group as at June 30th 2007 amounts to EUR 38,922 thousand; in the period 1 – 6 2007, it has decreased by EUR 1,983 thousand, primarily due to the increase in ownership shares in the companies Mercator-Emba, d.d., and Pekarna Grosuplje, d.d.

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 6.6 %.

- **Financial liabilities**

Non – current financial liabilities as at June 30th 2007 amount to EUR 535,824 thousand, and have increased by EUR 20,767 thousand compared to the beginning of the year.

Current financial liabilities as at June 30th 2007 amount to EUR 221,539 thousand, and have decreased by EUR 65,830 thousand compared to the beginning of the year.

Total financial liabilities in the period 1 – 6 2007 fell by EUR 45,063 thousand, which is mostly the result of revised policy of current payables management in 2007.

Compared to the beginning of the year, the maturity of financial liabilities has changed. Non-current financial liabilities now represent 70.7 % of the total financial liabilities, and current financial liabilities represent the remaining 29.3 % (as at December 31st 2006, the ratio between non-current and current financial liabilities was 64.2 vs. 35.8).

In the composition of financial liabilities by currencies, financial liabilities in EUR represent 97.1 %, and financial liabilities in other currencies represent the remaining 2.9 %.

The share of financial liabilities by variable interest rate in the total financial liabilities amounts to 44.7 %, while liabilities with fixed or hedged interest rate represented the remaining 55.3 % of total liabilities.

- **Retirement benefit obligations**

As at June 30th 2007, the total retirement benefit obligations amount to EUR 19,019 thousand and they have not changed considerably compared to the beginning of the year. During the year, the value of retirement benefit obligations may change due to the currency translation differences in companies abroad; at the end of the year, the obligations are re-measured and adjusted as necessary.

- **Provisions for liabilities and charges**

As at June 30th 2007, the provisions amounted to EUR 15,493 thousand. Compared to the beginning of the year, provisions have decreased by EUR 1,411 thousand.

- **Deferred income taxes**

In 2007, Mercator Group has recognized both deferred income tax liabilities and deferred income tax assets. As at June 30th 2007, the net deferred income tax liabilities totaled EUR 10,997 thousand.

- **Trade and other payables**

Trade and other payables as at June 30th 2007 amounted to EUR 420,171 thousand, which is EUR 63,366 thousand more than at the beginning of the year. The increase is primarily the result of the increased scale of operations, and the revised policy of current payables management.

During a recent case in 2006, Slovenian law practitioners adopted the view that normative and tariff part of the collective labor agreement for trade industry related to commuting refund are mutually inconsistent; as a result, employees are receiving more benefits than stipulated. Mercator has already taken steps to protect its interest. Since probability and amount of any liabilities of Slovenian companies of the Mercator Group, related to these proceedings, cannot be estimated, they are not included among the potential liabilities.

Financial Indicators

	Mercator Group		
	1 - 6 2006	Plan 2007	1 - 6 2007
Indicators of Profitability			
Return on Equity	6.2%	4.9%	6.6%
Return on Sales	1.8%	1.3%	1.9%
Indicators of Financial Structure			
Borrowings / Equity	1.28	1.31	1.15
Equity and Long-term Provisions to Total Liabilities	36.4%	34.3%	35.6%
Borrowings to Total Liabilities	45.4%	44.0%	40.1%
Trade and Other Payables to Total Liabilities	15.8%	19.9%	22.2%
Indicators of Operating Efficiency and Productivity			
Labor Costs per work hours (in EUR 000)	14.9	13.9	14.4
Sales / Labor Costs	7.7	8.7	8.4
Revenues per Employee per work hours (in EUR 000)	114	121	122
Value Added per Employee per work hours (in EUR 000)	22.5	21.8	22.9
Gross Cash Flow from Operating Activities / Sales	6.6%	6.5%	7.0%
Total Costs without Depreciation and Provisions / Sales	21.9%	20.4%	20.3%
Invested Capital (in EUR 000)	1,283,800	1,496,549	1,504,371
Gross Cash Flow from Operating Activities / Invested Capital	9.7%	10.2%	10.4%

Note: Value added is calculated as the sum of gross cash flow from operating activities and labor costs. Indicator costs of sales and overhead activities without depreciation and provisions on net revenues is calculated as the ratio between total costs (without the purchase value of goods sold, costs of depreciation and provisions) and net revenues. Invested capital represents the differences between total liabilities and current trade and other payables at the beginning of the financial period.

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

For comparability, financial statements of the company Poslovni sistem Mercator, d.d., for the period 1 – 6 2007, also comprise the operations of the companies merged in the last quarter of the year 2006.

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

The relation between net profit of the company Poslovni sistem Mercator, d.d., and net profit of the Mercator Group is as follows:

in EUR 000

Net profit of the company Mercator, d.d.	16,154
Net profit of the subsidiaries of the Mercator Group	5,551
Consolidation adjustments	-399
Net profit of the Mercator Group	21,306

Consistently with accounting policies and International Financial Reporting Standards, the effect of business performance of subsidiaries is not included in the income statement of the parent company, except if such profit was paid out as profit share. The investments of the parent company into subsidiaries are assessed at fair value, and any changes are presented directly in the equity of the parent company.

Income Statement

in EUR 000

	Type of revenue / expense / cost	1 - 6 2006	Plan 2007	1 - 6 2007	Index	Index
1	2	3	4	5	6 = 5/3	7=5/4
A.	NET SALES REVENUES	758,371	1,611,509	810,578	106.9	50.3
1.	Revenue from products sold	1,090	2,544	1,622	148.7	63.8
2.	Revenue from services sold	51,086	133,558	63,884	125.1	47.8
3.	Revenue from goods and material sold	706,856	1,476,375	746,196	105.6	50.5
4.	Decrease of sales for given discounts	-661	-968	-1,123	170.0	116.0
B.	COST OF GOODS SOLD	-545,647	-1,153,322	-587,017	107.6	50.9
1.	Production costs	-314	0	-1,325	422.0	-
2.	Purchase value of goods and material sold	-553,573	-1,157,594	-587,574	106.1	50.8
3.	Received discounts	8,414	4,453	1,958	23.3	44.0
4.	Other expenses	-174	-180	-76	43.8	42.3
C.	GROSS PROFIT	212,724	458,187	223,561	105.1	48.8
D.	Selling and marketing costs	-146,645	-317,387	-151,646	103.4	47.8
E.	Administrative expenses	-40,785	-83,920	-41,477	101.7	49.4
F.	Other gains - net	3,975	6,254	2,914	73.3	46.6
G.	OPERATING PROFIT	29,268	63,134	33,352	114.0	52.8
H.	Finance income	3,719	5,957	1,891	50.9	31.8
I.	Finance costs	-10,364	-30,544	-13,464	129.9	44.1
J.	PROFIT BEFORE INCOME TAX	22,623	38,547	21,780	96.3	56.5
K.	Income tax expense	-5,643	-10,458	-4,887	86.6	46.7
L.	Deferred income tax	365	-659	-738	-	112.1
M.	PROFIT FOR THE FINANCIAL PERIOD	17,345	27,430	16,154	93.1	58.9
N.	Number of employees based on hours worked	12,382	12,425	12,080	97.6	97.2

Balance Sheet

in EUR 000

	Type of assets / liabilities	31.12.2006	Plan 31.12.2007	30.6.2007	Structure 30.6.2007	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
A.	NON-CURRENT ASSETS	1,199,494	1,241,526	1,207,587	77.8%	100.7
I.	Property, plant and equipment	722,427	776,983	723,780	46.6%	100.2
II.	Investment property	12,893	12,596	12,600	0.8%	97.7
III.	Intangible assets	9,947	18,103	10,088	0.7%	101.4
IV.	Deferred income tax assets	5,536	2,638	4,784	0.3%	86.4
V.	Derivative financial instruments	1,986	903	7,506	0.5%	378.0
VI.	Trade and other receivables	592	592	504	0.0%	85.1
VII.	Available-for-sale financial assets	446,112	429,711	448,325	28.9%	100.5
B.	CURRENT ASSETS	321,908	300,248	343,943	22.2%	106.8
I.	Inventories	162,817	146,680	168,723	10.9%	103.6
II.	Trade and other receivables	156,597	147,856	172,189	11.1%	110.0
III.	Current income tax receivables	0	0	0	0.0%	-
IV.	Cash and cash equivalents	2,493	5,712	3,031	0.2%	121.6
	TOTAL ASSETS	1,521,402	1,541,773	1,551,531	100.0%	102.0
A.	EQUITY	617,398	615,714	624,447	40.2%	101.1
I.	Ordinary shares	157,126	157,126	157,129	10.1%	100.0
II.	Share premium	193,298	193,298	193,298	12.5%	100.0
III.	Revenue reserves	69,867	69,867	177,178	11.4%	253.6
IV.	Revaluation reserves	74,988	74,988	73,749	4.8%	98.3
V.	Retained earnings	112,429	93,006	6,939	0.4%	6.2
VI.	Profit for the financial period	9,691	27,430	16,154	1.0%	166.7
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	440,939	415,960	438,564	28.3%	99.5
I.	Financial liabilities	397,384	376,249	395,979	25.5%	99.6
II.	Derivative financial instruments	180	0	0	0.0%	-
III.	Deferred income tax liabilities	13,490	13,401	13,107	0.8%	97.2
IV.	Retirement benefit obligations	16,105	15,092	16,105	1.0%	100.0
V.	Provisions for other liabilities and charges	13,779	11,218	13,373	0.9%	97.1
C.	CURRENT LIABILITIES	463,065	510,099	488,520	31.5%	105.5
I.	Trade and other payables	252,233	280,014	316,996	20.4%	125.7
II.	Current income tax payables	1,235	0	5,257	0.3%	425.6
III.	Financial liabilities	209,597	230,085	166,267	10.7%	79.3
	TOTAL LIABILITIES	904,004	926,059	927,084	59.8%	102.6
	TOTAL EQUITY AND LIABILITIES	1,521,402	1,541,773	1,551,531	100.0%	102.0
	Number of employees as at the end of the period	12,957	13,079	12,723		98.2

Cash Flow Statement

in EUR 000

	Cash flows	1 - 6 2006	Plan 2007	1 - 6 2007
A	Operating activities			
1	Cash generated from operations	-6,565	179,824	85,822
2	Interest paid	-10,275	-30,544	-13,393
3	Income tax paid	-5,643	-10,458	-4,887
	Net cash generated from operating activities	-22,482	138,821	67,543
B	Investing activities			
1	Acquisition of subsidiaries, net of cash acquired	-13,555	-12,364	-2,219
2	Purchases of property, plant and equipment (PPE)	-43,142	-89,698	-23,387
3	Purchases of intangible assets	-87	-7,603	-972
4	Purchases of non-current investments	-2,839	0	0
5	Purchases of current investments	0	0	0
6	Loans made	-668	0	0
7	Proceeds from sale of subsidiaries	0	0	0
8	Proceeds from sale of PPE	7,288	11,726	2,799
9	Proceeds from sale of intangible assets	0	0	0
10	Proceeds from sale of non-current investments	0	0	-155
11	Proceeds from sale of current investments	5,441	0	0
12	Interest received	3,157	5,920	1,410
13	Dividends received	0	0	0
14	Loan repayments received	33	-571	254
	Net cash used in investing activities	-44,372	-92,590	-22,269
C	Financing activities			
1	Proceeds from issuance of shares	20,512	0	0
2	Proceeds/repayments of borrowings	51,243	-35,879	-44,735
3	Purchase of treasury shares	0	0	0
4	Dividends paid to Company's shareholders	-8,713	-10,213	0
	Net cash used in financing activities	63,042	-46,093	-44,735
	Increase of cash and cash equivalents	-3,813	139	538
	Movements of cash and cash equivalents			
	Cash at the beginning of the period	9,736	5,573	2,493
	Increase/Decrease	-3,813	139	538
	Currency translation differences	0	0	0
	Cash at the end of the period	5,923	5,712	3,032

Statement of Changes in Equity

in EUR 000

	Share capital		Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Total
	Ordinary shares	Share premium	Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
Balance as at 1 January 2006	140,057	159,870	13,389	5,220	-5,220	73,422	74,608	53,491	2,624	517,461
Revaluation of PP&E to fair value (increase of revaluation reserve)	-	-	-	-	-	-	688	-	-	688
Revaluation of PP&E to fair value (decrease of revaluation reserve)	-	-	-	-	-	-	-	-7,460	-	-7,460
Cash flow hedge net of tax	-	-	-	-	-	-	-	-18	-	-18
Currency translation differences	-	-	-	-	-	-	785	-	-	785
Income tax refund from previous year	-	-	-	-	-	-	-	2,268	-	2,268
Net income (expense) recognised directly in equity	-	-	-	-	-	-	1,473	-5,210	-	-3,738
Profit for the financial period	-	-	-	-	-	-	-	-	17,345	17,345
Total recognised income and expense in the financial period	-	-	-	-	-	-	-	-	17,345	17,345
Dividend payout	-	-	-	-	-	-	-	-8,821	-	-8,821
Allocation of net profit in line with the Shareholders Assembly resolution	-	-	-	-	-	-	59	16,960	-17,019	-
Issue of share capital	5,331	15,181	-	-	-	-	-	-	-	20,512
Registration of shares issued in 2005	4,463	-4,463	-	-	-	-	-	-	-	-
Balance as at 30 June 2006	149,850	170,589	13,389	5,220	-5,220	73,481	76,081	56,420	2,950	542,760

in EUR 000

	Share capital		Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Total
	Ordinary shares	Share premium	Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
Balance as at 1 January 2007	157,126	193,298	13,389	4,900	-4,900	56,478	74,988	122,119	-	617,398
Revaluation of PP&E to fair value (increase of revaluation reserve)	-	-	-	-	-	-	-	1,238	-	1,238
Revaluation of PP&E to fair value (decrease of revaluation reserve)	-	-	-	-	-	-	-1,238	-	-	-1,238
Cash flow hedge net of tax	-	-	-	-	-	-	-	5,700	-	5,700
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Net income (expense) recognised directly in equity	-	-	-	-	-	-	-1,238	6,939	-	5,700
Profit for the financial period	-	-	-	-	-	-	-	-	16,154	16,154
Total recognised income and expense in the financial period	-	-	-	-	-	-	-	-	16,154	16,154
Dividend payout	-	-	-	-	-	-	-	-14,806	-	-14,806
Allocation of net profit in line with the Management/Supervisory Board resolution	3	-	-	-	-	-	107,311	-107,314	-	-
Allocation of net profit in line with the Shareholders Assembly resolution	-	-	-	-	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2007	157,129	193,298	13,389	4,900	-4,900	163,789	73,749	6,939	16,154	624,447

Notes to the Financial Statements

NOTES TO THE INCOME STATEMENT

- Net sales revenues**

Net sales revenues for the period 1 – 6 2007 amounted to EUR 810,578 thousand, which is an increase over the comparable period last year by 6.9 %, and represents 50.3 % of planned net sales revenues for the year 2007.

Revenues resulting from the sale of goods and materials amounted to EUR 746,196 thousand, which is EUR 39,340 thousand or 5.6 % more compared to the same period last year.

Revenues from sales of products and services amounted to EUR 65,506 thousand, which is a 25.5 % increase compared to the same last year period.

- Cost of goods sold**

Cost of goods sold including production costs, purchase value of goods and materials and other operating expenditures in the relevant period amounted to EUR 587,017 thousand, and exceed the same category by 7.6 % compared to the last year figures, which is mostly the consequence of increased scale of operations.

- Gross profit**

Gross profit for the period 1 – 6 2007 amounted to EUR 223,561 thousand, which is 5.1 % more than in the period 1 – 6 2006, and represents 48.8 % of the 2007 plan.

- Selling costs and administrative expenses**

Selling costs and administrative expenses amount to EUR 193,123 thousand, which is 3.0 % more than in the same period last year; the figure represents 48.1 % of the planned value for 2007.

Expenses by nature

in EUR 000

1	Type of Cost 2	1 - 6 2006 3	Plan 2007 4	1 - 6 2007 5	Index 6=5/3	Index 7=5/4
1.	Costs of material	15,562	35,588	15,371	98.8	43.2
2.	Costs of services	47,653	107,629	49,177	103.2	45.7
3.	Depreciation and amortisation	21,088	42,793	21,356	101.3	49.9
4.	Labour costs	99,342	207,612	103,615	104.3	49.9
5.	Other expenses	3,785	7,684	3,603	95.2	46.9
6.	Cost of goods sold	545,647	1,153,322	587,017	107.6	50.9
7.	TOTAL COSTS	733,078	1,554,629	780,140	106.4	50.2

Costs of material amounted to EUR 15,371 thousand, and recorded a 1.2 % decrease compared to the same period last year.

Costs of services amount to EUR 49,177 thousand, and have risen by 3.2 % compared to the same period of the last year. Increase in the costs of services is predominantly the result of rising costs of transport and telecommunications, current maintenance costs, and costs of trade, intellectual, and personal services.

Labor costs amounted to EUR 103,615 thousand, which is 4.3 % more than in the same period last year. The growth is a result of labor costs in acquired retail units and labor costs in newly opened outlets.

Also included among the administrative expenses are the losses from the disposal of PPE in the amount of EUR 63 thousand, and adjustments in current assets in the amount of EUR 930 thousand.

- **Other revenues from operations**

Other revenues from operations in the period 1 – 6 2007 amounted to EUR 2,914 thousand, which is 26.7 % less than in the same period last year. Proceeds from the disposal of PPE amounted to EUR 1,078 thousand, while the remaining part relates to other revenues; proceeds from disposal of PPE in the period 1 – 6 2006 amounted to EUR 2,164 thousand.

- **Operating profit**

Operating profit for the period 1 – 6 2007 amounts to EUR 33,352 thousand, which is EUR 4,084 thousand more than the figure for the same period last year and represents 52.8 % of the planned figure for 2007.

- **Finance income**

Finance income, which amounted to EUR 1,891 thousand in the period 1 – 6 2007, relate mostly to revenues from default interest from current trade receivables. Compared to the same period last year, financial revenues are lower by EUR 1,828 thousand, mostly due to lower amount of default interest received.

- **Finance costs**

Finance costs in the period 1 – 6 2007 amounted to EUR 13,464 thousand, which is EUR 3,100 thousand more than in the same period last year. Finance costs relate mostly to payments of regular loan interest to commercial banks.

- **Profit for the financial period**

Company net profit for the period 1 – 6 2007 amounted to EUR 16,154 thousand, which is EUR 1,191 thousand less than in the same period of the last year, and represents 58.9 % of the 2007 plan.

NOTES TO BALANCE SHEET

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

As at June 30th 2007, the value of PPE, investment property, and intangible assets amounts to EUR 746,468 thousand, which is EUR 1,201 thousand more than at the beginning of the year. These assets represent 48.1 % of total assets. The change in value is a result of investment, amortization and depreciation, and disposal of commercially unviable assets.

- **Derivative financial instruments**

As at June 30th 2007, the derivative financial instruments intended for hedging the risks to cash flow, at positive fair value, amounted to EUR 7,506 thousand, which is EUR 5,520 thousand more than at the end of 2006. The difference is indicated as increase in equity.

- **Non-current trade and other receivables**

Non-current trade and other receivables as at June 30th 2007 amount to EUR 504 thousand, which is EUR 88 thousand less than at the beginning of 2007.

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

Available-for-sale financial assets as at June 30th 2007 amount to EUR 448,325 thousand, and are primarily related to ownership shares in the subsidiaries of the Mercator Group in Slovenia and abroad. Compared to the beginning of the year, available-for-sale financial assets have increased by EUR 2,213 thousand, which relates mostly to the purchase of additional share in the subsidiaries Pekarna Grosuplje, d.d., and Mercator - Emba, d.d.

- **Inventories**

Inventories of raw materials, material, and trade goods as at June 30th 2007 amount to EUR 168,723 thousand, and represent 49.1 % of total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 5,906 thousand, or 3.6 %.

- **Current trade and other receivables**

As at June 30th 2007, current trade and other receivables amounted to EUR 172,189 thousand, which is EUR 15,592 thousand or 10.0 % more than at the beginning of the year.

Among other current receivables are the short-term loans granted, deposits, and short-term financial investments, which amounted to EUR 1,250 thousand as at June 30th 2007.

- **Equity**

In the period 1 – 6 2007, company equity increased by EUR 7,049 thousand. The changes relate to the following:

- increase by net profit attained in the period 1 – 6 2007, in the amount of EUR 16,154 thousand;
- increase in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 5,700 thousand;
- decrease in equity by liabilities for payment of dividends in compliance with the resolution of Shareholder's Assembly that took place on June 27th 2007, in the amount of EUR 14,806 thousand.

The company Poslovni sistem Mercator, d.d., did not buy or sell treasury shares in the period 1 – 6 2007. As at June 30th 2007, the company Poslovni sistem Mercator, d.d., held 63,906 treasury shares with a total value of EUR 4,900 thousand.

Basic return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 5.3 %.

- **Financial liabilities**

As at June 30th 2007, financial liabilities amounted to EUR 562,246 thousand, which is EUR 44,735 thousand less than at the end of 2006. The increase is related to the revised policy of current payables management in 2007.

Compared to the beginning of the year, the maturity of financial liabilities has changed. Non-current financial liabilities now represent 70.4 % of the total financial liabilities, and current liabilities represent the remaining 29.6 % (as at December 31st 2006, the ratio between non-current and current financial liabilities was 65.5 vs. 34.5).

- **Retirement benefit obligations**

As at June 30th 2007, the total retirement benefit obligations amounted to EUR 16,105 thousand, and they have not changed considerably compared to the beginning of the year. During the year, the value of retirement benefit obligations will not be changed; at the end of the year, the obligations shall be re-measured and adjusted as necessary.

- **Provisions for liabilities and charges**

As at June 30th 2007, the provisions for liabilities and charges amounted to EUR 13,373 thousand. Compared to the beginning of the year, these provisions have decreased by EUR 406 thousand. The changes are related to drawing of provisions in compliance with the drawing plan.

- **Deferred income taxes**

In the period 1 – 6 2007, the company has recognized both deferred income tax liabilities and assets. As at June 30th 2007, net deferred income tax liabilities totaled at EUR 8,323 thousand.

- **Trade and other payables**

Trade and other payables as at June 30th 2007 amounted to EUR 316,996 thousand, which is EUR 64,763 thousand more than at the end of 2006.

During a recent case, Slovenian law practitioners adopted the view that normative and tariff part of the collective labor agreement for trade industry related to commuting refund are mutually inconsistent; as a result, employees are receiving more benefits than stipulated. Mercator has already taken steps to protect its interest. Since probability and amount of any liabilities of Slovenian companies of the Mercator Group, related to these proceedings, cannot be estimated, they are not included among the potential liabilities.

Financial Indicators

	Poslovni sistem Mercator, d.d.		
	1 - 6 2006	Plan 2007	1 - 6 2007
Indicators of Profitability			
Return on Equity	11.6%	4.6%	5.3%
Return on Sales	2.3%	1.7%	2.0%
Indicators of Financial Structure			
Borrowings / Equity	0.98	0.98	0.90
Equity and Long-term Provisions to Total Liabilities	41.5%	40.7%	41.1%
Borrowings to Total Liabilities	39.9%	39.3%	36.2%
Trade and Other Payables to Total Liabilities	16.7%	18.2%	20.8%
Indicators of Operating Efficiency and Productivity			
Labor Costs per work hours (in EUR)	16,046	16,709	17,154
Sales / Labor Costs	7.6	7.8	7.8
Revenues per Employee per work hours (in EUR)	122,497	129,699	134,198
Value Added per Employee per work hours (in EUR)	23,652	24,754	25,989
Total Costs without Depreciation and Provisions / Sales	22.0%	22.1%	21.0%