



Mercator

**Business report of the Mercator Group
and the company
Poslovni sistem Mercator, d.d.,
in the period I - IX 2008**



Poslovni sistem Mercator, d.d.
Management Board

November 2008

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SUMMARY

Despite harsh economic conditions, Mercator Group continues to perform consistently with the business plan.

In the first nine months of 2008, Mercator Group generated nearly EUR 2 billion of net revenues from sales, which is 13.0 percent more than in the same period last year and 75.3 percent of total planned revenues for the year 2008. Group's net profit amounted to EUR 36.4 million which is 0.9 percent more than in the same period last year and amounts to 89.9 percent of the planned figure for the entire year 2008. In the period 1-9 2008, the Mercator Group generated EUR 140 million of gross cash flow from operating activities before rents (EBITDAR), which is 14.8 percent more than in the same period of 2007 and represents 74.8 percent of planned cash flow for 2008. In the third quarter, economic conditions remained harsh, primarily due to the effects of the global financial crisis and negative effects of inflation.

As at September 30th 2008, the Group had 21,318 employees, which is 425 more than at the beginning of the year. 61.3 percent of all employees were employed in Slovenia.

Operations in Slovenia were affected by negative effects of inflation and the global financial crisis

In the first nine months of 2008, the company Mercator, d.d., increased its net revenues by 5.4 percent compared to the same period last year; at the same time, net profit is lower by 2.5 percent.

The following circumstances negatively affected Mercator's operations:

- changes in the scope and composition of consumption as a consequence of higher product prices, and the resulting decrease of real household purchasing power;
- lower margins, resulting from the measures adopted to mitigate prices increases, as well as numerous marketing activities aimed at providing favorable offer for the consumers;
- inflationary pressures on operating costs;
- higher financing costs resulting from the global financial crisis and inflationary changes.

The following aspects, on the other hand, had a positive effect on Mercator's operations:

- category management activities and improving the competitiveness of our offer,
- opening of new retail units and refurbishment of the existing ones, combined with intensive marketing activities;
- implementation of cost rationalization and productivity improvement project, and optimization of logistics operations.

Operations abroad saw high revenue growth and improvement of business performance

Net revenues from sales abroad amounted to EUR 667 million in the first nine months of the year, which is a third of total Group revenues. Foreign markets, too, saw high inflation and impacts of the global financial crisis; on the other hand, deliberate development activities, opening of numerous new outlets, appropriate marketing activities, and cost optimization program activities had a positive effect on our foreign operations.

Implementation of investment plans in 2008 consistent with the plan, financial operations remain unhindered

In the first nine months of 2008, the Group invested a total of EUR 190 million; at the annual level, over EUR 260 million of investment is planned according to the business plan. In 2008, Mercator Group will execute the investment plan in its entirety.

In the period 1-9 2008, the Mercator Group generated EUR 140 million of gross cash flow from operating activities before rent (earnings before interest, taxes, depreciation, amortization, and rent - EBITDAR), which is 14.8 percent more than in the relevant period in 2007 and represents 74.8 percent of the planned figure for the entire year 2008. High growth of cash flow indicates a high level of Mercator Group's financial power and its self-financing capacity which is of key importance for implementing investment and development plans in a period of global financial crisis.

Despite considerably harsher conditions in the banking sector, resulting from the global financial crisis, Mercator Group's financial operations are currently not affected and cooperation with banking partners is normal. Unfavorable changes in the financial markets and the resulting effects on availability and cost of long-term financing sources, however, will be accounted for in the business planning activities for the year 2009.

Anticipated business conditions in the last quarter of 2008

In the last quarter of 2008, operations in all markets are expected to remain exposed to severe conditions. Negative effects of aggravated financial crisis paired with still considerably high inflation will continue to adversely affect the scope and composition of consumption, while also causing inflationary pressures both on operating and financing costs. Hence, Mercator Group will remain focused in the last quarter of 2008 on a) providing appropriately competitive offer for the consumers while b) carrying out the measures for cost rationalization.

MAJOR EVENTS IN THE PERIOD I - IX 2008

DEVELOPMENT OF RETAIL NETWORK

The following facilities were opened in **SLOVENIA**:

- ✓ Mercator center Koper II which includes a new Mercator hypermarket and a combined hardware and electronics store (January 23rd 2008);
- ✓ A modern hypermarket and an Intersport store in the Supernova shopping center in Rudnik; thereby, we extended our coverage of the Ljubljana area to its southern part, where we had hitherto not been present with such store format (March 20th 2008).
- ✓ Superette Škocjan (May 16th 2008).
- ✓ Supermarket Šmartno ob Paki, located in a shopping center (May 28th 2008).
- ✓ Refurbished Mercator Center Ptuj which is the second Mercator shopping center in the Ptuj area to have been refurbished and opened in the last six months (June 13th 2008).
- ✓ Refurbished hypermarket in the elite Maximarket department store in Ljubljana (September 4th 2008).



The following facilities were opened in **SERBIA**:

- ✓ Mercator Center Niš, a major addition to our retail network in the southern part of Serbia where this facility may be the first shopping center of its kind (March 20th 2008);
- ✓ Intersport, Modiana, and Beautique drugstore in leased facilities in the Sremska Mitrovica shopping center (April 11th 2008), while the a supermarket had already been opened on December 15th 2007.
- ✓ The first Roda Cash & Carry in leased facilities in Belgrade (June 26th 2008).
- ✓ Roda Center Kragujevac, also in a leased facility, which includes a hypermarket, Intersport, Modiana, hardware and electronics store, and several outlets leased to other supplementary service providers (August 30th 2008).
- ✓ Supermarkets in several towns (Palić, Smederevo, Kula).

The following facilities were opened in **CROATIA**:

- ✓ Expanded superette in Senj (April 4th 2008).

- ✓ Refurbished Mercator Center Osijek; as a part of the refurbishment, the hardware and electronics store area was shrunk and the resulting extra space was leased out to supplementary service providers (June 5th 2008).
- ✓ Supermarkets in several towns (Poreč, Umag, Pula, Buzet, Stari Grad).

The following facilities were opened in **BOSNIA AND HERZEGOVINA**:

- ✓ Supermarkets in several towns (Kalesija, Sijenjak, Čapljina).

SUBSIDIARY FOUNDED IN BULGARIA

- ✓ Consistently with our strategy of entering the Bulgarian market, we established on February 13th 2008 the company Mercator - B, e.o.o.d., Sofia, which will be in charge of Mercator's expansion to the Bulgarian market.

SUBSIDIARY FOUNDED IN BANJA LUKA

- ✓ On September 4th 2008, the company Poslovni sistem Mercator, d.d., founded the company M-BL, d.o.o., Banja Luka.

STRATEGIC ALLIANCES

- ✓ In September 2008, trade company Billa joined the purchasing / procurement alliance Mercator-Plodine in Croatia; the said companies jointly founded the company Mercator-Plodine-Billa, d.o.o., whose purpose is to conduct joint purchasing operations in Croatian upstream market.

CHANGES IN THE COMPOSITION OF THE MERCATOR GROUP

- ✓ On January 1st 2008, the company Presoflex, d.o.o., Croatia, was merged with the company Mercator - H, d.o.o.
- ✓ On January 1st 2008, the company Poslovni sistem Mercator, d.d., took over the operations of the company Pekarna Grosuplje, d.d., including all of its employees; the merger is planned for fall 2008.
- ✓ On April 3rd 2008, the company Poslovni sistem Mercator, d.d., acquired a 100 percent ownership share in the company Evolution, proizvodnja in trgovina (manufacturing and trade), d.d., Izola, thus acquiring landed property for development of a trade center in Izola.
- ✓ On May 13th 2008, the company Poslovni sistem Mercator, d.d., purchased from Society for Mental Health and Creative Leisure Time "Vezi", 100-percent ownership share of the company Naše Vezi, d.o.o., Štanjel, which was renamed on June 17th 2008 into Mercator IP, invalidsko podjetje (social enterprise), d.o.o., Ljubljana.
- ✓ In compliance with the Agreement on Strategic Alliance in the field of trade operations between Holding Rodić M&B, and Mercator, d.d., dated October 19th

2006, the company Poslovni sistem Mercator, d.d., purchased on June 4th 2008 an additional 12-percent ownership share in the company M-Rodić, d.o.o., Novi Sad. Before this transaction, the company Mercator, d.d., Ljubljana, held a 76 percent interest in the company M-Rodić, d.o.o.; after the transaction, ownership share of the company Mercator, d.d., Ljubljana, in the company M-Rodić, d.o.o., amounts to 88 percent.

- ✓ On October 1st 2008, the division of the company Mercator-Emba, d.d., was entered into the Court Register; the company M-nepremičnine, d.o.o. (M-Real Estate), was founded to which the company Mercator-Emba, d.d., transferred its real estate property according to the division plan adopted on June 20th 2008.

CORPORATE GOVERNANCE

Supervisory Board of the company Poslovni sistem Mercator, d.d., met three times in the period 1 - 9 2008, and adopted the audited Annual Report, Supervisory Board's Report on Annual Report Audit and the opinion on the allocation of distributable profit for 2007; furthermore, the Supervisory Board was informed of the Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., in the periods 1 - 3 2008 and 1-6 2008, and discussed the agenda in the convocation of the company's 14th regular Shareholders Assembly; it was also informed of the proceedings instituted against the company Mercator, d.d., by the Competition Protection Office of the Republic of Slovenia, and their progress.


On August 26th 2008, 14th Regular Shareholders Assembly of the company Mercator, d.d., took place. The company shareholders voted in favor of the proposed dividend in the amount of EUR 4.25 per share and granted discharge to the company Supervisory Board and Management Board. They also supported the introduction of employee participation in profit sharing as of 2009, and authorized the Management Board and Supervisory Board to prepare by the following Shareholders Assembly the required proposal of the changes to the company Articles of Association and Bylaws and the proposal of an Employee Profit Sharing Agreement. Auditing company KPMG Slovenia, podjetje za revidiranje, d.o.o., Ljubljana, was appointed as the company auditor for 2008. As in the previous two Shareholders Assemblies, the shareholders did not support the appointment of any of the four proposed substitute candidates for the company Supervisory Board. Based on the resolutions and decrees by the Competition Protection Office and the legislation, some major shareholders were not entitled to vote at the Assembly; hence, only about 28 percent of total company capital was present at the Assembly. No challenging actions were announced at the Assembly.

MARKETING ACTIVITIES

- As of January 2008, the company Pekarna Grosuplje, d.d., became Mercator's own bakery and a part of Mercator. The customers were informed that the products of Pekarna Grosuplje (the Grosuplje Bakery) would henceforth only be available in Mercator. In June, we added the entire core assortment of Pekarna Grosuplje bread products into the list of private label products.

NAJBOLEJŠE IZ PEKARNE GROSUPLJE SAMO V MERCATORJU

(The best from Pekarna Grosuplje - The Grosuplje Bakery - only in Mercator)

- **Maxi Club's** humanitarian campaign titled **Sharing Happiness with Others** was initiated by the club members who chose in December 2007 those humanitarian organizations to which **Maxi Club** would donate funds in January 2008. Hence, donations went to the **SOS Society** for aid to women and children victims of violence, **Paraplegic Society of the Ljubljana Region**, and the **Red Noses (Rdeči noski)**, a group that provides amusement for children in hospitals. Mercator's donation that totaled EUR 50 thousand, and cooperation of the **Maxi Club** members, will aid the listed societies in pursuing their noble missions.
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- On February 12th 2008, the ninth **Mercator Marketing Days** took place. The purpose of this event is to meet the business partners of the Mercator Group. This year, attendance totaled at 500, which included representatives of Mercator's major suppliers and business partners.
 - As a response to the anticipated increase in the prices set by alimentary product manufacturers, Mercator decided to additionally cut the margins and thus dropped the retail prices of some major household consumer products, or **FMCG**. Simultaneously, the private label project involves continuous search for new products that would offer the best price to quality ratio. *Generic line*, particularly, includes fast-moving consumer goods at the most favorable prices.
 - On March 17th 2008, Mercator's **Call Center** commenced its operation. Our customers can dial a toll-free number 080 20 80 for information on Mercator Pika card transactions, retail units and working hours, products and campaigns, events taking place in retail units, as well as complaints and praises.
 - At the end of April, we launched a major corporate campaign announcing the 60th anniversary of Mercator; this campaign shall continue in fall this year as well as in 2009. We took this occasion to thank everyone who has supported us through this period, as well as all who work with us and confide in us. Without them, this bit story that the campaign is focused on, would not have been possible.



- In April, we introduced the activity **Discount on a Category**, which includes offering an at least 20 percent discount on an entire category on a particular day, each week.



- Also in April, we launched a new customer loyalty campaign called **"Collect and Select!"** which will last until August 2008. The customers are collecting sticker coupons to be eligible for purchasing appealing products and services at considerable discount.



- After eight years of issuing the **Mesec ("Month, or Moon") magazine**, we issued in June 2008 the first issue with redesigned appearance, with updated contents and additional pages.



- On July 16th 2008, we introduced a new sales promotion project called **"Locked price"** that includes over 600 products whose prices are guaranteed not to rise for six months.



- On September 8th 2008, we introduced the **weekend fresh meat campaigns**. Special offer campaigns take place in all Mercator outlets that include butcher's department, every week from Thursday to Monday.

- On September 15th 2008, we introduced a new sales promotion campaign called **Happy Hours** which takes place in all Mercator Hypermarkets every Monday and Wednesday between 9 and 11 AM and 2 and 5 PM.

- During the year, we carried out several advertising campaigns for the **generic line** of the Mercator private label. The generic line is aimed at mitigating the effects of inflation for our customers and was introduced as a response to the pressure from discount retailers.

KEY INFORMATION FOR THE SHAREHOLDERS

As at September 30th 2008, 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 204.02.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at September 30th 2008, and the weighted

average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 212.12.

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 6.3.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the accounting period 1 - 9 2008, the following major events affected the operations of the Mercator Group:

- On October 1st 2008, we opened the Trade Center Šentjernej which includes a hypermarket, Modiana, and two supplementary service outlets.
- On October 1st 2008, we opened a supermarket on Poljanska Street in Ljubljana.



- On October 27th, we launched a new customer loyalty campaign called **"Collect and choose a present!"** which involves two different products; the customers will receive these products at no charge, as a present, upon presenting a coupon with a certain number of bonus stickers.
- As of November, we have launched our this year's major corporate campaign called **"Mercator, the environment-friendly neighbor"** which is aimed at care for the environment and raising the awareness of ecological issues among the general population. The campaign is seeking to warn our customers of the harmful effects of plastics on the environment and motivate them to use less plastic bags. Hence, Mercator will present each household in Slovenia with a durable shopping bag made of recycled plastics. Our customers will be able to claim the bag at our retail units by presenting a coupon that they will receive by land mail.

FINANCIAL HIGHLIGHTS FOR THE PERIOD I - IX 2008

	Mercator Group				
	1-9 2007	Plan 2008	1-9 2008	Index 1-9 2008 1-9 2007	Index 1-9 2008/ Plan 2008
Net sales revenues (in EUR 000)	1,749,704	2,627,903	1,977,631	113.0	75.3
Operating profit (in EUR 000)	58,783	90,574	65,984	112.3	72.9
Profit before income tax (in EUR 000)	44,738	50,046	43,604	97.5	87.1
Profit for the financial period (in EUR 000)	36,121	40,556	36,444	100.9	89.9
Gross cash flow from operating activities (in EUR 000)	115,196	173,215	125,206	108.7	72.3
Gross cash flow from operating activities before rental expenses (in EUR 000)	121,983	187,165	139,981	114.8	74.8
Capital expenditure (in EUR 000)	89,781	263,529	182,976	203.8	69.4
Long-term financial investments (in EUR 000)	40,370	0	7,297	18.1	-
Return on equity *	7.5%	6.0%	6.5%	86.7	107.3
Return on sales	2.1%	1.5%	1.8%	89.3	119.4
Gross cash flow from operating activities / net sales revenues	6.6%	6.6%	6.3%	96.2	96.1
Gross cash flow from operating activities before rental expenses / net sales revenues	7.0%	7.1%	7.1%	101.5	99.4
Number of employees based on hours worked	19,099	20,770	20,450	107.1	98.5
Number of employees as at the end of the period	20,327	22,467	21,318	104.9	94.9

* The indicator is adjusted to the annual level.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry date	January 1 st 1990
Company share capital as at June 30 th 2008	EUR 157,128,514.53 EUR
Number of shares issued and paid-up as at September 30 th 2008	3,765,361
Share listing	Ljubljana Stock Exchange (Ljubljanska borza, d.d.) official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
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 2007	September 30 th 2008
TRADE COMPANIES IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADE COMPANIES ABROAD	
M - H, d.o.o., Croatia (99.9 %)	M - H, d.o.o., Croatia (99.9 %)
Presoflex, d.o.o., Croatia (100.0%)	-
M - S, d.o.o., Serbia (100.0 %)	M - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (76.0 %)	M - Rodić, d.o.o., Serbia (88.0 %)
M - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	M - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - Mex, d.o.o., Montenegro (51.0 %)	Mercator - Mex, d.o.o., Montenegro (51.0 %)
Mercator Macedonia, d.o.o., Macedonia (100.0 %)	Mercator Macedonia, d.o.o., Macedonia (100,0 %)
Investment International, d.o.o., Macedonia (100.0 %)*	Investment International, d.o.o., Macedonia (100.0 %)*
-	Mercator - B, e.o.o.d., Bolgarija (100.0 %)*
-	M - BL, d.o.o., Banja Luka (100.0 %)
NON-TRADE COMPANIES	
Pekarna Grosuplje, d.d. (98.4 %)	Pekarna Grosuplje, d.d. (98.8 %)
- Belpana, d.o.o., Croatia (100.0 %)	- Belpana, d.o.o., Croatia (100.0 %)
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
M - Emba, d.d. (100.0 %)	M - Emba, d.d. (100.0 %)
-	M - Nekretnine, d.o.o. (100.0 %)
M - Optima, d.o.o. (100.0 %)	M - Optima, d.o.o. (100.0 %)
Interier, d.o.o. (97.6 %)	Interier, d.o.o. (97.6 %)
-	Evolution, d.d. (100.0 %)
-	Mercator IP, d.o.o. (100.0 %)

* The company has not yet commenced its business operations.

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

Corporate culture values

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

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

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

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

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

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

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

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

Strategic policies of the Mercator Group

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

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

Strategic goals

The strategic goals are defined based on the Medium Term Business Plan of the Mercator Group for the period 2008-2012.

1. GROWTH OF NET SALES REVENUES FROM TRADE

- a. average annual nominal growth in EUR: approximately 9 %

2. TARGET MARKET SHARES

	2007*	2010	2012
a. Slovenia	37 %	36 %	35 %
b. Croatia	6 %	12 %	15 %
c. Serbia	8 %	10 %	15 %
d. Bosnia and Herzegovina	2 %	5 %	10 %
e. Montenegro	-	5 %	10 %
f. Macedonia	-	-	5 %
g. Bulgaria	-	-	3 %

* Market share in Slovenia - Measurement of Mercator's market share (Valicon survey)
Market share in foreign markets -various market surveys and Mercator estimates

3. INVESTMENT AND SOURCES OF FINANCING

- a. annual investment in the average amount of EUR 220 - 260 million, financed by own sources and additional debt capital;
- b. issuing new capital for forming any major strategic combinations.

4. SUCCESSFUL BUSINESS PERFORMANCE AND EFFICIENCY

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

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1 - 9 2007

Harsh business conditions in all markets of Mercator Group's operations continued into the period 1 - 9 2008. A period of rising food and fuel prices was followed by a slowdown in the global economy which additionally aggravated the financial crises whose severity and depth became even more apparent in the third quarter of 2008.

In the period 1 - 9 2008, Mercator responded to the adverse conditions by dedicating even more effort to development of private label products, particularly in the most affordably priced generic line. Mercator also reduced trade margins for numerous products whose supplier prices were rising, thus mitigating the effect of the price increases on our customers. In April, Mercator adopted additional activities aimed primarily at providing favorable shopping for our customers, as they are offered discounts on entire product categories.

The beginning of 2008 saw considerable swings in the interbank offered interest rate Euribor due to inflationary pressures and bleak conditions in the financial markets. The global financial crisis also resulted in pressures on the interest rate margins.

Despite all negative pressures, no considerably effect on Mercator Group's operations is expected or planned in 2008, as retail industry is less sensitive to business cycles than some other industries of the real economy. The effects of the global financial crisis and economic recession in 2009, however, will be appropriately accounted for in our business plans.

Slovenia

In 2007, economic growth in Slovenia was considerable, as high as 6.8 percent. For 2008, the growth is expected to slow down to 4.8 percent. Dynamic investment activity and growing exports are expected to remain the main propeller of economic growth. In Slovenia, annual inflation rate in June amounted to 7 percent; however, it dropped to 5.5 percent in September. The analysts expect the price growth to settle in the last quarter of 2008 or in the beginning of 2009.

Croatia

Economic growth in Croatia has been consistently high in the recent years - in 2007, it amounted to 5.6 percent, fueled primarily by high growth of household consumption and investment. The sector of industrial manufacturing made the biggest contribution to the GDP growth, while the share of construction which had strongly supported economic growth in the previous years due to infrastructural projects (construction of highways) declined somewhat. GDP growth is expected to slow down in Croatia as well in 2008, as it is estimated to amount to 3.7 percent.

Serbia

Real GDP growth in 2007 amounted to 7.5 percent. It was fueled by high domestic demand which in turn relied on expansion of credit (debt) and high growth of labor compensation. Services are the fastest growing sector of the economy, particularly trade, financial services, transport, and communication. No significant changes are expected in economic growth rate; it is estimated to amount to 7 percent.

Bosnia and Herzegovina

Lower growth of credit (debt) and restricting growth of labor compensation in the public sector weakened the household consumption growth in 2007, although it remained at a reasonably high level. At the same time, domestic investment increased while foreign investment drove the growth of exports. Hence, economic growth in 2007 amounted to 6.8 percent, while it is forecast to amount to 5.8 percent in 2008. Towards the end of 2007, inflation rose quickly due to high prices of oil and food in the global markets; this trend was carried on into the beginning of 2008 when average annual inflation is expected to amount to 7.9 percent.

Montenegro

Montenegro's GDP, amounting to no more than USD 2.95 billion, has grown steadily in recent years. In 2007, growth reached 8.2 percent, while in 2008 it is estimated to amount to 7 percent. GDP growth is fueled mostly by increasing household consumption and investment. Rapidly growing imports prevented an even higher GDP growth, as their growth rate was several times higher than that of exports.

DEVELOPMENT AND INVESTMENT

- ✓ In the period 1 - 9 2008, Mercator Group's investment into property, plant, and equipment amounted to EUR 182,976 thousand, of which 36.3 percent was invested abroad. The most funds were allocated for construction of shopping centers and acquisition of landed property for shopping centers and hardware and electronics stores. Additional funds and efforts are also being allocated for refurbishment of existing shopping centers.
- ✓ New long-term financial investments in the period 1 - 9 2008 amounted to EUR 7,297 thousand, which is related to the acquisition of 100-percent ownership share in the company Evolution, d.d., Izola, the acquisition of 100-percent ownership share in the company Naše Vezi, d.o.o., Štanjel, and the acquisition of additional ownership share in the company Pekarna Grosuplje, d.d.

Investment breakdown

Country	Capital expenditure 1-9 2008 (in EUR 000)	Long-term financial investments 1-9 2008 (in EUR 000)	Total (in EUR 000)	Structure in %	Plan 2008 (in EUR 000)
Slovenia	116,540	4,219	120,759	63.5%	139,578
Serbia	19,720	3,072	22,792	12.0%	25,155
Croatia	40,326	0	40,326	21.2%	76,154
Bosnia and Herzegovina	5,425	0	5,425	2.9%	16,642
Banja Luka	0	3	3	0	0
Montenegro	966	0	966	0.5%	6,000
Bolgaria	0	3	3	0.0%	0
SKUPAJ	182,976	7,297	190,273		263,529

MAJOR OPENINGS IN THE PERIOD AT HAND

SLOVENIA

- ✓ On January 23rd 2008, Mercator center Koper II was opened, with 5,150 square meters of total area and 203 parking spots. The new Mercator center is located in a former Emona Obala building which was refurbished to host a supermarket, hardware and electronics store with a gardening center, and café leased out to an external service provider.



- ✓ On March 19th 2008, we opened a hypermarket and Intersport in the NC Supernova in Rudnik, Ljubljana. The hypermarket extends over an area of 5,983 square meters, while the Intersport store has a total area of 1,704 square meters. To obtain the location for both stores, Mercator concluded a long-term lease contract; thus, Mercator's investment only amounted to final construction works in the interior and purchase of required equipment.



- ✓ On June 13th 2008, we opened the refurbished Mercator Center Ptuj, a facility with a total area of 5,861 square meters and 254 parking spots. The hardware and electronics store was relocated to Trade Center Ptuj, and the resulting vacant capacity was used to expand the hypermarket which now measures 3,020 square meters, or 1,389 more than before the refurbishment.



Remaining available space was leased out to three supplementary service providers.

- ✓ On September 4th, we opened the refurbished hypermarket in the basement floor of the Maximarket department store. Thus, we launched a retail unit offering market program goods, services, and shopping comfort of the highest quality. Simultaneously, the frontage of the Maximarket department store was also revamped.

FOREIGN MARKETS

- ✓ On March 20th 2008, we opened Mercator Center Niš with a total area of 21,459 square meters and 502 parking spots; of these, 220 are roofed. The facility includes a hypermarket with an area of 5,767 m², Intersport, Fashion Avenue, Beautique, hardware and electronics store, restaurant, and 58 supplementary offer facilities extending over a total of 4,325 square meters; these are leased to other service providers. The company Mercator - S, d.o.o., signed a long-term lease agreement for the lease of the facility.



- ✓ On June 26th 2008, we opened the first Roda Cash & Carry center in Belgrade, in a leased facility. The center comprises 13,622 square meters of total area, and 8,300 square meters of sales area. There are twenty cashiers for individuals and 10 cashiers for businesses (legal entities). Special offer and packaging is intended for businesses which can now obtain all the supplies they need at one place at the most favorable prices.



- ✓ On July 22nd 2008, we opened the Čapljina supermarket. Total area of the facility amounts to 1,998 square meters, of which 1,258 square meters are allocated for the supermarket while the remaining 295 square include four supplementary offer outlets.



- ✓ On August 30th 2008, we opened a Roda Center in Kragujevac, with a total area of 18,125 square meters and 394 parking spots of which 269 are located in the facility ground floor, under the trade area floor. The Center includes a hypermarket with a total area of 4,594 square meters, Intersport, Modiana, Beautique, hardware and electronics store, and 61 outlets leased out to supplementary offer providers, on a total area of 6,822 square meters. Mercator obtained the facility through a lease agreement.

MARKETING

Market Share

Mercator Group market shares in the markets of its operations have not seen any considerable change in the period 1 - 9 2008, compared to the market shares in 2007.

Mercator Group Market shares by markets of operation

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro
Market share	36.0%	8.0%	6.0%	2.0%	-

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

Marketing Strategy

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

- ! Our customers will be provided with an offer that is suited to the contemporary way of life;
- ! We care for the environment and health
- ! Innovation in the offer of products and services

Customer Relations Management

Mercator Pika card customer loyalty system

Consistently with the goals and strategy of the Mercator Pika card, and with the intent to offer an extra bonus to our loyal customers in a competitive environment, we commenced a fundamental revision of the **Mercator Pika card customer loyalty system** in 2008. The revised system will enable offering additional benefits for the loyal Mercator Pika card holders.

Upon the end of the period 1 - 9 2008, there was a total of **1,223,926 Mercator Pika card holders in all markets combined**. In the period at hand, the number of Mercator Pika card holders increased by 145,090.



Mercator Pika card holders	Slovenia	Serbia	Croatia	BH	Total
as at Dec 31 st 2007	753,380	83,831	169,757	71,868	1,078,836
as at Sept 30 th 2008	807,575	120,854	207,033	88,464	1,223,926
new holders Jan - Sept 2008	54,195	37,023	37,276	16,596	145,090

In Slovenia, the share of total retail revenues from purchases with the Mercator Pika card amounted to 50.4 percent (49.7 percent in 2007) in the period 1 - 9 2008. The share of total retail revenues resulting from purchases with the Mercator Pika card in all markets of Mercator's operations amounted to 40.5 percent. Lower share of sales than in 2007 (43.8 percent) is mostly the result of including the Mercator Pika card purchases in the company M-Rodić, d.o.o., in 2008, as in this company, the activities related to the Mercator Pika card were only launched in October 2007. The share of purchases made with the Mercator Pika card in this company is rising and currently amounts to 11.9 percent. In the last three quarters of 2007, when the card was introduced, it amounted to 3.4 percent.

At the end of 18th bonus collection period, we organized in March 2008 in Mercator Center Jesenice the **PIKA DAY** which included an entire day of entertainment program, sales promotion activities, and convenient presents and awards for the visitors, as well as a major prize competition. Upon the completion of 19th bonus collection period, we organized in September 2008 the **PIKA DAY** which included a major Mercator Pika card prize competition held at the Kanin Hotel in Bovec, and a **day trip** which was attended by one hundred employees from various Slovenian Mercator units.



In cooperation with partners in the Mercator Pika card system, we prepared each month the **Special Pika Discounts** campaign which included offering to the Mercator Pika card holders a wide selection of products and services at truly favorable prices (up to 50 percent lower).



In the period 1 - 9 2008, we carried out nine corporate campaigns **Double Pika Points**. On the day of corporate double Pika points, the value of purchases made with the Mercator Pika card rose on average by 80.3 percent, while the average value of each purchase made with the Mercator Pika card stepped up by 51.9 percent.



Mercator call center

As of March 17th 2008, Mercator call center has been available 24/7, each day of the year, to the Mercator Pika card holders and other customers at phone numbers 080 20 80 80 or 01 560 1850; electronic mail addresses info@mercator.si and klub.mercator@mercator.si; fax number 01 560 1072; and reception office on Dunajska cesta. All inquiries, remarks, and opinions are replied or responded to in the shortest time possible, following high standards of services. 99.9 percent of all contacts are processed and resolved in a friendly, swift, and efficient manner. The response rate to the client's first call is over 85 percent.

Mercator web store

As a part of the Mercator web store revision project, we conducted in the period 1 - 9 2008 a part of the activities of analyzing the current status, and prepared the Mercator Web Store Development Strategy. We also commenced the preparations for launching the hardware and electronics web store. Compared to the first nine months of last year, Mercator web store operations have expanded, although the growth has settled somewhat compared to the period 2006/2007. Nominal value of sales rose by 9 percent, number of orders grew by 2 percent, while the value of an average shopping session (basket) rose by 5 percent and now amounts to EUR 103.

Mercator web portal

In July 2008, we prepared the operating instructions for website management and design in four languages (Slovenian, Croatian, Serbian, Bosnian). Each month, subscribers are sent e-news regarding the Mercator Pika card, Healthy Lifestyle Club, Maxi Club, and Mercator. On September 1st 2008, total number of subscribers amounted to 7,887.

Healthy Lifestyle

In September 2008, we published the 10th issue of the Healthy Lifestyle magazine. We carried on the "running activities" for the club members. Each month, sales promotion campaigns include offering products that are available at a special discount for the club members. Club members were also granted a 50-percent discount on admission fee to the Ljubljana Marathon; upon registration, they were presented with a jogging shirt. As at the end of September, the club had a membership of 32,146. In the period 1 - 9 2008, 15,578 new members signed up.



Maxi Club

In the period 1 - 9 2008, we upgraded the customer loyalty program. Members were sent monthly letters informing them of major events taking place in the store; furthermore, a range of attractive products were offered at discounted prices. At the end of 18th and 19th bonus collection period, we carried out a special event at the department store and randomly chose three Maxi Club members who received special prizes. Along with the refurbishment of the department store, we also altered the entire visual identity of the Club. As at September 30th 2008, Maxi Club had 7,029 members who accounted for almost one half of total revenues resulting from purchases with the Mercator Pika card at the Maxi store.

M mobil

In September 2008, we completed a successful customer loyalty campaign "Collect and Choose" ("Zberi in izberi") which included



offering three M mobil suites including a phone. We opened the seventh M mobil info and sales stand. As at the end of September 2008, M mobil had 13,770 users.

M Holidays

The M Holidays service includes marketing tourist arrangements in cooperation with the tourist agency Kompas. The customers can book their entire holiday in one of six M Holidays offices or at designated Kompas offices. In the period 1 - 9 2008, we issued the catalogues "May 1st holidays and travels 08", "Summer 08", and "Winter 08". Upon the purchase of a travel arrangement, customers are also presented with benefit coupons which link the travel service with our core activity. Each month, attractive offers of travel arrangements are prepared and presented on a Mercator Hypermarket flyer and on the www.mholidays.si website. Each month, we also prepare affordable and interesting offers for Mercator Pika card holders. Three offers were also included in the customer loyalty program "Collect and Select".



Development of Private Label Lines

In the period 1 - 9 2008, Mercator Group continued to pursue the following goals:

- preparing the future development strategy for all private label lines,
- improving the reputation and distinctiveness of the private label lines,
- increasing the number of products offered under private label lines,
- clarity and focus of individual private label lines and building on respective lines with market potential,
- growth of the share of private label products in total sales revenues,
- promoting purchases by sales promotion activities and innovative communication,
- monitoring trends, sales, efficiency of communication, and setting up a comprehensive quality monitoring system for particular private label lines.

In the period 1 - 9 2008, the following activities were carried out with regard to Mercator private label lines:

- **Mercator line:**
 - In the period 1 - 9 2008, we carried on the redesign of the product packaging. At the end of September 2008, the line included 461 products, of which 290 products already featured the redesigned packaging with a blue stripe and appealing photos.
 - We carried on bundling selected Mercator line products into "multi-packs" and supported this activity with effective sales-promotion activities.
- **Total Body Care:**
 - At the end of September 2008, the line included 55 products.

- **Generic line:**

- This line of products continues to pursue a clearly defined goal: the lowest price in the market. At the end of September 2008, it included 28 products.



- **Ambient line:**

- The Ambient line is an upgrade to the **M-line** which includes products for home. As at end of September, the Ambient line included 5 products (the M-line included 86 products).

- **Lumpi:**

- The **Lumpi** product line is being developed for children aged up to 6. At the end of September 2008, the line included 230 products.
- In September, we carried out the campaign "Safe way to school".



- **The Wishing Table:**

- Select products of this line are intended for those that live their lives on the fast lane, and are looking to devote their leisure time to family, sports, and friends. As at the end of September 2008, the line included 120 products.

- **Healthy Living:**

- The goal of this line of products is to stress the advantages of products that meet at least one of the criteria for wholesome, healthy food. Secondary message of communication is motivating a healthy lifestyle with plenty of exercise, and raising awareness of the hazards of modern life. At the end of September, the line included 80 products.

Development of Mercator private label lines also includes the project **"Five per day - let some color into your lives"** which is aimed at promoting consumption of fruit and vegetables. In the period 1 - 9 2008, we prepared permanent special offers and category discounts for the selected type of fruit or vegetable.

We have carried on the activities to present and promote the sale of bread from our own bakery. As of June 20th 2008, the core assortment of bread products of the **Grosuplje bakery** for the entire retail was added to the list of private label products (at the end of September, a total of 51 products from Grosuplje bakery were included in the Mercator private label).

As at September 30th 2008, Mercator private label included **a total of 1,116 products** in Slovenian market (1,968 when all versions with regard to fragrance, flavor, type, color, and design are accounted for). In Slovenian market, Mercator private label products accounted for 13.85 percent of total sales in the period 1 - 9 2008.

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

Number of products and the share of sales of the Mercator private label products in total retail revenues as at September 30th 2008

	Number of products	Share of total sales
Serbia	444	0.69 %
Croatia	460	4.13 %
Bosnia and Herzegovina	624	2.61%

Sales Promotion Projects

Short-term activities included **regular, hypermarket, and cash & carry campaigns**. We redesigned the regular and hypermarket campaign flyer. The campaigns "**Vitamin of the day**" and "**Weekend special offer**" were combined into a single campaign, called "**Special offer - five per day**", taking place each week from Thursday through Monday. In April 2008, we launched the campaigns "**Category discount**" which include offering products of an entire category at a 20-percent or higher discount each Thursday. In July, we extended the campaign to four days; in addition to categories, the campaign includes the leading brands which represent the predominant part of each category. In June 2008, the campaign "**Happy Hours**" was launched at the Rudnik Hypermarket; the happy hours are each day between 9 and 11 AM, and 2 and 5 PM. During these hours, products of a particular category are 30 percent cheaper. As of September 15th 2008, the campaign takes place in all Mercator hypermarkets each Monday and Wednesday.

In the beginning of September, we introduced the **fresh meat weekend campaign** which took the place of a number of scattered local campaigns. By unifying the offer and inclusion of all Mercator retail units, we optimized advertising costs. The campaign takes place from Thursday to Monday; each week, two products are included.

In **Hura!** stores, the concept of the previous Hura! news flyer was changed at the beginning of this year. In June 2008, special offers were advertised on billboards, in printed media, and on the radio.






In the March 2008, we revised the **Guide to favorable shopping in Mercator**. The key changes are related to defining the conditions for inclusion of products into respective projects (minimum percent of price reduction compared to regular price) and labeling of products in the aisles.

We also carried on our long-term projects "**Every day low price**" and "**Slovenian basket**". In April 2008, we launched a new **customer loyalty program** called "**Collect and Choose!**" ("Zberi in izberi!"); in May and June, a special **sales campaign focused on the European Football Championship** was carried out.

With regard to advertising our sales promotion campaigns, we comprehensively revised our communication. The key roles in our advertising materials are played by our sales personnel who interact with the customers to present daily situations from our stores in an amusing way. The story always includes in an innovative way up to three products. In the same spirit, we revised the printed advertisements, billboards, and special offer flyers.

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

- **Hardware and electronics:** we carried out regular campaigns and specialized campaigns, prepared various activities for particular products and categories, and took part in co-promotional activities in cooperation with our suppliers. We also revised the visual identity of the Photo Corner ("Fotokotiček") project, took part in market format campaigns by including attractive products and special offers, and carried out the first **tying** campaign that links the purchases of hardware and electronics products with those of the market program. 
- **Textile and beauty program:** we carried out a post-season clearance sale; our most loyal customers were sent a spring letter and offered the service of fashion consulting; we also organized the spring "Fashion Meeting". We prepared fashion collections, or collages, and worked with "styling sections" of printed media. As a part of the *Gloss Express* magazine, we issued a beauty guide and presented a wider offer in our stores. We also carried out two tying campaigns (market program, textile program and Beautique). Drugstore and perfume shops **Beautique** also engaged in regular campaigns, make-up days and customer loyalty activities. Special offers are prepared monthly for the members of the *Maxi club* and the *Mercator Pika* card holders. 
- **Intersport:** We carried out the winter clearance sale, prepared sales promotion campaigns, issued four special-topic guides, carried out billboard advertising campaigns and the 2nd and 3rd stage of the Intersport's international campaign "Where Football Begins", as well as took part in various events. We have completed and updated the contents of the intersport.si portal. Each month, our products were also included in the projects of the *Mercator Pika* card, *Healthy Living*, *M Holidays*, and *M Mobil* projects. 

We carried on the campaign "**YES! coupon**"; the customers who buy products with a total value of EUR 50 or more on any given Tuesday, are presented a "YES! coupon" that grants them a discount when shopping on the following Tuesday.

Sales promotion activities that have proven successful in Slovenia are also carried out within all sales programs in foreign markets as well. In the period 1 - 9 2008, we focused in all markets on improving price competitiveness and localization of all marketing projects.

STORE FORMATS

Development of new store formats

Type A hypermarket (hypermarket Rudnik)

In March 2008, the second type A Mercator hypermarket was opened in the trade center Supernova in shopping center Rudnik, Ljubljana. This type, or format, of store involves the implementation of an entirely new sales concept developed in cooperation with the renowned agency JosDeVries and introduced for the first time upon the refurbishment of the hypermarket in Ljubljana Šiška.

Like the hypermarket in Šiška, this unit is also intended for the most demanding customers and offers a neat, attractive shopping environment with a wide choice of high-quality goods at favorable prices. Hypermarket features modern technological equipment.

In addition to rational prices, particular attention is paid to rich and high-quality offer, health care and ecological awareness, and comfort during shopping and adequate response to keen interest in our products shown by our customers.

The hypermarket offers a wide array of additional services (preparation of vegetable and fruit salads, freshly squeezed juices, offer of pre-packed products in the deli, preparation of various dishes at the culinary island, "Recipe of the Week", gourmet offer, photo services, etc.) which represent a competitive advantage over other retailers.

Comfort store in the Maxi department store

In the beginning of September, Mercator opened the first store of the new store format - **the comfort store**. The comfort store concept in the Maxi shopping center excels with an attractive, pleasant, colorful, and diverse shopping environment with a dynamic layout and a free shopping route; each section is carefully designed and organized, with emphasis on visual elements (lighting, visual identity of each section, labeling, equipment, additional features, etc.).

Maxi comfort store is targeted at more demanding customers, which is reflected in both the shopping environment and in the offer that includes numerous specialties from all over the globe. The versatility of the offer is particularly notable in the fresh program sections, as well as in some categories of the dry program; offer of organic products is also quite extensive. In addition to excellent offer, the store also provides various services (e.g. recipe of the week) and new types of product promotion (e.g. offer of the week, cold cuts catalogues, fruit and vegetable platters) - all this to inform the customers, to present the product range in a more attractive way, and to promote sales.

Development of new technologies and services

In 2008, we have continued to introduce new technologies into our stores. In the period at hand, increasingly popular **self-check-out cashiers** were installed in ten Mercator hypermarkets and two supermarkets. The share of purchases completed on this equipment ranges between 17 and 37 percent. We have also started to implement this technology in hypermarkets in Croatia; thus far, Tik-tak self-check-out cashiers are available in hypermarkets in Istria, Dalmatia, and Zagreb.

We also carried on the introduction of **info stands** for the categories of wine, fresh and frozen meat, and fresh fruit and vegetables. The mentioned info stands were introduced in hypermarkets in Slovenia; furthermore, the project is fully under way in Croatia as well. Each info stand is currently used by an average of 2,200 customers monthly. In Slovenia, intensive preparations are under way to introduce the stands in two new categories: hard liquor and cosmetics.

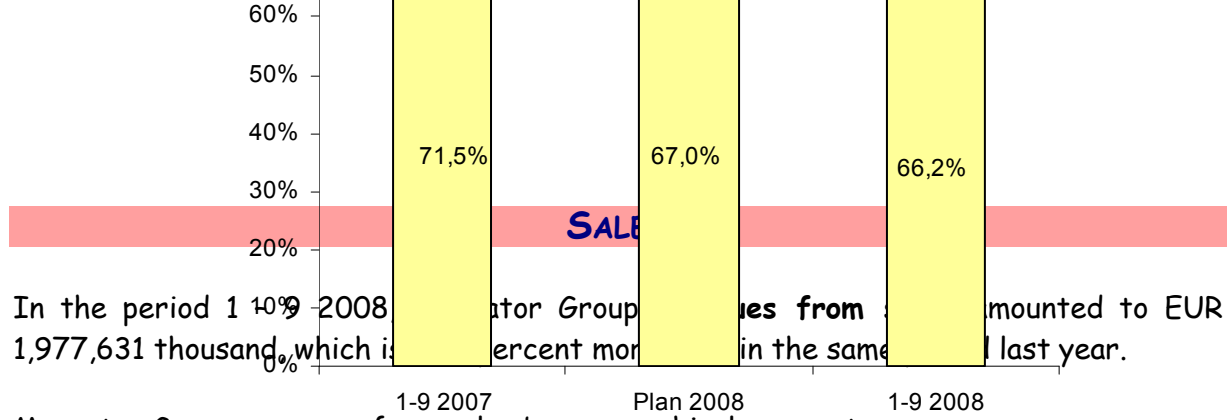
We are also preparing the project of introducing **info terminals** to Mercator's biggest centers. These terminals will allow the customers access to information on the offer at the Center and the hypermarket, as well as a book of suggestions and remarks, special campaigns flyers, etc.

In the period 1 - 9 2008, we also extended the offer of our services. Thus, we carried on the expansion of our **photography services** as photo corners were introduced in six more stores.

Composition of retail units

Breakdown of Mercator Group retail unit composition by types of stores, respective programs, and individual markets, as at September 30th 2008

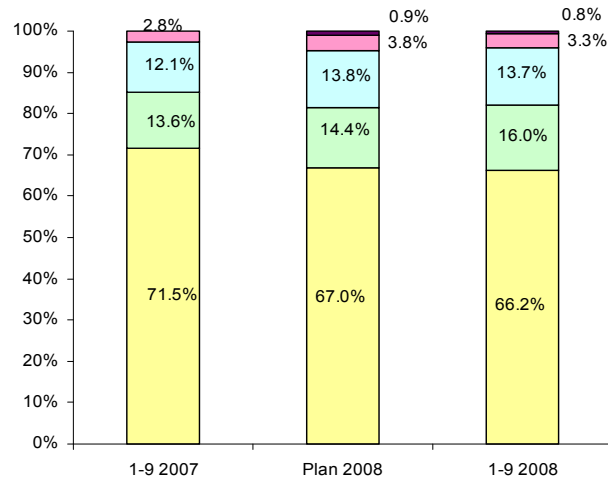
	SLOVENIA	CROATIA	SERBIA	BIH	MONTENEGRO	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	17	13	11	3	-	44	236,660	147,841
Supermarkets	129	24	21	11	4	189	215,872	139,710
Superettes	289	47	18	2	5	361	149,869	84,402
Neighbour stores	75	18	7	-	2	102	15,977	8,919
Cash & Carry	10	-	2	-	-	12	33,181	21,592
Hard discount stores	16	-	-	-	-	16	12,866	9,348
TOTAL FMCG programme	536	102	59	16	11	724	664,425	411,811
Technical programme	103	15	4	-	-	122	152,551	81,761
Technical programme	71	14	2	-	-	87	117,547	56,096
Furniture programme	32	1	2	-	-	35	35,004	25,665
Clothing programme and drugstores	100	28	16	5	-	149	67,217	55,222
Clothing programme	83	28	9	4	-	124	64,188	52,813
Drugstores and perfumeries	17	-	7	1	-	25	3,029	2,409
Intersport	29	19	7	4	-	59	32,865	25,213
Restaurants	24	15	7	9	-	55	16,525	9,941
TOTAL specialised programmes	256	77	34	18	-	385	269,158	172,136
TOTAL	792	179	93	34	11	1,109	933,583	583,947
Franchise stores	218	69	-	-	-	287	52,836	33,991
TOTAL with franchise stores	1,010	248	-	-	-	1,396	986,419	617,938



In the period 1 - 9 2008, Mercator Group revenues from sales amounted to EUR 1,977,631 thousand, which is 4.7 percent more than in the same period last year.

Mercator Group revenues from sales by geographical segments

Legend: Slovenia (Yellow), Serbia (Light Green), Croatia (Light Blue), Bosnia and Herzegovina (Pink), Montenegro (Purple)



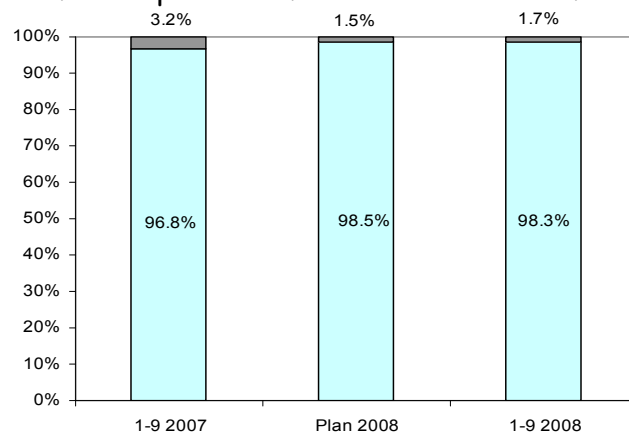
Legend: Slovenia (Yellow), Serbia (Light Green), Croatia (Light Blue), Bosnia and Herzegovina (Pink), Montenegro (Purple)

In Slovenia, revenues from sales of the Mercator Group amounted to EUR 1,310,176 thousand in the period 1 - 9 2008, which is 4.7 percent more than in the corresponding period last year. The increase is mostly the result of highly committed marketing activities and opening of new and refurbished retail units.

In foreign markets, revenues from sales amounted to EUR 667,455 thousand in the period 1 - 9 2008, which is 33.8 percent more than in the same period last year. The increase is primarily the result of highly committed marketing activities, opening of new and refurbished retail units, and the inclusion of the company Presoflex, d.o.o., Croatia, into the Group.

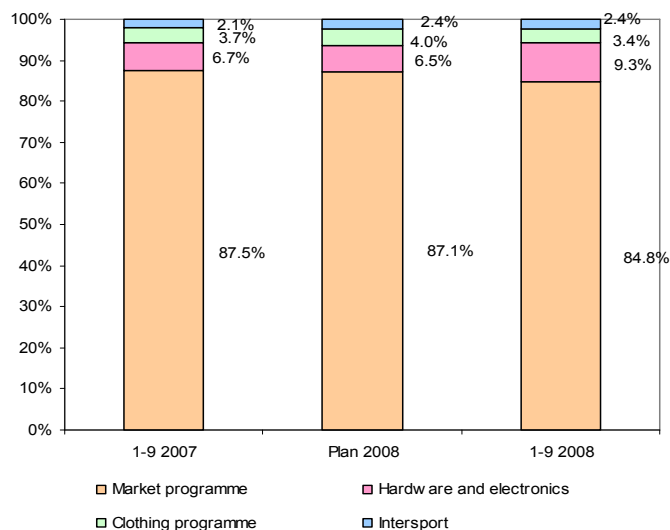
Mercator Group revenues from sales by business segments

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



Legend: Trade (Light Blue), Non-trade (Grey)

In the period 1 - 9 2008, the majority of Mercator Group trade activity revenues resulted from sales of **market program** products as they accounted for 84.8 percent of trade activity revenues from sales; share of total revenues from sales generated in other **specialized trade programs** amounted to 15.2 percent.



CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category management and supplier relations

Cooperation with the suppliers in the first nine months of the year was mostly based on extending and implementation of the category management principles in daily operations, both in the field of price assortment as in promotion and aisle positioning. This means that all agreements on annual contracts were made by considering these principles. In the third quarter, additional activities were commenced to improve our pricing perception and price competitiveness.

We were strongly dedicated to improving the offer in our retail units and to adjusting the assortment for specialized wholesale customers. Our most demanding customers can now identify our best product assortments in Mercator Center Ljubljana and Mercator Center Rudnik, as well as the refurbished store in Maximarket where the offer was adapted to suit our most demanding customers (focus on gourmet offer). We remained focused on the target categories. All retail facilities that failed to perform as planned prepared additional activities and offers.

With regard to pricing policy we continued to use all means available to mitigate the effects of the changes in prices of FMCG announced by some of our suppliers (as a result of rising raw material and energy costs). Upward pressure on supplier prices and thus on inflation was extraordinarily strong. We constantly negotiated any price increases with our suppliers, postponing the confirmations of price lists and looking for the best solutions for our customers. Towards the end of the third quarter, the pressure on prices began to subside.

We continued to introduce appealing and competitive products into campaigns such as "Every Day Low Price"; we also introduced a new project called "locked prices" and cut prices at the expense of our sales margins. All activities were carried out to the benefit of our customers, with their satisfaction as our main target. We have also devised some new activities that have already begun to yield positive sales results.

In addition to the usual element of price competitiveness, sales promotion activities were focused on specific market circumstances related to changes in consumer product, of FMCG prices.

In cooperation with our suppliers, we carried out numerous activities to reduce packaging units, introduced semi (half-load) pallets, and worked to reduce inventories throughout the retail network.

We also reduced delivery failures and kept them at an acceptable level that enables operation without major negative effects.

With regard to trademarks, we continued to carry out international tenders, which means that we attained lower purchase prices on the one hand and replaced non-competitive suppliers on the other. Expanding the private label products to all markets of our operations was among our top priorities.

We worked with our suppliers to coordinate numerous activities in order to facilitate the operations of our retail networks abroad.

Category management

Changes in market conditions led us to redefine the key areas of activity with regard to price competitiveness and pricing perception, promotion policy, sales area management and store formats, category management, and customer relation management.

LOGISTICS

In the period 1 - 9 2008, we continued to provide quality logistics services for all entities of the system that require them.

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

In Slovenia:

Warehouse integration and consolidation:

- redirecting the frozen program from Ptuj warehouse to the one in Naklo;
- emptying of the hardware and electronics warehouse Šmartno ob Paki,

- refurbishment of the Velenje warehouse for the requirements of hardware and electronics,
- redirecting the market program products from the Šempeter warehouse to Ljubljana,
- setting up a leased tent for warehousing of sanitary ceramics in the Šempeter pri Novi Gorici warehouse;
- relocating the activities of the fruit-vegetables warehouse from location Tržaška 33, Maribor, to the refurbished warehouse Bohova,
- completing the project on Slovenčeva; construction of new roofed area for storing packaging material and refurbishment of the warehouse;
- preparing the current status analysis for selected facilities in order to prepare the project "Acquisition of the international status of an AEO-authorized legal entity" related to customs proceedings simplification, security, and safety.

Activities for construction of the Mercator Logistic Center:

- new technological solutions were presented,
- based on the analysis of received technological solutions, requests for extending the offers in order to make them more comparable and to ensure physical flow of goods, were submitted to all three potential suppliers.

In foreign markets:

Activities for unifying the logistics activities of the Mercator Group:

- preparing technological solutions for the rented warehouse Zagreb Business Park ("Poslovni Park Zagreb"),
- training a project team that will manage and implement the refurbishment of the warehouse in Novi Sad.

ORGANIZATION AND QUALITY OF OPERATIONS

With respect to organization and quality of operations, our efforts in the period 1 - 9 2008 were focused on the development of organizational structures, rationalization of business processes and standards of operation, and prevention of any incompliance.

Managing organizational structures, and systematization of workplaces and standards of operation

Changes were introduced due to the transfer of operations of the company Pekarna Grosuplje, d.d., to the company Mercator, d.d.; furthermore, the companies M-Rodić, d.o.o., Mercator-S, d.o.o., and Mercator-H, d.o.o. were reorganized; organization structure of the company Mercator-Mex, d.o.o., was also changed and the following new subsidiaries were merged with the Group: Mercator IP, d.o.o., Mercator - B, e.o.o.d., and M-BL, d.o.o., Banja Luka.

Development and maintenance of quality systems, coordination of audits, and managing non-compliance and corrective measures

The spring and summer part of the internal audit were carried out in the company Mercator, d.d., and preparation for its fall part was carried out, which will include for the first time the internal audit according to the standards ISO 14001 and ISO 22000. New internal auditors have been trained to perform audits in compliance with the standards ISO 9001, ISO 14001, AND ISO 22000. In the companies Mercator, d.d., Mercator-H, d.o.o., and Mercator-BH, d.o.o., external audit in compliance with the standards ISO 9001 was also successfully carried out. In the company Mercator, d.d., measures based on the findings of this audit have already been implemented, and preparation of external audit in compliance with the QWeb certification scheme is under way.

In the company Mercator, d.d., electronic issuing and management of records of preventive and corrective measures has been implemented. Preparation of IT support for paperless management of non-compliance, recommendations, and praises in the process is currently under way. An appropriate solution is being sought to establish an electronic register of contracts and agreements.

Within the environment protection project in compliance with the provisions of the ISO 14001 standard, a status assessment was prepared as the basis for further progress of the project. Documentation is being prepared for the project of ensuring safe food in compliance with ISO 22000 standard. In the company M-Rodić, d.o.o., training of managerial personnel and executive officers was carried out as a part of the project of acquiring the ISO 9001 certificate of quality; preparation of required documentation is currently under way.

Internal control and prevention of non-compliance of goods and performance of non-compliant business processes

We carried out regular and extraordinary internal controls; most notably, extraordinary controls are still conducted in the Rudnik and Šiška hypermarkets. In September, we launched regular weekly extraordinary controls in Maximarket Ljubljana. At the Mercator Group level, new instructions for cashier operations are being prepared in order to unify the system of process operation and the process control system.

With respect to the safe alimentary product management system, we compiled the Rules of Procedure for the Foodstuff Safety Management System in the company Mercator, d.d. A new version of the instructions for withdrawal of products is being prepared, which will also include hazardous hardware and electronics products; within the Chamber of Commerce and Ministry of Economy, we also prepared a new version of Guidelines for sound hygienic practice based on the principles of the HACCP system in trade activity; these Guidelines were adopted in October 2008.

With regard to legislation, particularly misleading advertising, we worked closely with control authorities in order to adjust our advertising to the new statutory requirements.

Training was carried out for conducting internal control in compliance with the principles of the HACCP system, legislation, Mercator's store manager training, and transfer of knowledge through the coaching network in foreign markets.

Progress of the activities of the business process optimization strategic project

In order to improve efficiency and to reduce operation costs of the Mercator Group, the following activities were carried out in the period 1 - 9 2008:

- We completed the upgrade and internationalization of tools for flexible working hours allocation planning in retail outlets. We developed a basic set of tools for inventory management in stores in Slovenia and Croatia, as well as the tools for delivery frequency optimization in retail units in Slovenia.
- We have completed the group training of users of tools for flexible working hours allocation planning in retail outlets in Croatia, and training of users of efficient inventory management tools in stores in Slovenia and Croatia. With respect to these measures, individual training has been completed in Slovenia, while in Croatia, the second stage of visits at the retail units, intended for individual consulting, is under way.
- For each store, we defined the goals related to improved efficiency and decrease in costs to be attained each quarter and at the end of the year. The goals were defined by taking into account the synergy of all projects currently under way. To this end, we have prepared a manual for conducting and monitoring the retail unit visits.
- In the companies M-Rodić, d.o.o., and Mercator-S, d.o.o., we completed the management of master data related to items and categories in compliance with the Mercator Group standards. As a part of the pilot project in progress in three selected stores in Serbia, we provided conditions and carried out the implementation of automatic goods ordering in stores.
- In the centralized non-trade goods and services procurement system, we prepared and implemented the standard for use of goods from the petty inventory department in retail units in Slovenia and Croatia.
- With regard to the Environment protection cost management project, we carried out the activities related to setting up a system of monitoring the effects of operations on the environment.

INFORMATION TECHNOLOGY

Consistently with the strategic project of IT system revision, we carried out activities in the following key areas in the period 1 - 9 2008:

- **IT system revision:**
 - As a part of the support function IT system revision project, we completed the upgrade of some modules of the SAP software solution and successfully implemented their regular application; we also commenced the activities of expanding the basic SAP modules in the companies Mercator-H, d.o.o., and Mercator-BH, d.o.o., and extended the use of the basic SAP modules to the social enterprise Mercator IP, d.o.o.
 - As a part of the material operation IT system revision project, we carried on the preparations for the implementation of the G.O.L.D. software solution, and the integration of trade POS system with the G.O.L.D. software.
- **customer loyalty system revision:** we are currently completing the revision and upgrade of the existing Mercator Pika card system, the (LAN, WAN) connection network, and the system for processing the Mercator Pika card transactions.
- **IT support to general operations optimization projects in the Mercator Group:** we introduced the inventory and automatic ordering reporting system in retail in Slovenia and Croatia, and extended the flexible work hours allocation system in the retail outlets in Croatia;
- **IT support to management and decision-making:** we developed the tools for planning and additional reports to support category management projects, and launched the project Integral Material Operation Data Warehouse;
- **IT support to warehouse operation and logistics:** we upgraded the IT support for transport route planning (RPS), automatic ordering system, and the system for compiling orders by distributors;
- **IT support to retail, manufacturing, and catering:** we carried on the qualitative upgrade of the POS trade systems (category discount, happy hours, etc.), unification of IT support (manufacturing and catering), and extended the introduction of TIK TAK self-check-out cashiers in Slovenia and Croatia.

In new markets, we carried on the unification of IT support to retail and wholesale in compliance with the support standards to the companies of the Mercator Group.

Financial liabilities

In the period 1 - 9 2008, financial liabilities in the Mercator Group rose by EUR 208,428 thousand or by 24.9 percent compared to the end of 2007; this is mostly the result of investment dynamics.

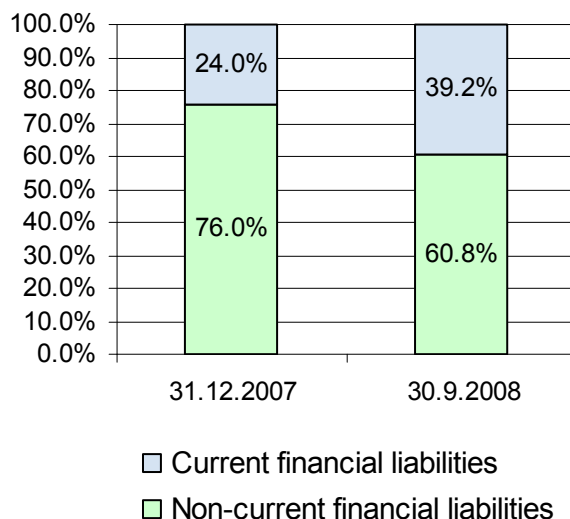
Capitalization ratio

As at September 30th 2008, the capitalization ratio of the Mercator Group amounted to 1 : 1.18 (at the end of 2007, the ratio was 1 : 1.16); this is the ratio between equity - comprising disclosed equity plus provisions for liabilities and charges - and debt capital comprising non-current and current financial liabilities and non-current financial lease liabilities.

Long term coverage of non-current assets

As at September 30th 2008, long-term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 85.6 percent.

Ratio between current and non-current financial liabilities



Obtaining sources of financing

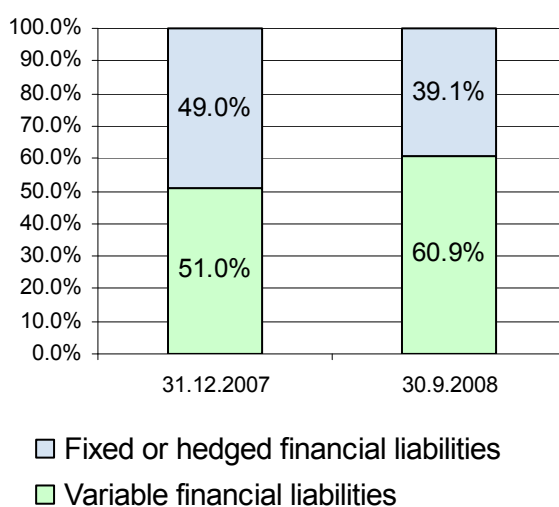
In the period 1 - 9 2008, Mercator took both long-term (non-current) and short-term (current) bilateral loans for financing new investment activities, as well as for refinancing the existing sources. During this period, the Group also signed agreements on financial lease with total value of EUR 33,766 thousand.

Due to stringent conditions in financial markets, additional reserve financial sources were drawn on as a precautionary measure in the first half of the year 2008; these

findings had been allocated to short-term investments until they were required. Particularly in the recent few months, Mercator has noted an increase in interest rate margins mostly resulting from reduced liquidity of commercial banks and weaker confidence in the interbank market; higher costs of interbank loans were thus levied by the commercial banks on the real sector. Availability of long-term financing sources has also decreased, which is another effect of the financial crisis' impact on the banking market.

Particularly abroad, the use of long-term operative lease of trade facilities constructed for Mercator by local real-estate partners was resorted to as an important form of financing our investments.

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



MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

Share capital of the company Poslovni sistem Mercator, d.d., as at September 30th 2008, was divided into 3,765,361 shares. Nominal price per share amounts to EUR 41.73.

The shares of the company Poslovni sistem Mercator, d.d., are listed on the **prime market of the Ljubljana Stock Exchange, d.d.,** under the trading code **MELR.**

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

Key information for the shareholders

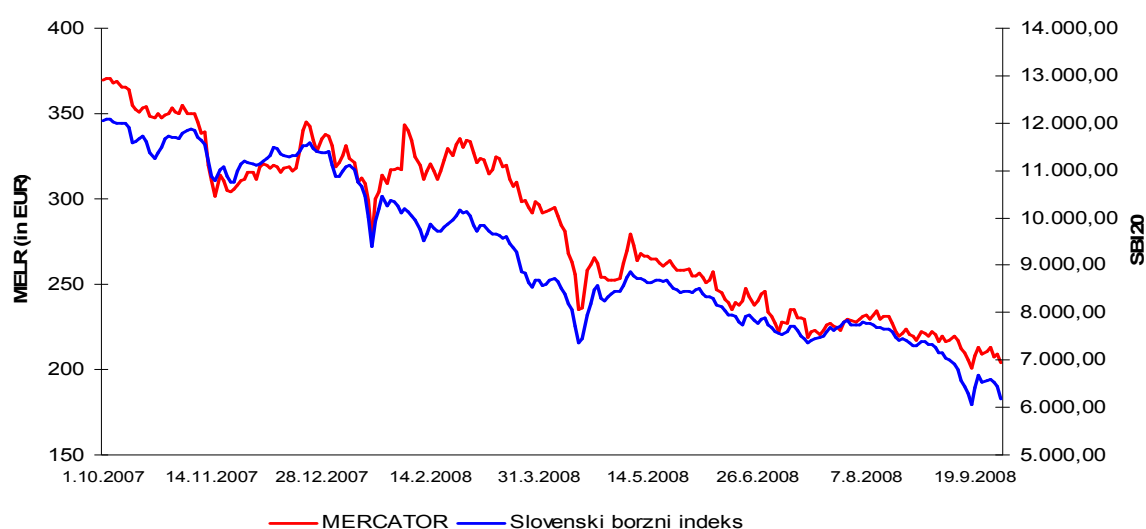
	30.9.2008
Number of shares registered in Court Register	3,765,361
Market capitalization (in EUR)	768,208,951
Market value of share (in EUR) on September 30th 2008	204.02
Book value per share (in EUR) on March 31st 2008	212.12
Annual low (in EUR)	200.83
Annual high (in EUR)	343.58
Weighted average market price, excluding block and cross trades (in EUR)	284.42
Earnings per share (in EUR)	6.3

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

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

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

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



Dividend policy

At its regular meeting held on April 17th 2007, the Supervisory Board of the company Poslovni sistem Mercator, d.d., adopted the company dividend policy for the period 2007 - 2010. Based on the newly adopted dividend policy, the Supervisory Board and the company Management Board proposed to the Shareholder's Assembly in the years 2007 - 2010 the payment of gross dividend in the following sums:

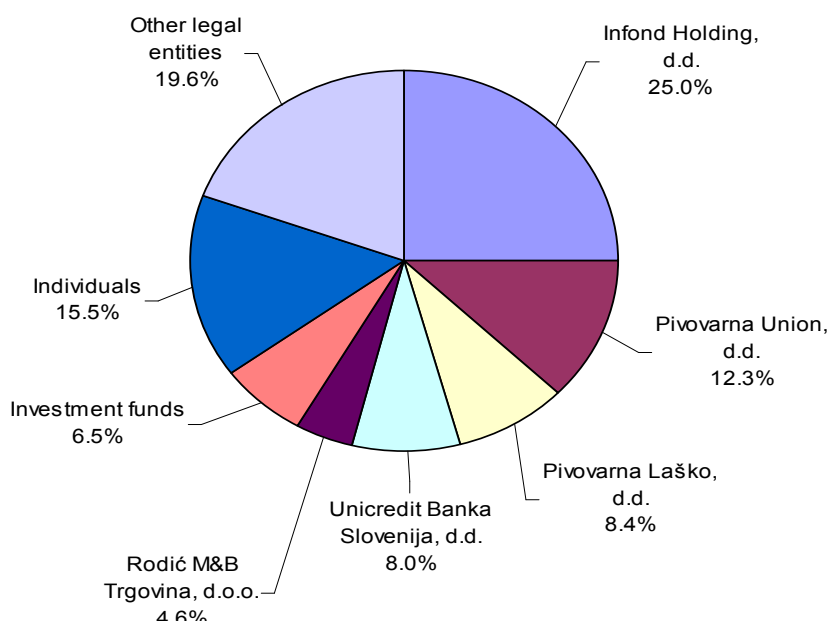
- EUR 4.00 per share in 2007,
- EUR 4.25 per share in 2008,
- EUR 4.50 per share in 2009,
- EUR 4.75 per share in 2010.

The actual sum of dividend per share for each business year respectively will be subject to Shareholder's Assembly decision. The adopted dividend policy - considering the development, taxation, and other relevant issues - represents an appropriate compromise between dividend yield of the shareholders and allocation of net profit for financing company investment plans; on one hand, this will enable long-term maximization of shareholder benefit, while on the other hand it will support long-term growth and development of the Mercator Group.

Company Ownership Structure

As at September 30th 2008, the **Share Register** of the company Poslovni sistem Mercator, d.d., indicated **17,326** shareholders or 169 less compared to the situation as at December 31st 2007.

As at September 30th 2008, the **ownership structure of the company Poslovni sistem Mercator, d.d.**, was as follows:



Major shareholders

As at September 30th 2008, the following ten largest shareholders combined owned **69.39 percent** of the company.

Major shareholders	Country	Number of shares	Ownership share
1 Infond Holding, d.d.	Slovenia	941,301	25.00%
2 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 Unicredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 NFD 1 Delniški investicijski sklad, d.d.	Slovenia	107,201	2.85%
7 Radenska, d.d.	Slovenia	96,952	2.57%
8 Hypo bank, d.d.	Slovenia	77,967	2.07%
9 Smallcap World Fund	USA	69,933	1.86%
10 East Capital Balkan Fund	Sweden	61,490	1.63%
Total		2,612,686	69.39%

Foreign shareholders

As at September 30th 2008, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.41 percent**, which is 0.91 percentage points less than at the end of 2007.

Shares owned by Management Board members

As at September 30th 2008

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

Shares owned by Supervisory Board members

As at September 30th 2008

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

Treasury shares

In the period 1 - 9 2008, the company Poslovni sistem Mercator, d.d., neither acquired neither disposed of treasury shares.

As at September 30th 2008, the company Poslovni sistem Mercator, d.d., held 42,381 treasury shares with the total value of EUR 3,250 thousand.

RISK MANAGEMENT

In Mercator Group, systematic monitoring, analysis, and management of risks was carried on in the period 1 - 9 2008, consistently with the Rules of Procedure on Risk Management.

Exposure of the Mercator Group to key risks in the period 1 - 9 2008, compared to the end of 2007, **did not change considerably**; however, particular attention was paid to financial risks in the third quarter of 2008.

Short-term solvency: as early as in the beginning of 2008, we have prepared measures to mitigate the negative effects on our operations; paired with high cash flow from our regular operations, these measures have resulted in timely settlement of any liability we have had towards our business partners by agreed deadlines.

Long-term solvency: Mercator has long pursued a conservative financial policy in order to wall in from the external turmoil in the financial sector. In Mercator, we are ensuring 90-percent long-term coverage of non-current assets and we are financing the net current assets with short-term bank loans; furthermore, we have kept the refinancing risk at a very low level. Conservative capital composition of the Mercator Group, i.e. the ratio between ownership and debt capital, also reduces the exposure to risks.

Investment: Mercator is pursuing its investment activities in compliance with the Business Plan; this is enabled by unhindered financial operations even in the time of financial crisis. In the past, Mercator has financed over 55 percent of investment with own resources consisting of net cash flow and disinvestment from commercially unviable assets.

Access to international financing sources: By expanding to new markets, Mercator has drawn the attention of many new investors who may be prepared to finance Mercator's development even in the time of financial crisis. As early as in 2007, we have started to study some alternative sources of financing, which we shall resort to if the financial crisis persists, thus securing the funds required to carry out the planned investment projects.

Interest rate risk management: Mercator has managed to effectively tame the risk of rising financing costs to a considerable degree as early as in 2006, by using interest rate swaps and free collars.

SOCIALLY ACCOUNTABLE ACTION

Sponsorships, Donations, and Charity Campaigns

Mercator's socially accountable action is consistent with the adopted goals and annual strategies. Our aid is oriented towards the fields of our operation, and focused on those that need our help the most. In Slovenia, we donated funds to the Kranj Healthcare Center for the purchase of emergency ultrasonography equipment, Adolf Drolc Healthcare Center in Maribor for the purchase of an elevator, and the Internal Clinic of the Ljubljana University Medical Center for the purchase of medical equipment, and the "Varna Pot" institute, for car seats for children with disabilities. We also purchased defibrillators for all our trade centers, donated funds to families in a very poor social status, and contributed funds for construction of a community health care center in Železniki. We also engaged the M Holidays service to provide holiday arrangements for socially deprived families.

We presented gifts to Slovenian Golden high school graduates and took part in the Slovenian Festival of Science. In the field of sports, we contribute funds to basketball, football, handball, and cycling clubs. We traditionally provided funds for our Olympic Team headed to Beijing this year. We also took part in the major Slovenian sporting event, the Planica ski jump competition, as well as the Franja cycling marathon and the handball festival in Izola. We supported the Europa Donna association in the organization of a charitable running competition whose proceeds were donated for the purchase of equipment for discovery of cancer, and joined the war veterans in a memorial climb to Triglav. The project "Z glavo na zabavo" ("Party without losing your head") has also begun, in which we team up with the ZGNZ foundation to warn the young of the perils of excessive alcohol consumption. Preparations for the major sporting event in fall, the Ljubljana Marathon, are also under way.

We also contribute funds for various cultural events, including the Golden Concert Series in Cankarjev Dom, the Week of Slovenian Drama in Kranj, the famous exhibition at the Municipal museum, International Graphic and Visual Arts Center, and the exhibition of impressionists in the National Gallery. Mercator also purchased a superior creation "The Russian Butterfly" by custom designer Alan Hranitelj and sponsored an exhibition at the National Museum. We are the main sponsor of the festival City of Women which is traditionally held in Ljubljana.

In Croatia, we are taking part in the humanitarian campaign "Petrova trudionica - što osjeća mama osjeća i beba" ("Peter's Maternity Hospital - The Baby Feels what the Mother Feels"); the campaign is aimed at improving the working conditions at the Zagreb maternity hospital. We also raised funds for the refurbishment of the Shelter Home for Homeless Children. We sponsored the international carnival in Rijeka, a football and a handball club, a young badminton player, and the Youth Sports Games ("Sportske igre mladih"), the biggest sporting event for young athletes. We joined the project "Kuglom protiv pušenja" ("Bowling Against Smoking"), took part in the Latinica TV show, and donated funds for the socially threatened families. We also donated funds for the construction of rehabilitation center in the Velika Gorica area. Our funds

allowed female athletes to attend the Beijing Olympics. This year, too, we sponsored the Ulysses Theater on Brijuni.

In Serbia, our funds were donated to the Shelter Home for Children and Youth in Niš, University Library of the University of Niš, the Student Cultural Center in Niš, Niš Puppet Theatre, Gallery of the Serbian Emigrant Association, and "Dragon Children's Games"; we also donated funds for endangered Roma families and other families living in poor social conditions. Our funds were also donated to the Indoor Football Club Ekonomist ("The Economist"), and the FMK Železnik for organization of European Junior Basketball League. Upon the opening of our store in Kragujevac, we donated funds to the First Gymnasium in Kragujevac and a CTG (computer tomography) equipment to the Kragujevac hospital.

In Bosnia and Herzegovina, we donated funds to the Social and Educational Community (Socijalna pedagoška životna zajednica) in Bihać, Association of Citizens of Slovenian Descent from Tuzla, the Osmjeh Nade (The Smile of Hope) Society from Kalesija, Ski Society Prijatelji prirode (Friends of Nature ski club), kindergarten from Čapljina, Association of Mothers of Handicapped Children from Tuzla, Shelter home for children and youth in Kiseljak, Sarajevo Association of Patients Suffering from Dystrophy, Women's Health Empowerment program in Sarajevo, Home for the Elderly in Goražde, Association of Paraplegics and Patients Suffering From Poliomyelitis, Institute for Planning and Construction in the Kakanj municipality, sports-ecology society Zelena Glava (Green Head) from Mostar, Tušanj primary school in Tuzla, basketball club Bosna, Bosnian visual artists, and the SPARS basketball club from Mostar.

Care for the Environment

In trade companies of the Mercator Group, our activities are conducted in compliance with the legislation; we are constantly looking to reduce any harmful impact on the environment and to prevent pollution. The following activities were carried out to reduce the consumption of raw materials and energy in the period 1 - 9 2008:

- The initial estimate of impact on the environment in the company Mercator, d.d. was drafted. The purpose of this estimate was to analyze the current status of systemic elements in the field of environment protection and to collect basic information on the impacts on the environment. Based on the initial estimate of the environment management status in the company Mercator, d.d., we started to set up an environment management system in compliance with the ISO 14001 standard. A part of the required documentation has already been compiled and published (Rules and Regulations on Environment Management; Register of Environmental Aspects, Locations, and Indicators; Organizational Rule on Managing Environmental Aspects and the Environment Management Program).
- The company Zeos, co-founded by Mercator, is one of the companies that we can team up with to organize a uniform and effective system of collecting waste batteries and car batteries in the company Mercator, d.d.

- We worked with the company Slopak to set up a dry-installation strain gauge scale at the location of Distribution Center Slovenčeva. This way, we will provide for adequate monitoring of the volume of generated waste packaging.
- A project paper titled Energy Policy for the Mercator Group was prepared as a part of the Mercator Business Academy.
- On May 31st 2008, the European project SARA (demonstration project within the Eco-Buildings - energy demonstration initiative of the European Commission) was completed after four years. All starting points for the construction of an energy-efficient facility within the SARA project were implemented during the refurbishment of the facility Mercator Center Ljubljana.
- As a token of support to the initiatives to reduce light pollution, we turned off the major lights in fifteen major Mercator Centers across Slovenia on September 17th 2008 from 21.50 to 22.00.
- We worked with the Slovenian Power Company Holding (Holding slovenskih elektrarn) in the development-oriented pan-Slovenian campaign called *Energija.si*. The philosophy behind the *Energija.si* brand is to establish links and motivate cooperation between various partners in order to promote efficient use of energy.
- In order to educate the employees, we carried out - as a part of the store manager training - lectures on efficient use of raw materials, processed materials, and energy in Mercator.
- We have carried on our activities for educating our employees by publishing a series of popular science articles on environment protection and economic use of energy in our internal magazine.

Care for the Employees

Number of employees

As at September 30th 2008, the Mercator Group employed **21,318** people of which **38.7 percent** were employed in foreign markets. The company Poslovni sistem Mercator, d.d., had **12,688** employees, or **59.5 percent** of all employees.

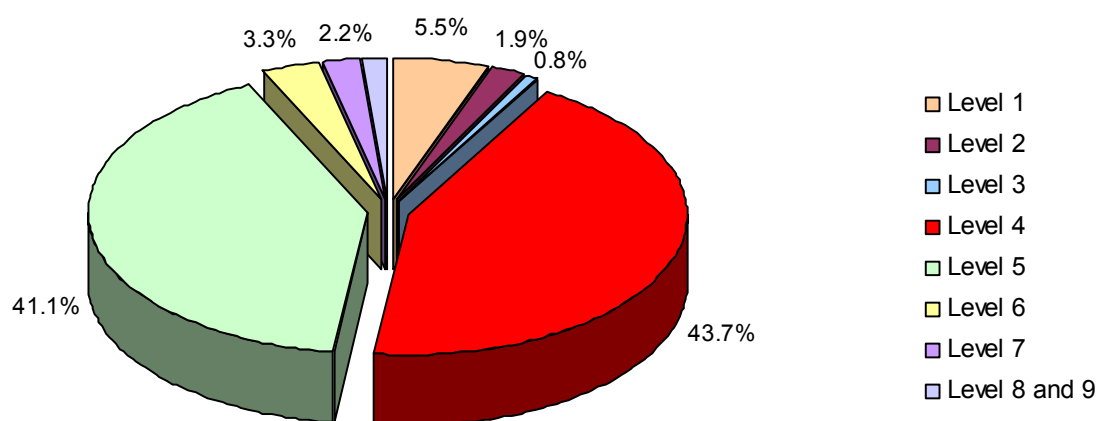
In the period from December 31st 2007 to September 30th 2008, the number of employees in the Mercator Group increased by 2.0 percent, mostly due to the acquisition of companies in Croatia and Bosnia and Herzegovina and opening of new retail units in all markets of our operations.

Number of employees

	No. of employees as at 31 th December 2007	No. of employees as at 30 th September 2008	Planned no. of employees as at 31 th December 2008	Index No. of employees as at 30 th September 2008 / Plan as at 31 th December 2008	No. of employees based on hours worked in 1-9 2008
Poslovni sistem Mercator, d.d.	12,607	12,688	13,296	95.4	12,071
Trade in Slovenia	12,607	12,688	13,296	95.4	12,071
Mercator - H, d.o.o.	2,887	3,313	3,422	96.8	3,074
Presoflex, d.o.o.	476	-	-	-	-
Mercator - S, d.o.o.	730	973	1,148	84.8	980
M - Rodić, d.o.o.	2,590	2,616	2,660	98.3	2,688
Mercator - BH, d.o.o.	702	1,058	1,380	76.7	958
Mercator Makedonija, d.o.o.	0	0	0	-	0
Mercator - Mex, d.o.o.	289	294	320	91.9	316
Trade abroad	7,674	8,254	8,930	92.4	8,016
Trade	20,281	20,942	22,226	94.2	20,087
Pekarna Grosuplje, d.d.	240	0	-	-	2
Belpana, d.o.o.	0	0	-	-	0
Eta, d.d.	214	208	218	95.4	194
Mercator Emba, d.d.	120	119	-	-	120
Mercator Optima, d.o.o.	20	20	23	87.0	18
Interier, d.o.o.	18	17	0	-	18
Mercator IP, d.o.o.	-	12	-	-	12
Non-trade	612	376	241	182.4	363
TOTAL MERCATOR GROUP	20,893	21,318	22,467	94.9	20,450

Breakdown by level of education

Structure of employees by level of education in Mercator Group as at 30th September 2008



Employment of the disabled

Mercator Group employs 898 disabled persons, of which 858 are employed in the parent company, 34 in non-trading sector, and 6 persons in foreign markets.

Percentage of disabled persons in the parent company is 6.8. The mandatory quota provided by the quota system for employment of the disabled in trade industry is considerably lower and amounts to 2.0 %.

Absenteeism

Overall absence for sick leave in **Mercator Group** in the period from January to September 2008 amounted to 5.3 percent, of which 2.9 % was charged to the Group member companies, and 2.4 % to national health insurance companies. Employees on sick leave were absent from work a total 1,681,463 working hours.

Overall absence for sick leave in the company **Poslovni sistem Mercator, d.d.**, in the period from January to September 2008 amounted to 6.2 percent, of which 3.4 % was charged to the company, and 2.8 % to national health insurance company. Employees on sick leave were absent from work a total 1,180,846 working hours.

Employee relations

Motivation and compensation

- ✓ As of March 1st 2008, the Management Board of Mercator, d.d., raised the salaries for employees by introducing an inflation allowance as an addition to the base salary. As of May 1st 2008, base salaries were increased by 1 percent and the inflation allowance was adapted accordingly. As of August 1st 2008, the inflation allowance was abolished and entirely transferred to base salaries. The salaries were additionally increased for those work posts where the base salaries failed to reach new agreed minimum for each tariff group in compliance with the Collective Labor Agreement for trade industry in Slovenia. Also as of August 1st 2008, the amount of daily food allowance has been increased from EUR 3.40 to 3.73.
- ✓ In the period from January to September 2008, 2,443 employees were **promoted** at various levels of the Mercator Group.
- ✓ From June to September 2008, 12 groups of employees attended the **motivational training** on Vogel; of these, 5 groups consisted of store managers abroad, 6 groups consisted of store managers from Slovenia, and one group comprised internal control employees.



- ✓ We have completed the second **competition for the Best Boss 2008** and selected 15 best bosses (superiors) in the controlling company.

Key executive and promising associates career planning

- ✓ As a part of the key associates career planning system, we started to evaluate in Slovenia the key **human resource competencies** by applying the 360 degrees method. The evaluation project included 1,800 employees who subsequently discussed their scores with their direct superiors during annual talks. The system is gradually being transferred to all markets.
- ✓ We carried out an analysis among the key employees of the benefits of evaluating the competencies using the 360 degrees method. The analysis has shown that such evaluation is beneficial for determining the development of an employee's competencies as well as for further development of their career.

Education and training

- ✓ In the first half of 2008, we carried out a total of 176,631 hours of **functional training and education** for 28,915 participants.



- ✓ The strategic project **Customer Loyalty System Revision** included training of 4,400 cashier operators from all markets.
- ✓ In May, we carried out the **8th Traditional Meeting of Internal Teachers / Tutors**.

- ✓ We took part in the **informative events /days** at 18 high schools across Slovenia and promoted the occupation of a salesman among the students.



- ✓ **Our tutoring / coaching network** includes our best sales personnel and store managers whose mission is to **transfer their professional knowledge at the workplace**. In Mercator Group, a total of 272 coaches have been promoted.



- ✓ 30 participants are currently taking part at the 2nd **International Mercator Business Academy** which started in October 2008 and is expected to complete in May 2009; 24 participants are from Slovenia, and 2 are from Croatia, Bosnia and Herzegovina, and Serbia, respectively.



- ✓ The 42-hour program of **Store Manager School** was completed by 18 groups, or a total of 562 store managers, in the parent company. We have also launched the preparatory activities to transfer the Store Manager School to all markets abroad.

Staffing and recruitment

- ✓ We are employing various ways of recruitment in order to decrease the **lack of operative labor force** (predominantly sales personnel, butchers, bakers, and chefs) in major cities and some coastal regions in all markets of the Mercator Group. In Slovenia, we have partly tried to solve the problem by employing immigrants.



- ✓ 57 new employees were employed through the "Employees Employ" project.
- ✓ 61 candidates were relocated or transferred in the field of **internal staffing and recruitment**.
- ✓ The company **Mercator-BH, d.o.o.**, was ranked among the **25 most desirable employers** in Bosnia and Herzegovina.

Internal communication

- ✓ In Mercator Group, we conducted **annual talks** in all markets, at all levels; for the first time, these talks were also held this year in the company Mercator - Mex, d.o.o. Of 21,178 planned annual talks, 16,930 (79.9 percent) have already been conducted.
- ✓ A new editing board of the internal magazine **Časomer** (The Time Keeper) was appointed, consisting of representatives of retail, marketing, controlling, public relations, and human resources.
- ✓ The management held regular meetings with representative trade unions and the **Workers' Council**.



Occupational health and safety

OSNOVNI CERTIFIKAT



Družini
prijazno
podjetje

- ✓ We have compiled the first annual report on the activities for acquiring the full certificate of a **Family-Friendly Company** (for the period from May 15th 2007 to May 15th 2008).
- ✓ 117 applicants received financial aid in a total amount of EUR 76,675.40 from the **Mercator Humanitarian Foundation**.
- ✓ The Management Board allocated additional EUR 53,984.00 from the planned sponsorship funds, to the Mercator Humanitarian Foundation for **natural disaster relief**, thus helping 148 employees.
- ✓ **Mercator Hiking Society** already has over 300 members. In the first nine months of 2008, the Society organized 9 trips. On September 26th 2008, a section of the Mercator Hiking Society was established in Čačak.
- ✓ **Mercator's social enterprise** established this year commenced its first activities. In September 2008, the social enterprise obtained a permission by the Ministry of Labor, Family, and Social Affairs, to employ additional workers in excess of the mandatory quota.
- ✓ In the period from January to September 2008, **547 work accidents** occurred in the Mercator Group (0.02 percentage point less than in the same period last year), resulting in 14,423 lost working days. The most common injuries are cuts and falls.



Intercultural - organizational development

- ✓ On June 14th 2008, the Mercator's central festivity called **30th Mercator Day** took place at the Postojna Airport. Over 26,000 employees attended the event in the company of their families.
- ✓ In the period from January to September 2008, 1,390 participants took part in the Mercator Group **Introductory Seminars**. By the end of September 2008, Management Board members and directors presented at the two-day Introductory seminars for newly employed with VI and VII level of education Mercator's operations to 211 new associates from all markets of our operations.





- ✓ On September 23rd 2008, we organized the 2nd **Mercator Human Resource Day**. The event that took place in Cankarjev dom in Ljubljana was attended by 86 human resource experts, representatives of social partners, authorized doctors, lecturers, inspectors, and representatives of relevant ministries and institutes.

- ✓ In the period at hand, we presented "**Lumpi packages**" to 222 newborn babies of our employees in the controlling company.

Legal remedies

In the period at hand, we **terminated the employment agreement** to 35 employees of the Mercator Group (0.05 percentage point more than in the same period last year). The most common reason for such termination was unjustified absence.

Communication with the Customers

- After eight years of issuing the Mesec ("Month, or Moon") magazine, we issued in June the first issue with redesigned appearance, with updated concept of contents, and additional pages. We were looking to bring the contents even closer to our customers; therefore, stories have been built on everyday situations, which will allow our customers more possibilities to participate. Furthermore, the method of distributing the magazine has been changed. Now, the magazine is distributed with the Delo and Slovenske Novice daily papers; the customers can also order direct delivery to their household via our website.
- In the middle of February, we presented for the second consecutive year the prize **Best Salesman / Saleswoman** by the vote of our customers. We received over 15,000 votes from customers from Slovenia, Croatia, and Bosnia and Herzegovina; based on these votes, 14 saleswomen or salesmen were presented the awards.
- In February 2008, we published a new flyer intended to present the offer of Mercator Center Ljubljana; in April, we added the presentations of the assortment in the Rudnik hypermarket and Intersport.



- From February to April 2008, a series of TV cooking shows was launched on one of the commercial networks, called "Desetka" ("Ten"); the show is sponsored by Mercator. The concept of the show is to prepare a family lunch for four using ingredients with a total value of 10 euros. On average, the shows were seen by over 110,000 viewers.

- As of March 17th 2008, our communication with the Mercator Pika card holders has been taken to a higher level. Response to calls is immediate, and the communication is friendly and effective. We are establishing a warm and friendly relationship with the Mercator Pika card holders as we are looking to pay them as much attention as possible.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1 - 9 2008, were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 17 subsidiaries, in which the controlling company 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., Interier, d.o.o., Evolution, d.d., Mercator IP, d.o.o., M.COM, d.o.o.;
- **abroad:** Mercator - H, d.o.o., Croatia, Belpana, d.o.o., Croatia, Mercator - S, d.o.o., Serbij, M - Rodić, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator Makedonija, d.o.o., Macedonia, Investment International, d.o.o., Macedonia, and Mercator - B, e.o.o.d., Bulgaria.

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	1-9 2007	Plan 2008	1-9 2008	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Revenue	1,749,704	2,627,903	1,977,631	113.0	75.3
1.	Revenue from products sold	22,701	34,248	19,618	86.4	57.3
2.	Revenue from services sold	117,825	185,539	152,838	129.7	82.4
3.	Revenue from goods and material sold	1,610,968	2,411,796	1,808,753	112.3	75.0
4.	Expenses for given discounts	-1,791	-3,681	-3,578	199.8	97.2
B.	Cost of sales	-1,289,620	-1,935,426	-1,477,697	114.6	76.3
1.	Production costs	-34,749	-46,090	-25,027	72.0	54.3
2.	Purchase value of goods and material sold	-1,260,266	-1,896,696	-1,458,106	115.7	76.9
3.	Received discounts	6,167	8,594	8,574	139.0	99.8
4.	Other expenses	-772	-1,233	-3,138	406.3	254.5
C.	Gross profit	460,084	692,477	499,934	108.7	72.2
Ĉ.	Selling and marketing costs	-328,497	-491,169	-373,196	113.6	76.0
D.	Administrative expenses	-85,233	-120,595	-78,582	92.2	65.2
E.	Other income	12,429	9,860	17,828	143.4	180.8
F.	Results from operating activities	58,783	90,574	65,984	112.3	72.9
G.	Finance income	17,443	12,777	25,011	143.4	195.7
H.	Finance expenses	-31,488	-53,306	-47,391	150.5	88.9
I.	Profit before income tax	44,738	50,046	43,604	97.5	87.1
J.	Income tax expense	-7,975	-8,599	-6,559	82.2	76.3
K.	Deferred income tax	-642	-892	-601	93.6	67.4
L.	Profit for the financial period	36,121	40,556	36,444	100.9	89.9
M.	Attributable to equity holders of the Company	36,066	40,199	36,420	101.0	90.6
N.	Attributable to minority interest	55	357	24	44.0	6.7
O.	Number of employees based on hours worked	19,099	20,770	20,450	107.1	98.5
P.	Gross cash flow from operating activities	115,196	173,215	125,206	108.7	72.3
R.	Gross cash flow from operating activities before rental expenses	121,983	187,165	139,981	114.8	74.8

Consolidated Balance Sheet

EUR thousand

1	Type of assets / liabilities	31.12.2007	Plan 31.12.2008	30.9.2008	Structure 30.9.2008	Index
	2	3	4	5	6	7=5/3
	ASSETS					
	A. NON-CURRENT ASSETS	1,538,339	1,695,848	1,835,610	74.4%	119.3
I.	Property, plant and equipment	1,402,398	1,568,520	1,707,027	69.2%	121.7
II.	Investment property	16,476	14,989	9,673	0.4%	58.7
III.	Intangible assets	80,253	83,598	86,776	3.5%	108.1
IV.	Deferred tax assets	8,686	8,073	8,282	0.3%	95.3
V.	Derivative financial instruments	5,771	2,974	3,565	0.1%	61.8
VI.	Trade and other receivables	520	484	406	0.0%	78.1
VII.	Available-for-sale financial assets	24,235	17,210	19,881	0.8%	82.0
	B. CURRENT ASSETS	532,134	537,513	632,265	25.6%	118.8
I.	Inventories	247,836	275,435	264,037	10.7%	106.5
II.	Trade and other receivables	258,957	249,219	345,614	14.0%	133.5
	- trade and other receivables	244,339	230,027	286,332	11.6%	117.2
	- loans and deposits	14,618	19,192	59,282	2.4%	405.5
III.	Current tax assets	764	1,823	7,045	0.3%	922.1
IV.	Advance payments for current assets	1,488	1,432	926	0.0%	62.2
V.	Cash and cash equivalents	23,089	9,604	14,643	0.6%	63.4
	TOTAL ASSETS	2,070,473	2,233,361	2,467,875	100.0%	119.2
	A. EQUITY	688,196	701,724	848,376	34.4%	123.3
	Total equity attributable to equity holders of the Company	685,938	697,782	846,124	34.3%	123.4
I.	Ordinary shares	157,129	157,129	157,129	6.4%	100.0
II.	Share premium	198,848	198,848	198,848	8.1%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.1%	100.0
IV.	Revenue reserves	243,309	232,527	247,720	10.0%	101.8
V.	Fair value reserve	68,078	56,963	181,953	7.4%	267.3
VI.	Retained earnings	0	24,582	4,465	0.2%	-
VII.	Profit for the year	26,047	40,199	36,420	1.5%	139.8
VIII.	Currency translation reserve	-4,223	-9,216	22,839	0.9%	-
	Minority interest	2,258	3,942	2,252	0.1%	99.7
	LIABILITIES					
	B. NON-CURRENT LIABILITIES	689,235	779,661	722,230	29.3%	104.8
I.	Financial liabilities	635,457	732,545	635,402	25.7%	100.0
II.	Deferred tax liabilities	18,550	14,669	52,440	2.1%	282.7
III.	Provisions	35,228	32,446	34,388	1.4%	97.6
	D. Current liabilities	693,042	751,976	897,269	36.4%	129.5
I.	Trade and other payables	487,141	503,256	480,562	19.5%	98.6
II.	Current tax liabilities	4,782	11,035	7,105	0.3%	148.6
III.	Financial liabilities	201,119	237,686	409,602	16.6%	203.7
	TOTAL LIABILITIES	1,382,277	1,531,637	1,619,499	65.6%	117.2
	TOTAL EQUITY AND LIABILITIES	2,070,473	2,233,361	2,467,875	100.0%	119.2
	Number of employees as at the end of the period	20,893	22,467	21,318	-	102.0

Consolidated Cash Flow Statement

EUR thousand

Cash flows		1-9 2007	1-9 2008
A	Cash flows from operating activities		
	Gross cash flow from operating activities	115,196	125,206
1	Change in trade and other receivables	-19,224	-47,712
2	Change in inventories	-14,232	-16,201
3	Change in trade and other payables	85,691	-14,508
	Changes in working capital	52,235	-78,421
1	Interest paid	-30,333	-44,929
2	Income tax paid	-7,975	-6,559
I	Net cash from operating activities	129,123	-4,703
B	Cash flows from investing activities		
1	Acquisition of subsidiaries	-40,260	-7,297
2	Acquisition of property, plant and equipment	-87,032	-172,037
3	Acquisition of intangible assets	-2,749	-10,939
4	Acquisition of available-for-sale financial assets	-110	0
5	Loans made	-5,545	-44,664
6	Proceeds from sale of subsidiaries	9,100	0
7	Proceeds from sale of property, plant and equipment	7,960	12,495
8	Proceeds from sale of intangible assets	138	2,104
9	Proceeds from sale of available-for-sale financial assets	10,308	7,233
10	Interest received	6,074	15,150
11	Dividends received	393	0
12	Loan repayments received	0	114
II	Net cash used in investing activities	-101,722	-197,840
C	Cash flows from financing activities		
1	Proceeds from issue of share capital	7,200	0
2	Proceeds (repayments) of borrowings	-21,943	208,428
3	Dividends paid to company shareholders	-14,723	-15,417
III	Net cash from financing activities	-29,465	193,011
1	Net increase in cash and cash equivalents	-2,064	-9,532
2	Cash and cash equivalents at the beginning of the period	18,035	23,089
3	Currency translation differences	-133	1,086
D	Cash and cash equivalents at the end of the year	15,838	14,643

Consolidated Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total
Balance at 1 January, 2008	157,129	198,848	-3,250	243,309	68,078	0	26,047	-4,223	685,938	2,258	688,196
Revaluation of property	0	0	0	0	157,508	0	0	0	157,508	24	157,531
Disposal and depreciation of revalued property	0	0	0	0	-2,954	2,954	0	0	0	0	0
Change in fair value of cash flow hedges	0	0	0	0	-2,206	0	0	0	-2,206	0	-2,206
Disposal of available-for-sale financial assets	0	0	0	0	-3,997	0	0	0	-3,997	0	-3,997
Deferred taxes	0	0	0	0	-34,411	-650	0	0	-35,061	-6	-35,067
Other changes in equity	0	0	0	0	-64	-1,937	0	0	-2,001	0	-2,001
Currency translation differences	0	0	0	0	0	0	0	27,062	27,062	10	27,071
Total income (expense) recognized directly in equity	0	0	0	0	113,875	368	0	27,062	141,304	27	141,332
Profit for the year	0	0	0	0	0	0	36,420	0	36,420	24	36,444
Total recognized income (expense)	0	0	0	0	113,875	368	36,420	27,062	177,724	51	177,776
Dividends to equity holders	0	0	0	0	0	-16,003	0	0	-16,003	0	-16,003
Allocation of disposable income following the management / supervisory board resolution	0	0	0	0	0	26,047	-26,047	0	0	0	0
Allocation of disposable profit following the shareholders assembly resolution	0	0	0	4,411	0	-4,411	0	0	0	0	0
Purchase of minority interest	0	0	0	0	0	-1,536	0	0	-1,536	-57	-1,593
Balance at 30 September, 2008	157,129	198,848	-3,250	247,720	181,953	4,465	36,420	22,839	846,124	2,252	848,376

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

- **Net sales revenues**

Net sales revenues for the period 1 - 9 2008 amounted to EUR 1,977,631 thousand and arrived at 75.3 % of planned net sales revenues for the year 2008; they exceed the figure from the comparable period last year by 13.0 %.

Revenues resulting from the sale of goods and material take 91.3 % of total net sales revenues, while the remaining 8.7 % originates from sales of products and services.

- **Cost of goods sold**

Costs of goods sold including production costs, purchase value of sold goods and material, and other operating expenditures amounted in the relevant period to EUR 1,477,697 thousand, and exceeded the same category by 14.6 % compared to the same period last year.

- **Gross profit**

Gross profit for the period 1 - 9 2008 amounted to EUR 499,934 thousand, which is an 8.7 percent increase compared to the period 1 - 9 2007 and represents 72.2 % of the 2008 plan.

The share of gross profit in revenues from sales in the period 1 - 9 2008 amounted to 25.3 percent, which is 1. percentage point less than in the same period last year (26.3 percent); this is mainly the consequence of changes in geographical distribution of revenues and lower margins.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses amounted to EUR 451,778 thousand and exceed the figures for the comparable period last year by 9.2 %, representing 73.8 % of the 2008 plan.

Expenses by nature

		EUR thousand				
	Type of Cost	1-9 2007	Plan 2008	1-9 2008	Index	Index
1	2	3	4	5	6=5/3	7=5/4
1.	Costs of material	51,904	77,712	67,458	130.0	86.8
2.	Costs of services	118,430	180,868	127,215	107.4	70.3
3.	Depreciation and amortisation	59,691	86,155	68,828	115.3	79.9
4.	Provisions for other liabilities and charges	0	414	18	-	4.4
5.	Labour costs	201,987	296,385	215,138	106.5	72.6
6.	Other expenses	11,305	10,415	8,415	74.4	80.8
7.	Changes in the value of inventories	0	0	-13,393	-	-
8.	Impairments and receivable write-offs	5,935	3,498	3,198	53.9	91.4
9.	Cost of goods sold	1,254,099	1,891,743	1,452,597	115.8	76.8
10	TOTAL COSTS	1,703,351	2,547,189	1,929,474	113.3	75.7

Also included among the administrative expenses are the adjustments in current assets in the amount of EUR 2,359 thousand, and losses from the disposal of PPE in the amount of EUR 839 thousand.

The share of costs excluding depreciation and negative revaluation adjustments in net revenues amounts to 19.2 percent, which is 0.7 percentage point lower than in the same period last year. Increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, logistics infrastructure optimization, and category management.

- **Other revenues from operations**

Other revenues from operations amounted to EUR 17,828 thousand, of which EUR 8,668 thousand is related to proceeds from disposal of PPE, while the remaining other revenues from operations in the amount of EUR 9,160 thousand relate to revenues from indemnities and other revenues.

- **Operating profit**

Operating profit for the period 1 - 9 2008 amounted to EUR 65,984 thousand, which is EUR 7,201 thousand, or 12.3 % more than the same figure for the period 1 - 9 2007. Operating profit represents 72.9 % of the 2008 plan.

- **Finance income and expenses**

Finance income amounted to EUR 25,011 thousand, which is 43.4 percent more than in the period 1 - 9 2007. Financial revenues were mostly generated by regular interest from financing, revenues from default interest, and positive currency translation differences.

Finance expenses for the relevant period amount to EUR 47,391 thousand, of which a major portion relates to costs from interest paid to commercial banks and costs of financial lease. Compared to the same period last year, they represent a 50.5 % increase, mostly resulting from increases in interest rates and larger scope of total debt.

- **Profit for the financial period**

In the period 1 - 9 2008, the Mercator Group realized EUR 36,444 thousand of net profit, which is 0.9 percent more than in the same period last year.

- **Gross cash flow from operating activities**

Gross cash flow from operating activities of the Mercator Group for the period 1 - 9 2008 amounted to EUR 125,206 thousand, which is 8.7 % more compared to the period 1 - 9 2007, arriving at 72.3 percent of the 2008 plan. Since Mercator Group is also

expanding its retail network by leasing required facilities, calculation of gross cash from operating activities before rents (or EBITDAR) is also presented below as a relevant measure of the Group's capacity to generate cash flow from operating activities.

EUR thousand

Cash flows	1-9 2007	Plan 2008	1-9 2008	Indeks	Indeks
Profit for the financial period	36,121	40,556	36,444	100.9	89.9
Income tax expense	7,975	8,599	6,559	82.2	76.3
Deferred income tax	642	892	601	93.6	67.4
Depreciation and amortisation	59,691	86,155	68,828	115.3	79.9
Negative goodwill recognized directly in the income statement	0	0	-217	-	-
Gain on sale of property, plant and equipment	-1,853	-3,985	-7,829	422.4	196.5
Change in provisions, accruals and deferrals	-2,378	-726	-2,455	103.2	338.1
Change in retirement benefit obligations	0	965	935	-	96.9
Net changes in unused leaves	0	0	-529	-	-
Gain on sale of available-for-sale financial assets	-9,261	-4,574	-6,910	74.6	151.1
Interest received	-6,074	-7,174	-15,150	249.4	211.2
Interest paid	30,333	52,508	44,929	148.1	85.6
Gross cash flow from operating activities	115,196	173,215	125,206	108.7	72.3
Rental	6,787	13,950	14,775	217.7	105.9
Gross cash flow from operating activities before rental expense	121,983	187,165	139,981	114.8	74.8

NOTES TO THE CONSOLIDATED BALANCE SHEET

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

As at September 30th 2008, the value of PPE, investment property, and intangible assets amounts to EUR 1,803,476 thousand, which is EUR 304,349 thousand more than at the beginning of the year; these assets represent 73.1 % of total assets.

Consistently with the accounting policies, Mercator Group obtained on January 1st 2008 the appraisals of fair value for real estate at which potential deviations of fair values from their book values was assumed. Based on the appraisals, the PPE was revalued to a new fair value; as a result, increase in the value of property, plant, and equipment was recognized on January 1st 2008 in the amount of EUR 161,156 thousand.

Other changes in the period 1 - 9 2008 relate to investments, depreciation and amortization, disposal of commercially unviable assets, and currency translation differences.

- **Derivative financial instruments**

As at September 31st 2008, the positive fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 3,565 thousand, which is EUR 2,206 thousand less than at the end of 2007. In the period 1 - 9 2008, no new agreements on derivative financial instruments were signed.

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

Non-current trade and other receivables as at September 30th 2008 amounted to EUR 406 thousand; they include long-term loans granted and deposits.

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

Available-for-sale financial assets as at September 30th 2008 amount to EUR 19,881 thousand, which is EUR 4,354 thousand less than as at December 31st 2007.

- **Inventories**

Inventories of raw materials, material, and trade goods as at September 30th 2008 amount to EUR 264,037 thousand, and represent 41.8 % of the total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 16,201 thousand, or 6.5 percent.

- **Current trade and other receivables**

Current trade receivables

As at September 30th 2008, current trade and other receivables amounted to EUR 286,332 thousand, which is EUR 41,993 thousand more than at the beginning of the year.

Short-term granted loans, deposits, and short-term financial investments as at September 30th 2008 amounted to EUR 59,282 thousand, which is EUR 44,664 thousand more than at the beginning of the year. The increase is mostly the result of active financial risk management, as Mercator Group - given the current circumstances in financial markets - established a financial reserve that is to be used for financing requirements in the future.

- **Equity**

In the period 1 - 9 2008, the equity of the Group rose by EUR 160,180 thousand. The changes are primarily related to the following:

- increase by net profit of the majority interest holder attained in the period 1 - 9 2008, in the amount of EUR 36,420 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,206 thousand;
- decrease in equity by the amount of dividend payment following the Shareholders Assembly resolution dated August 26th 2008, in the amount of EUR 16,003 thousand.
- increase due to the increase in the value of real estate in the amount of EUR 157,507 thousand;
- increase 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 27,062 thousand;
- decrease in minority capital in the amount of EUR 6 thousand;

- other net decreases in equity in the amount of EUR 42,595 thousand; these are mostly related to deferred taxes due to revaluation of property, plant, and equipment.

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 6.5 %.

- **Financial liabilities**

Non-current financial liabilities as at September 30th 2008 amount to EUR 635,402 thousand, and have decreased by EUR 55 thousand compared to the beginning of the year.

Current financial liabilities as at September 30th 2008 amount to EUR 409,602 thousand, and have increased by EUR 208,483 thousand compared to the beginning of the year.

Total financial liabilities as at September 30th 2008 amount to EUR 1,045,004 thousand, which is EUR 208,428 thousand more than at the end of 2007. Taking into account the financial reserves, net financial liabilities amount to EUR 936,422 thousand, which is EUR 186,463 thousand more than at the end of 2007.

Compared to the beginning of the year 2008, the maturity of financial liabilities has changed. Non-current financial liabilities now represent 60.8 % of the total financial liabilities, and current financial liabilities represent the remaining 39.2 % (as at December 31st 2007, the ratio between non-current and current financial liabilities was 76 to 24).

- **Provisions for liabilities and charges**

As at September 30th 2008, the provisions amounted to EUR 34,388 thousand. Compared to the beginning of the year, these provisions have decreased by EUR 840 thousand.

- **Deferred income taxes**

As at September 30th 2008, the net deferred income tax liabilities totaled EUR 44,158 thousand.

- **Trade and other payables**

Trade and other payables as at September 30th 2008 amounted to EUR 480,562 thousand, which is EUR 6,579 thousand less than at the end of 2007.

Financial Indicators

	Mercator Group		
	1-9 2007	Plan 2008	1-9 2008
Indicators of profitability			
Return on equity*	7.5%	6.0%	6.5%
Return on sales	2.1%	1.5%	1.8%
Gross profit / revenue	26.3%	26.4%	25.3%
Indicators of financial structure			
Financial liabilities / equity	1.2	1.4	1.2
Equity and provisions to total equity and liabilities	36.2%	32.9%	35.8%
Financial liabilities to total equity and liabilities	40.1%	43.4%	42.3%
Trade and other payables to total equity and liabilities	22.4%	22.5%	19.5%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (in 000 EUR)*	14.1	14.3	14.0
Revenue / labour costs	8.7	8.9	9.2
Revenue per employee per hours worked (in 000 EUR)*	122.1	126.5	128.9
Value added per employee per hours worked (in 000 EUR)*	22.1	22.6	22.2
Business costs / sales	23.2%	23.0%	22.4%
Gross cash flows from operating activities / revenue	6.6%	6.6%	6.3%
revenue	7.0%	7.1%	7.1%
Invested capital (in EUR)	1,504,371	1,580,145	1,740,840
Gross cash flows from operating activities / invested capital*	10.2%	11.0%	9.6%

* The indicator is adjusted to the annual level.

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

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

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

Income Statement

EUR thousand

	Type of revenue / expense / cost	1-9 2007	Plan 2008	1-9 2008	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Net sales revenues	1,241,644	1,772,861	1,308,391	105.4	73.8
1.	Revenue from products sold	2,406	26,510	1,039	43.2	3.9
2.	Revenue from services sold	93,042	144,448	102,815	110.5	71.2
3.	Revenue from goods and material sold	1,147,512	1,605,157	1,207,423	105.2	75.2
4.	Expenses for given discounts	-1,317	-3,254	-2,886	219.2	88.7
B.	Cost of goods sold	-907,967	-1,284,581	-961,890	105.9	74.9
1.	Production costs	-2,061	-16,937	-875	42.5	5.2
2.	Purchase value of goods and material sold	-909,020	-1,271,885	-962,687	105.9	75.7
3.	Received discounts	3,231	4,790	3,543	109.7	74.0
4.	Other expenses	-117	-550	-1,871	1,594.4	340.3
C.	Gross profit	333,677	488,280	346,501	103.8	71.0
D.	Selling and marketing costs	-233,972	-337,171	-251,237	107.4	74.5
E.	Administrative expenses	-63,993	-93,330	-53,195	83.1	57.0
F.	Other income	8,323	6,361	8,262	99.3	129.9
G.	Operating profit	44,035	64,140	50,331	114.3	78.5
H.	Finance income	16,827	10,415	13,418	79.7	128.8
I.	Finance expenses	-28,300	-35,517	-33,558	118.6	94.5
J.	Profit before income tax	32,562	39,038	30,192	92.7	77.3
K.	Income tax expense	-7,738	-7,977	-6,011	77.7	75.3
L.	Deferred income tax	-633	-647	-598	94.4	92.4
M.	Profit for the financial period	24,190	30,413	23,583	97.5	77.5
N.	Number of employees based on hours worked	12,089	12,510	12,071	99.9	96.5

Balance Sheet

EUR thousand

1	Type of assets / liabilities	31.12.2007	Plan 31.12.2008	30.9.2008	Structure 30.9.2008	Index
	2	3	4	5	6	7=5/3
	ASSETS					
	A. NON-CURRENT ASSETS	1,318,592	1,385,196	1,548,532	78.8%	117.4
I.	Property, plant and equipment	750,899	861,239	957,573	48.7%	127.5
II.	Investment property	16,476	12,121	9,635	0.5%	58.5
III.	Intangible assets	9,374	3,811	14,147	0.7%	150.9
IV.	Deferred income tax assets	8,543	8,055	8,143	0.4%	95.3
V.	Derivative financial instruments	5,771	2,974	3,565	0.2%	61.8
VI.	Trade and other receivables	389	327	332	0.0%	85.2
VII.	Investment into equity of subsidiaries	505,187	496,669	537,542	27.3%	106.4
VIII.	Available-for-sale financial assets	21,951	0	17,594	0.9%	80.2
	B. CURRENT ASSETS	360,291	362,337	417,405	21.2%	115.9
I.	Inventories	167,823	180,817	175,407	8.9%	104.5
II.	Trade and other receivables	191,723	180,613	240,547	12.2%	125.5
	- trade and other receivables	191,302	179,030	194,801	9.9%	101.8
	- loans and deposits	421	1,583	45,747	2.3%	10,866.9
III.	Advance payments for current assets	457	0	480	0.0%	105.0
IV.	Cash and cash equivalents	288	906	970	0.0%	336.9
	TOTAL ASSETS	1,678,882	1,747,533	1,965,937	100.0%	117.1
	A. EQUITY	683,035	687,957	789,731	40.2%	115.6
I.	Ordinary shares	157,129	157,129	157,129	8.0%	100.0
II.	Share premium	198,848	198,848	198,848	10.1%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.2%	100.0
IV.	Revenue reserves	214,979	199,077	219,390	11.2%	102.1
V.	Fair value reserve	94,915	80,759	191,751	9.8%	202.0
VI.	Retained earnings	2,705	24,982	2,280	0.1%	84.3
VII.	Profit for the year	17,708	30,413	23,583	1.2%	133.2
	LIABILITIES					
	B. NON-CURRENT LIABILITIES	471,652	504,739	496,320	25.2%	105.2
I.	Financial liabilities	425,465	464,907	422,237	21.5%	99.2
II.	Deferred tax liabilities	15,953	12,557	43,936	2.2%	275.4
III.	Provisions	30,233	27,274	30,148	1.5%	99.7
	D. Current liabilities	524,195	554,837	679,885	34.6%	129.7
I.	Trade and other payables	349,993	345,546	332,995	16.9%	95.1
II.	Current tax liabilities	4,201	10,046	6,011	0.3%	143.1
III.	Financial liabilities	170,001	199,246	340,879	17.3%	200.5
	TOTAL LIABILITIES	995,847	1,059,576	1,176,205	59.8%	118.1
	TOTAL EQUITY AND LIABILITIES	1,678,882	1,747,533	1,965,937	100.0%	117.1
	Number of employees as at the end of the period	12,607	13,296	12,688	-	100.6

Cash Flow Statement

EUR thousand

	Cash flows	1-9 2007	1-9 2008
A	Cash flows from operating activities		
	Gross cash flow from operating activities	73,601	84,970
1	Change in trade and other receivables	-13,302	-3,121
2	Change in inventories	-5,906	-7,584
3	Change in trade and other payables	55,826	-15,549
	Changes in working capital	36,618	-26,255
1	Interest paid	-20,467	-33,239
2	Income tax paid	-7,738	-6,011
I	Net cash from operating activities	82,013	19,465
B	Cash flows from investing activities		
1	Acquisition of subsidiaries	-34,011	-32,353
2	Acquisition of property, plant and equipment	-41,426	-105,947
3	Acquisition of intangible assets	-898	-7,401
4	Acquisition of available-for-sale financial assets	-98	0
5	Loans made	0	-45,383
6	Proceeds from sale of subsidiaries	9,100	0
7	Proceeds from sale of property, plant and equipment	5,087	7,332
8	Proceeds from sale of intangible assets	0	1
9	Proceeds from sale of available-for-sale financial assets	9,259	7,233
10	Interest received	2,898	5,503
11	Dividends received	393	0
12	Loan repayments received	445	0
II	Net cash used in investing activities	-49,251	-171,015
C	Cash flows from financing activities		
1	Proceeds from issue of share capital	7,200	0
2	Proceeds (repayments) of borrowings	-27,487	167,649
3	Dividends paid to company shareholders	-14,723	-15,417
III	Net cash from financing activities	-35,010	152,232
1	Net increase in cash and cash equivalents	-2,248	682
2	Cash and cash equivalents at the beginning of the period	2,493	288
D	Cash and cash equivalents at the end of the year	246	970

Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Total
Balance at 1 January, 2008	157,129	198,848	-3,250	214,979	94,915	2,705	17,708	683,035
Revaluation of property	0	0	0	0	133,897	0	0	133,897
Disposal and depreciation of revalued property	0	0	0	0	-2,923	2,923	0	0
Change in fair value of cash flow hedges	0	0	0	0	-2,206	0	0	-2,206
Change in fair value of available-for-sale financial assets	0	0	0	0	-3,997	0	0	-3,997
Other changes in equity	0	0	0	0	-27,935	-643	0	-28,578
Total income (expense) recognized directly in equity	0	0	0	0	96,836	2,280	0	99,116
Profit for the year	0	0	0	0	0	0	23,583	23,583
Total recognized income (expense)	0	0	0	0	96,836	2,280	23,583	122,699
Treasury shares sold	0	0	0	0	0	0	0	0
Dividends to equity holders	0	0	0	0	0	-16,003	0	-16,003
Allocation of disposable income following the management / supervisory board resolution	0	0	0	0	0	17,708	-17,708	0
Allocation of disposable profit following the shareholders assembly resolution	0	0	0	4,411	0	-4,411	0	0
Balance at 30 September 2008	157,129	198,848	-3,250	219,390	191,751	2,280	23,583	789,731

NOTES TO THE INCOME STATEMENT

- **Net sales revenues**

Net sales revenues for the period 1 - 9 2008 amounted to EUR 1,308,391 thousand, which is an increase by 5.4 % over the comparable period last year, and represents 73.8 percent of planned net sales revenues for the year 2008.

Revenues resulting from the sales of goods and materials amounted to EUR 1,207,423 thousand, which is 5.2 % more compared to the same period last year.

Revenues from sales of products and services amounted to EUR 103,854 thousand, which is an 8.8 percent increase compared to the same period last year.

- **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 961,890 thousand, and exceed the last year figures for the same category by 5.9 percent.

- **Gross profit**

Gross profit for the period 1 - 9 2008 amounted to EUR 346,501 thousand, which is 3.8 percent more than in the period 1 - 9 2007, and represents 71.0 percent of the 2008 plan.

The share of gross profit in revenues from sales amounted to 26.5 percent, which is 0.4 percentage point less than in the same period last year.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses amount to EUR 304,432 thousand, which is 2.2 percent more than in the same period last year; the figure represents 70.7 percent of the planned value for 2008.

The share of costs excluding amortization / depreciation and revaluation adjustments amounts to 20.3 percent, which is 0.7 percentage point less than in the same period last year. The increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, optimization of logistics infrastructure, and category management.

Also included among the administrative expenses are the losses from the disposal of PPE in the amount of EUR 674 thousand.

- **Other revenues from operations**

Other revenues from operations in the period 1 - 9 2008 amounted to EUR 8,262 thousand, which is EUR 61 thousand less than in the same period last year.

- **Operating profit**

Operating profit for the period 1 - 9 2008 amounted to EUR 50,331 thousand which is 14.3 percent more than in the period 1 - 9 2007, representing 78.5 percent of the planned figure for 2008.

- **Finance income and expenses**

In the period 1 - 9 2008, finance income amounted to EUR 13,418 thousand, of which the better part relates to finance income from ownership shares (amounting to EUR 6,919 thousand) and finance income from interest (amounting to EUR 5,503 thousand).

Finance expenses in the period 1 - 9 2008 amounted to EUR 33,558 thousand, of which the better part relates to finance expenses for current interest.

- **Profit for the financial period**

Company net profit for the period 1 - 9 2008 amounted to EUR 23,583 thousand, which is 2.5 percent less than in the same period of the last year, and represents 77.5 percent of the 2008 plan.

NOTES TO BALANCE SHEET

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

As at September 30th 2008, the value of PPE, investment property, and intangible assets amounts to EUR 981,356 thousand, which is EUR 204,606 thousand more than at the beginning of the year. These assets represent 49.9 % of total assets. The change in value is a result of increase in the value of assets as recognized on January 1st 2008, investment, amortization and depreciation, and disposal of commercially unviable assets.

- **Derivative financial instruments**

As at September 30th 2008, the derivative financial instruments intended for hedging the risks to cash flow, at positive fair value, amounted to EUR 3,565 thousand, which is EUR 2,206 thousand less than at the end of 2007. The difference is indicated as a decrease in equity.

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

Non-current trade and other receivables as at September 30th 2008 amount to EUR 332 thousand, which is approximately the same as at the beginning of 2008.

- **Investment into interest of Group subsidiaries**

Investment into the interest, or equity, of Mercator Group subsidiaries increased by 32,355 thousand in the period 1 - 9 2008; the better part of the increase relates to the capital increase in the company Mercator - H, d.o.o.

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

Available-for-sale financial assets as at September 30th 2008 amount to EUR 17,594 thousand which is EUR 4,357 thousand less than at the end of 2007.

- **Inventories**

Inventories of raw materials, material, and trade goods as at September 30th 2008 amount to EUR 175,407 thousand, and represent 42.0 % of total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 7,584 thousand, or 4.5 percent.

- **Current trade and other receivables**

Current trade receivables

As at September 30th 2008, current trade and other receivables amounted to EUR 194,801 thousand, which is EUR 3,498 thousand more than at the beginning of the year.

Short-term loans granted, deposits, and short-term financial investments as at September 30th amounted to EUR 45,747 thousand, which is EUR 45,326 thousand more compared to the beginning of the year. The increase is a result of active financial risk management; given the current circumstances in financial markets, these activities included establishing liquidity reserves to enable unhindered implementation of our investment plans.

- **Equity**

In the period 1 - 9 2008, company equity increased by EUR 106,696 thousand. The major changes are related to the following:

- increase by net profit generated in the period 1 - 9 2008, in the amount of EUR 23,583 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,206 thousand;
- decrease in equity by the amount of dividend payment following the Shareholders Assembly resolution dated August 26th 2008, in the amount of EUR 16,003 thousand.
- increase due to the increase in the value of property, plant, and equipment in the amount of EUR 133,897 thousand;

- other net decreases in equity in the amount of EUR 32,575 thousand. These relate mostly to deferred taxes incurred upon the revaluation of property, plant, and equipment.

Net return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 4.3 %.

- **Financial liabilities**

As at September 30th 2008, financial liabilities amounted to EUR 763,116 thousand, which is EUR 167,649 thousand more than at the end of 2007.

Compared to the beginning of the year, the maturity of financial liabilities has changed: non-current financial liabilities now represent 55.3 percent of total financial liabilities, and current liabilities represent the remaining 44.7 percent (as at December 31st 2007, the ratio between non-current and current financial liabilities was 71.5 to 28.5).

- **Provisions for liabilities and charges**

As at September 30th 2008, the provisions for liabilities and charges amounted to EUR 30,148 thousand. Compared to the beginning of the year, these provisions were decreased by EUR 85 thousand.

- **Deferred taxes**

As at September 30th 2008, net deferred income tax liabilities totaled at EUR 35,792 thousand.

- **Trade and other payables**

Trade and other payables as at September 30th 2008 amounted to EUR 332,995 thousand, which is EUR 16,998 thousand less than at the end of 2007.

Financial Indicators

	Company Poslovni sistem Mercator, d.d.		
	1-9 2007	Plan 2008	1-9 2008
Indicators of profitability			
Return on equity*	5.2%	4.6%	4.3%
Return on sales	1.9%	1.7%	1.8%
Indicators of financial structure			
Financial liabilities / equity	0.9	1.0	1.0
Equity and provisions for liabilities and charges to total equity and liabilities	43.3%	40.9%	41.7%
Financial liabilities to total equity and liabilities	36.5%	38.0%	38.8%
Trade and other payables to total equity and liabilities	18.9%	19.8%	16.9%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (in 000 EUR)*	17.2	18.0	17.4
Sales / labour costs	8.0	7.9	8.3
Revenues per employee per hours worked (in 000 EUR)*	136.9	141.7	144.5
Business costs / sales	23.6%	24.1%	22.8%

* The indicator is adjusted to the annual level.