



Mercator

Business report of the Mercator Group and the company

Poslovni sistem Mercator, d.d.,
for the period I - III 2009



Poslovni sistem Mercator, d.d.
Management Board

April 2009

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SUMMARY

Despite harsh economic conditions, Mercator Group operations are consistent with the business plan

Economic conditions in all markets are harsher than expected

Operations of the Mercator Group in the first quarter of 2009 were marred by economic conditions that have proven more challenging than initially expected and the attained GDP growth rates in all key markets were lower than forecast at the end of last year. This resulted in a decline in the volume of demand in retail in all markets of the Group's operations; simultaneously, negative effects of the global financial crisis have continued to exert a downward pressure on performance. The latter was reflected both in restricted access to long-term financing sources and pressures on the price of money, as well as in a notable depreciation of the Serbian dinar's euro exchange rate. All these aspects had a negative effect on the performance of the Mercator Group.

Net revenue growth: 3.4 percent at constant exchange rates, 1.1 percent when currency translation differences are accounted for

Despite a fall in demand, Mercator Group attained a 1.1 percent growth of net revenues from sales in the first quarter of 2009; hence, the figure amounted to EUR 617.7 million, representing 22.1 percent of planned value for the year. It should be noted, that the growth was negatively affected to a considerable extent by the depreciation of the Serbian dinar. If the currency translation differences are not accounted for, comparable growth of net revenues from sales amounts to 3.4 percent. According to the 2009 Business Plan, this figure should have amounted to 3.3 percent compared to the net sales revenues in 2008.

In Slovenia, growth of Mercator's sales revenues amounted to 0.7 percent, as a result of a 1.8 percent increase in retail revenues and a 2.3 percent decline in the wholesale revenues. Highest growth of retail revenues was attained in retail of alimentary products while the biggest drop in wholesale was seen in the sales of hardware and electronics, and construction material.

In foreign markets, Mercator's revenue growth reached 2.1 percent; the euro-denominated growth is impaired considerably by depreciation of the Serbian dinar compared to euro. If constant exchange rate were applied, growth of Mercator's revenues abroad would have amounted to 9.0 percent.

Mercator Group attained 11.5 percent growth of operating profit and 11.3 percent growth of cash flow before rents (EBITDAR - earnings before interest, taxes, depreciation, amortization and rents)

In the first quarter of 2009, Mercator Group generated EUR 24.6 million of operating profit, which is 11.5 percent more than in the same period last year and 23.6 percent of the planned figure for 2009. Growth of operating profit despite falling profit margins and lower growth of revenues due to currency translation differences is predominantly the result of favorable effects of cost rationalization.

Despite higher operating profit, however, net profit of the Mercator Group reached EUR 6.4 million in the period 1-3 2009, which is 21.4 percent of the planned value for 2009 and 30.8 percent less than in the same period of 2008; This is the result of increasing financing costs. Mercator Group's gross cash flow from operating activities before rents (EBITDAR) in the period 1-3 2009 amounted to EUR 51.1 million which is 24.7 percent of the planned figure for 2009 and 11.3 percent more than in the same period of 2008.

Investment and financing activities are in progress as planned

In the period 1-3 2009, Mercator Group invested a total of EUR 34.4 million, thus fulfilling 21.6 percent of the annual investment plan (EUR 159.0 million). Planned investments are under way as planned, without delays or setbacks.

In terms of financing, the group is operating as planned as well. As a result of the conditions in the global financial markets, access to long-term financing sources is still restricted and the pressure on interest rate margins remained despite falling reference interest rates. With regard to financial risks, changes in the euro exchange rate of the Serbian dinar had a major negative impact on business performance.

Implementation of crisis mitigation measures continues

As early as in 2008, the Management Board adopted a package of measures for mitigating the negative effects of the changes in economic conditions, which is successfully pursued:

- a) Measures for improving competitiveness of our offer for the consumers are aimed at further improvement of quality-to-price ratio of our products and services, in order to adapt to the increasingly pronounced consumer rationality motivated by their decreasing purchasing power. Along these lines, Mercator carried out a number of activities in all markets. Average share of gross profit in net revenues in Slovenia dropped by 1 percentage point, reflecting the extensive investment undertaken by Mercator to make the prices even more favorable for the customers.
- b) Business rationalization measures are aimed at improving efficiency of the Group's operations within expected economic conditions. Within this framework, Mercator Group decreased the share of business costs (without rents and depreciation) in net revenues by 0.8 percentage point compared to the same period last year.

Evaluation of attainability of the adopted business plan for 2009

As announced in the Business Plan for the year 2009, Management Board reevaluated at the end of the first quarter of the year, the attainability of the planned results for 2009. Although the growth of group revenues in the first quarter fell behind the planned annual growth, primarily due to negative effects of changes in exchange rates abroad, the Group managed to attain other key economic parameters consistently with the plan and the quarterly business dynamics. Due to the high uncertainty with regard to changes in consumer demand and changes in currency exchange rates, it is all but impossible to predict at this moment whether or not the planned revenues will be attained entirely.

However, in light of the rationalization measures adopted by the Group, which successfully compensated for the negative effects of the lower growth of revenues, the Management Board finds that after the first quarter, there are no reasons to change the planned categories of cash flow and income, or general performance. The Management Board will reevaluate the attainability of the adopted annual Business Plan after the following quarter as well, studying the key economic categories; a report on this reevaluation will be submitted in the ensuing quarterly reports.

MAJOR EVENTS IN THE PERIOD I - III 2009

DEVELOPMENT OF RETAIL NETWORK

In **SLOVENIA**, supermarket Planina was opened in Kranj on February 5th 2009.

In **SERBIA**, Roda Centar Šabac was opened on February 25th 2009.

In **CROATIA**, supermarket Buje was opened on March 4th 2009.

In the first quarter of 2009, a total of 16,000 square meters of gross sales area was activated.

CHANGES IN THE COMPOSITION OF THE MERCATOR GROUP

- ✓ On January 1st 2009, the company Mercator - S, d.o.o., took over the activity of the company M - Rodić, d.o.o.; merger is planned to take place in the course of 2009.

CORPORATE GOVERNANCE

Supervisory Board of the company Poslovni sistem Mercator, d.d., met once in the period 1-3 2009. It adopted the audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2008, proposals of the Audit Committee and the Supervisory Board Report on the Revision of the Annual Report, the opinion on the allocation of distributable profit for 2008, and the Reports on merging of the companies Pekarna Grosuplje, d.d., and Evolution, d.d., with the company Poslovni sistem Mercator, d.d.

MARKETING AND CORPORATE ACTIVITIES

- ✓ At the end of January, we launched a long-term activity "**Price perception**" which includes lowering the prices of 2,800 products. It is a socially accountable gesture in a time of economic slowdown, aimed at offering competitive prices and improving the price perception of Mercator's offer. We invested EUR 2.7 million into price decreases in the period 1-3 2009.
- ✓ On February 11th, we carried out **10th Marketing days**. The event that took place in Cankarjev dom was attended by 500 suppliers and other business partners.
- ✓ On March 4th, we organized for the ninth consecutive year the **meeting with financial partners**. The main purpose of the event that took place in Cankarjev dom was to provide representatives of commercial banks, leasing companies, and insurance companies, with information on the business plans, operations and performance, and financing policy of the Mercator Group in 2009.

KEY INFORMATION FOR THE SHAREHOLDERS

As at March 31st 2009, the average price per share of the company Poslovni sistem Mercator, d.d., as traded in the regular official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 147.49.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at March 31st 2009, and the weighted average number of ordinary shares in the period at hand, excluding the treasury shares, amounts to EUR 210.33.

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 1.7.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the accounting period 1-3 2009, the following major events affected the operations of the Mercator Group:

- ✓ Development of retail network:
 - On April 16th 2009, we opened a hypermarket, Intersport, Modiana, and Beautique in the Ilidža - Opština shopping center in Sarajevo, Bosnia and Herzegovina. Total area of the leased Mercator premises, with all construction works completed, will amount to 3,643 square meters, of which the hypermarket will extend over 2,690 square meters;
 - On April 28th 2009, we opened a Roda market Ruma in Serbia;
 - On April 30th 2009, we opened a hypermarket and Intersport in Škofja Loka, and a supplementary offer unit (a café). The newly constructed facility has a total area of 3,516 square meters, and 113 parking spots.
- ✓ On April 3rd 2009, the company Mercator acquired 126,365 shares (6.06 percent) of the company Petrol, d.d. The company Mercator, d.d., entered the purchase agreement as a part of its activities of short-term liquidity reserve management and year-on-year cash flow management for implementation of the investment plans. Given the dynamics of planned investments in 2009, the company Mercator, d.d., plans to dispose of the acquired shares of the company Petrol, d.d., no later than by the end of the third quarter of 2009.
- ✓ In order to enter the Albanian market, we founded on April 16th 2009 a new company, Mercator-A, headquartered in Tirana, Albania.
- ✓ Marketing activities:
 - As of April 2nd 2009, we have been offering a **10 percent discount for pensioners** every Thursday.
 - On April 6th 2009, we extended the campaign "**Shop and save!**" ("**Kupuj in prihrani!**") to all hypermarkets. The activity is carried out on Mondays. Upon completing the purchase, each customer draws a coupon at the cashier, which brings a discount of 5 to 99 percent on the total purchase value.
 - On April 10th 2009, we have launched a new customer loyalty program "**Collect and Choose Your Trend!**" ("**Zberi in izberi svoj trend!**"), which includes awarding a 60-percent discount to our customers upon purchasing the Trend bedding set by the Dormeo brand.
- ✓ Changes in the Group composition:
 - On April 9th 2009, the company Belpana, d.o.o., Croatia, was merged with the company Mercator - H, d.o.o.



FINANCIAL HIGHLIGHTS FOR THE PERIOD I - III 2009

Financial highlights for the Mercator Group

	Mercator Group				
	1-3 2008	Plan 2009	1-3 2009	Index 1-3 2009 / 1-3 2008	Index 1-3 2009 / Plan 2009
Net sales revenues (in EUR 000)	610,811	2,798,426	617,656	101.1	22.1
Operating profit (in EUR 000)	22,092	104,385	24,632	111.5	23.6
Profit before income tax (in EUR 000)	11,546	38,678	8,450	73.2	21.8
Profit for the financial period (in EUR 000)	9,325	30,157	6,449	69.2	21.4
Gross cash flow from operating activities (in EUR 000)	41,735	183,670	44,738	107.2	24.4
Gross cash flow from operating activities before rental expenses (in EUR 000)	45,874	206,642	51,062	111.3	24.7
Capital expenditure (in EUR 000)	38,695	158,952	34,368	88.8	21.6
Long-term financial investments (in EUR 000)	3	0	0	-	-
Return on equity*	5.4%	3.8%	3.5%	65.8	93.4
Return on sales	1.5%	1.1%	1.0%	68.4	96.9
Gross cash flow from operating activities / net sales revenues	6.8%	6.6%	7.2%	106.0	110.4
Gross cash flow from operating activities before rental expenses / net sales revenues	7.5%	7.4%	8.3%	110.1	112.0
Number of employees based on hours worked	20,361	21,332	20,414	100.3	95.7
Number of employees as at the end of the period	21,395	22,077	21,548	100.7	97.6

* The indicator is adjusted to the annual level.

Some financial highlights for the Mercator Group assuming constant exchange rates

	Mercator Group				
	1-3 2008	Plan 2009	1-3 2009	Index 1-3 2009 / 1-3 2008	Index 1-3 2009 / Plan 2009
Net sales revenues (in EUR 000)	610,811	2,798,426	631,692	103.4	22.6
Gross cash flow from operating activities (in EUR 000)	41,735	183,670	45,437	108.9	24.7
Gross cash flow from operating activities before rental expenses (in EUR 000)	45,874	206,642	52,126	113.6	25.2

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

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry date	January 1 st 1990
Company share capital as at March 31 st 2009	EUR 157,128,514.53 EUR
Number of shares issued and paid-up as at March 31 st 2009	3,765,361
Share listing	Ljubljana Stock Exchange (Ljubljanska borza, d.d.) official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
President of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

December 31 st 2008	March 31 st 2009
TRADE COMPANIES IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADE COMPANIES ABROAD	
Mercator - H, d.o.o., Croatia (99.9 %)	Mercator - H, d.o.o., Croatia (99.9 %)
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (88.0 %)	M - Rodić, d.o.o., Serbia (88.0 %)****
Mercator - Mex, d.o.o., Montenegro (51.0 %)	Mercator - Mex, d.o.o., Montenegro (51.0 %)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator Makedonija, d.o.o., Macedonia (100.0 %)	Mercator Makedonija, d.o.o., Macedonia (100.0 %)
M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)	M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - B, e.o.o.d., Bulgaria (100.0 %)*	Mercator - B, e.o.o.d., Bulgaria (100.0 %)*
Investment International, d.o.o., Macedonia (100.0 %)*	Investment International, d.o.o., Macedonia (100.0 %)*
NON-TRADE COMPANIES	
Pekarna Grosuplje, d.d. (100.0 %)	Pekarna Grosuplje, d.d. (100.0 %)***
- Belpana, d.o.o., Croatia (100.0 %)	- Belpana, d.o.o., Croatia (100.0 %)**
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
Mercator - Emba, d.d. (100.0 %)	Mercator - Emba, d.d. (100.0 %)
Mercator - Optima, d.o.o. (100.0 %)	Mercator - Optima, d.o.o. (100.0 %)
Interier, d.o.o. (97.6 %)	Interier, d.o.o. (97.6 %)***
M - nepremičnine, d.o.o. (100.0 %)	M - nepremičnine, d.o.o. (100.0 %)
Evolution, d.d. (100.0 %)	Evolution, d.d. (100.0 %)***
Mercator IP, d.o.o. (100.0 %)	Mercator IP, d.o.o. (100.0 %)

* The company has not yet commenced its operating activities.

** In the process of merger with the company M-H, d.o.o., Croatia.

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

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

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

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

Vision

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

Mission

Our business is aimed at creating:

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

Corporate culture values

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

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

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

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

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

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

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

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

Strategic policies of the Mercator Group

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

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1-3 2009

In the first quarter of 2009, Mercator Group operations took place in an economic environment more challenging than initially planned as attained GDP growth rates in all key markets fell behind the figures forecast at the end of last year. This was reflected in a decline in retail demand in all markets of our operations. Simultaneously, the effects of the global financial crisis persisted. Beginning of 2009 thus saw a low inter-bank offered rate EURIBOR, increased bank margins for financing, and restricted credit activity of commercial banks in terms of loan approvals.

The global financial crisis directly affects the retail and wholesale industry in which Mercator Group is active. In this regard, refinancing of existing short-term financial liabilities and parts of long-term financial liabilities that have already fallen due, are seen as the key risks for the Mercator Group. Furthermore, key risks also involve the foreign exchange risk and the risk of a decline in consumer purchasing power; all risks are proactively managed by the Mercator Group.

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. We also reduced trade margins for numerous products, thus mitigating the effect of the price increases on our customers. Furthermore, we are carrying out new activities for our customers, focused on particular groups of our customers, such as the pensioners.

Despite all negative pressures on Mercator's operations, our performance was consistent with the plan. Through internal optimization processes we acquired some headroom for improvement of our competitive position in the market by offering lower prices and adjusting the assortment, while the operation optimization measures, simultaneously with reaping the economies of scale, allowed for successful compensation of the negative cost pressures.

Slovenia

- ✓ Slovenian economic growth in 2008 reached 3.5 percent. For 2009, the analysts predict a decline in growth rate which is expected at a negative figure of -4.0 percent. Average inflation in the period 1-3 2009 amounted to 1.8 percent; by the end of 2009, it is expected to drop to 0.4 percent.

Croatia

- ✓ Croatian economic growth in 2008 amounted to 2.1 percent. The main fuel of economic growth was growing domestic demand and a high rate of exports. For 2009, a negative economic growth of -1.9 percent is predicted. Inflation in March 2009, compared to March 2008, amounted to 3.8 percent; for 2009, the forecasts are around 2.8 percent.

Serbia

- ✓ Serbian economic growth in 2008 amounted to 6.1 percent while inflation was at 10.7 percent. Economic growth in this country relies on transport, agriculture, tourism, and financial brokerage. Dinar, the Serbian currency, continued to depreciate relative to euro as it dropped from 89.4 RSD per 1 EUR as at December 31st 2008, to 93,8 RSD per 1 EUR as at March 31st 2009. Average exchange rate in the period 1-3 2009 was 92,7 RSD per 1 EUR; in the same period last year, average exchange rate was 81.9 RSD per 1 EUR. According to the most recent forecast by the analysts, economic growth in Serbia will amount to 0.4 percent and inflation will drop to 7.5 percent in 2009.

Currency rate RSD/EUR	March 2008	December 2008	March 2009	Change March 2009 / March 2008
Average currency rate of the period	81.8	81.1	92.7	113.4
Currency rate at the end of the period	83.5	89.4	93.8	112.4

Bosnia and Herzegovina

- ✓ In 2008, economic growth in Bosnia and Herzegovina amounted to 5.9 percent while inflation was at 8.5 percent. According to the most recent forecast by the analysts, economic growth in 2009 will amount to 1.4 percent while the inflation rate is expected to drop to 5.2 percent.

Montenegro

- ✓ In 2008, economic growth in Montenegro reached an enviable figure of 7.5 percent which was the second highest growth rate attained recent years. For 2009, analysts have predicted a lower growth rate, at 2 percent. Inflation is also expected to drop from 9.2 percent in 2008 to 5.2 percent in 2009.

DEVELOPMENT AND INVESTMENT

- ✓ In the period 1-3 2009, Mercator Group's investment into property, plant, and equipment amounted to EUR 34,368 thousand, of which 62.8 percent was invested abroad. The most funds, EUR 26,681 thousand, were allocated for construction of shopping centers; of these, EUR 5,880 thousand were invested into facilities that were opened already in 2008. EUR 1,766 thousand was invested for new individual outlets, and EUR 4,558 thousand was invested into refurbishments, distribution centers, and IT. Mercator's non-trading companies invested a total of EUR 1,363 thousand.
- ✓ Mercator Group did not make any long-term financial investments in the period 1-3 2009.

Investment summary

Country	Capital expenditure 1-3 2009 (in EUR 000)	Structure in %	Plan 2009 (in EUR 000)
Slovenia	12,785	37.2%	72,508
Serbia	3,604	10.5%	29,686
Croatia	9,396	27.3%	31,262
Bosnia and Herzegovina	8,427	24.5%	19,596
Montenegro	70	0.2%	2,900
Bulgaria	87	0.3%	3,000
SKUPAJ	34,368	100.0%	158,952

SLOVENIA

- ✓ On February 5th 2009, we opened the supermarket Planina in Kranj, with a total area of 784 square meters.

FOREIGN MARKETS

SERBIA

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



MARKETING

Market Share

Mercator Group market shares in the markets of its operations have not seen any considerable change in the period 1-3 2009, compared to the market shares in 2008.

Mercator Group Market shares by markets of operation

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro
Market share	36.0 %	8.0 %	6.0 %	2.0 %	4.0 %

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

Marketing Strategy

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

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

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

- ! Care for the customer and adjustment to the new market conditions: intensive adjustment of prices of the most commonly sold products
- ! Upgrade to the customer loyalty system
- ! Development of private label line products
- ! Adjustment of the sales assortment and sales area
- ! Rationalization of costs in marketing activities, but not at the expense of the customer benefits
- ! High level of service
- ! Social accountability

Customer Relations Management

Customers are our prime asset

We are keenly aware that the customers are our prime asset. Therefore, we are focused strongly on their requirements and wishes. The customer loyalty system (the Mercator Pika card) enables us to study and analyze the card holders, while the shopping habits and needs of other customers are established through market research. Mercator Pika card holders were followed by preparing special activities based on rational benefits (bonus system, special Pika discounts, double or triple points, the "Dot on the 'i'" campaign, etc.) and activities with added value or additional emotional component - various events and the contents of clubs (Healthy Lifestyle Club, Maxi Club, M Mobil).

In order to learn more about our customers, we started to develop the missing, yet vital elements required to establish a campaign-oriented system of customer analysis, which would enable us to pursue our strategy of customer relationship management. Hence, we have already defined the goals and the strategy of customer relations management and commenced the process of selecting the partner who will support us in data processing and acquisition of knowledge on our customers.

Mercator Pika Card Customer Loyalty System

At the end of the first quarter of 2009, there were **1,313,589 Mercator Pika card holders** in all markets of our operations. In the period at hand, the number of the card holders rose by 41,752.

Mercator Pika card holders	Slovenia	Serbia	Croatia	BiH	Total
as at December 31 st 2008	836,851	129,017	213,418	92,551	1,271,837
as at March 31 st 2009	863,142	134,343	219,090	97,014	1,313,589
new holders 1-3 2009	26,291	5,326	5,672	4,463	41,752

In Slovenia, the share of total retail revenues generated by payments with the Mercator Pika card amounted to **52.7 percent** in the period 1-3 2009 (50.8 percent in 2008). In all markets of Mercator's operation, this share amounted to **42.1 percent** (40.6 percent in 2008).

Share of Mercator Pika card payments in total retail revenues

	Slovenia	Serbia	Croatia	BiH
in 2008	50.8 %	15.4 %	29.6 %	32.6 %
in the period 1-3 2009	52.7 %	16.1 %	26.2 %	38.4 %

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



In the period 1-3 2009, we carried out three corporate campaigns **Double Pika Points**. In March, we also carried out the **Triple Pika points** campaign in the sales units M Tehnika, Gradnja in Pohištvo (hardware and electronics, construction, and furniture).

Revising the Mercator Pika card customer loyalty system, which includes replacing the POS terminals at all Mercator points of sale, in franchise stores, and at stores of our partners who also accept the Mercator Pika card as means of payment or benefit collection, will grant the card holders all advantages of the currently existing system, as well as simplification of procedures, cost rationalization, higher level of service, and new possibilities of upgrading the customer loyalty programs. In the first quarter of 2009, we launched the preparation of the first stage of the system upgrade which will enable additional functionality and new basis for recognizing a Mercator Pika card holder. Thus, shopping basket analysis, combined with the already known data on the card holder, will enable planning marketing activities with special offer adapted to individual segments or even individual customers.



Maxi Club

The purpose of the Maxi Club is to provide links between people who like shopping in the tranquil environment of the Maxi department store and who value the high quality of offer and expert service. Maxi Club is aimed at attaining an even more adjusted and customized approach to loyal customers at the Maxi department store. In the first three months of 2009, we continued to inform the club members of special offers and products prepared especially for them.

M Mobil

By launching the M Mobil service in 2006, Mercator became the first retailer in Slovenia to enter the mobile telephony market. Today, customers can buy M Mobil suites at numerous Mercator sales units and at seven specialized M Mobil spots. For new M Mobil users, as well as for its most loyal users, numerous benefits are offered each month within the M Mobil club. These benefits most commonly include free products.

Healthy Lifestyle club

In the first quarter of 2009, members of the Healthy Lifestyle Club received by mail a new issue of the Healthy Lifestyle Magazine and three e-bulletins with current news. On the club website, experts provided answers to the questions submitted by the club members; the expert team was joined by a new expert on gardening. Club members took

part in large numbers in the prize competitions on the club website and won interesting prizes. As usually, we also prepared each month special discounts for the club members, which included specially selected products.

M Holidays

Since March 2009, our operations are carried out independently within the M Holidays offices. Currently, our tourist offer is marketed through four offices; in June, four additional offices are scheduled for opening. 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. Tourist arrangements are prepared independently as well as in cooperation with renowned tourist agencies. We issued a new catalogue M Holidays Spring/Summer 09 with a comprehensive offer of May 1st holidays and summer holidays, and again prepared benefit coupons that our customers receive upon purchasing a tourist arrangement.

Mercator Call Center

In January and February 2009, we successfully set up the call centers in Croatia and in Serbia. In Bosnia and Herzegovina, call center is in the setup and testing stage; it is scheduled to commence its operation in April 2009. We are also preparing new value added services such as a welcome call. Each new Mercator Pika card holder will be called and given information on the advantages of the Mercator Pika card.

Mercator Web Store

In March 2009, the comprehensive revision of the Mercator web store included conducting a market survey aimed at establishing the recognition of the service among the customers, and its potential. In the first three months of 2009, Mercator webstore saw a 13.5-percent growth compared to the same period last year.

Mercator Web Portal

Mercator's web appearance is being continuously upgraded by introducing new web presentations. In March 2009, an employment portal was launched, intended both for those seeking employment and existing employees. Consistently with Mercator's policy of expanding to new markets, we started preparing the websites for the companies Mercator-B, e.o.o.d., Sofia, and M-BL, d.o.o., Banja Luka.

Development of Private Label Lines

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

- ✓ preparing the strategy of future development and upgrade for all private label lines;

- ✓ improving the reputation and distinctiveness of the private label lines;
- ✓ preparing various sales promotion activities in order to reach various target consumers;
- ✓ 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 shopping by sales promotion activities and innovative communication;
- ✓ monitoring trends, sales, efficiency of communication;
- ✓ monitoring safety, quality, and compliance / suitability of products of all private label lines (testing products within internal focus groups and external testing at the Faculty of Biotechnology and the Institute of Public Health Kranj).

The following activities were carried out in the period 1-3 2009 with regard to private label lines:

Mercator Line:

- ✓ We carried on the redesign of product packaging.
- ✓ As at March 31st 2009, the line included **475** products, of which 331 featured redesigned packaging with the blue strip and appealing photos.



Total Body Care:

- ✓ At the end of March 2009, the line included **50** products.
- ✓ In the future, products of the Total Body Care Line will be included in the Mercator line as a sub-line of cosmetics products.



Generic Line:

- ✓ This line includes FMCG products for the most price-sensitive customers, as it follows a clearly defined goal: lowest price in the market.
- ✓ As at end of March 2009, the line included **53** products.



Ambient Line:

- ✓ The line is an upgrade to the M-Line which includes high-quality products for home.
- ✓ As at end of March 2009, the line included **37** products (simultaneously, the M-Line included 63 products).



Lumpi:

- ✓ Products of the Lumpi line are in the final stage of redesign (new appearance of the logo and the mascot). New products are added under surveillance of the Kranj Institute of Public Health and the Ljubljana Pediatric Clinic.
- ✓ As at end of March 2009, the line included **239** products.



The Wishing Table:

- ✓ This line enables simple preparation of a high-quality and good meal while saving time. It is intended for people who value good food and leisure time.
- ✓ As at end of March 2009, the line included **115** products.



Healthy Living:

- ✓ The Healthy Living line was designed to aid the selection in a flood of healthy nutrition products. Carefully selected products of this line comply closely with the recommendations and modern findings in the field of healthy nutrition. The selection of products is confirmed by the Kranj Institute of Public Health.
- ✓ As at end of March 2009, the line included **83** products.



Premium:

- ✓ In the beginning of 2009, we launched an intensive campaign to introduce the new, Premium Line. This line of products will address the customers in the higher price segment and customers with more refined taste. Accordingly, the products will be made of the best ingredients, they will be of higher quality (products of controlled geographical origin, hand-made products, etc.), they will contain less artificial additives, etc.; for the most part, these products will be of Slovenian origin.



Pekarna Grosuplje (bakery):

- ✓ In the first quarter of 2009, we continued to pursue the goal of raising the awareness and promoting the sale of bread from our own bakery. At the end of March, a total of **50** products were included in the line. On the first day of spring, we introduced the "Spring Bread with Tarragon"; the products were advertised in internal media and at the stores.



Five a Day - Let Some Color Into Your Life:

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



Number of products in the Mercator private label (accounting for all fragrances, flavors, types, colors, or designs)

Number of products and the share of sales of the Mercator private label products in total retail revenues as at March 31st 2009

	Number of products as at March 31 st 2009	Share in total sales in the period 1-3 2009
Slovenia	2,223	15.28%
Croatia	1,343	7.93%
Serbia	719	1.04%
Bosnia and Herzegovina	707	2.71%

Sales Promotion Projects

Long-term Sales Promotion Projects

In 2009, we have carried on with the projects "National Basket" and "Low Price Every Day" in all markets of our operations.



We also carried on the "YES! Coupon" campaign. 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 10-percent discount when shopping on the following Tuesday.

We have also carried on the "Locked Price" project. The project was introduced in July 2008 as a response to inflationary pressures. In the period from January 19th to July 19th 2009, it includes over 600 products for which we guarantee that the price will not be increased for six months, thus relieving our customers of the burden of general price hikes.



In March 2009, we completed the customer loyalty program called "Collect and Choose a Present!" ("Zberi in izberi darilo!") through which customer loyalty was awarded by free products of the renowned Tognana brand.



Short-term Sales Promotion Projects

As of this year, special offers for the entire network and the hypermarkets are presented in a single, unified flyer. In 2009, we shall carry out 24 sales promotion campaigns, including four theme-oriented campaigns that will focus on selected target categories. Thus, we have already issued the flyer "Everything for Your Child"; flyers focusing on meat and meat produce, eco products, and toys will follow. The flyers present the most attractive and favorably priced products, in order to attract to our stores as many customers as possible.



During the regular campaign, we have also carried out the **Private label** since the beginning of 2009. Products of the selected private label that are included in the campaign throughout the duration of the regular campaign are presented on a flyer and at the point of sale.



At Hura! Discount stores, we continue to carry on the 14-day campaigns in this year.

The **Category Discount** activity which includes offering at least 20-percent discount on an entire category in the period from Thursday to Sunday was somewhat revised this year. The campaign **Category Discount for market program** hence takes place every 14 days, more precisely the first weekend after the flyer is issued (sales promotion campaign and the "Category Discount" campaign take place alternately). The campaign includes categories or products that have proven most successful in the previous year. In addition to boosting the sales of products included in the campaign, our goal is to attract new customers and offer our loyal customers to visit us again.



Category Discount for the fruit and vegetables program still takes place each week from Thursday to Sunday.

In the period 1-3 2009, we carried on the somewhat revised campaign "Happy Hours".

Other Activities

Sales promotion projects were also carried out within nonmarket programs.

- ✓ **Hardware and electronics program:** As a response to the imminent recession, we have prepared in all markets in the period 1-3 2009 an offer of technologically modern and appealing affordably priced products that seek to improve the distinctiveness of our hardware and electronics program.



- ✓ **Clothing and drugstores (apparel and beauty) program:** With regard to apparel program, we carried out a season clearance sale and additional season-related activities while our most loyal customers were offered the service of fashion consulting in Ljubljana, Maribor, and Celje. At **Beautique** perfume shops and drugstores, we carried out regular campaigns and "make-up days".
- ✓ **Intersport:** In the first quarter of 2009, we carried out sales promotion campaigns to close the Fall/Winter 2008/09 season, as well as a season clearance sale and a post-clearance special offer. We worked with partners to take part at events related to the category of winter sports. We carried on our co-marketing project with Opel. In March, we launched the presentation and sales promotion of key categories for the season Spring/Summer 2009. We also launched an international campaign called Run Free Now and issued the guides Running 2009 and Roller-skating 2009.



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

STORE FORMATS

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

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

Store Formats in Foreign Markets

In the first quarter of 2009, we prepared:

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

Development of New Technologies and Services

In 2009, we have continued to introduce new technologies to our stores. In this year, self-checkout cashiers were introduced to two more hypermarkets in Croatia. Thus,

Tik-tak cashiers are in operation in 15 Mercator hypermarkets and two supermarkets. In Slovenia and Croatia combined, a total of 120 self-checkout cashiers have been installed. We are also preparing to extend the offer of photography services to the Croatian market.

Retail Unit Composition

Breakdown of the composition of Mercator Group retail units by types of stores, particular programs, and particular markets as at March 31st 2009

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTENEGRO	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	19	13	12	4	-	48	239,235	151,903
Supermarkets	130	29	22	13	4	198	226,699	144,489
Superettes	282	43	23	2	4	354	147,606	83,781
Neighbour stores	68	17	7	-	1	93	15,024	8,114
Cash & Carry	12	-	2	-	-	14	35,355	22,966
Hard discount stores	17	-	-	-	-	17	14,011	9,765
TOTAL FMCG programme	528	102	66	19	9	724	677,930	421,018
Technical programme	101	15	6	0	0	122	162,495	90,469
Technical programme	69	14	3	0	0	86	125,694	63,511
Furniture programme	32	1	3	0	0	36	36,801	26,958
Clothing programme and drugstores	96	29	18	9	0	152	67,573	56,556
Clothing programme	80	29	10	6	0	125	64,397	53,992
Drugstores and perfumeries	16	0	8	3	0	27	3,176	2,564
Intersport	29	22	9	6	1	67	37,512	28,989
Restaurants	22	17	6	11	0	56	16,957	10,937
Other	4	0	0	0	0	4	81	81
TOTAL specialised programmes	252	83	39	26	1	401	284,617	187,032
TOTAL	780	185	105	45	10	1,125	962,547	608,050
Franchise stores	225	79	-	-	-	304	54,508	35,204
TOTAL with franchise stores	1,005	264	105	45	10	1,429	1,017,055	643,254

SALES

In the period 1-3 2009, Mercator Group generated EUR 617,656 thousand of **revenues from sales**, which is 1.1 percent more than in the same period last year. Assuming a constant exchange rate of the Serbian currency relative to euro, revenues from sales for the Mercator Group would have amounted to EUR 631,692 thousand, which would be a 3.4 percent growth compared to the same period last year. According to the annual plan, sales revenue growth in 2009 should amount to 3.3 percent compared to the year before.

Given the planned revenues from sales, Mercator Group attained 22.1 percent of the planned annual figure in the period 1-3 2009.

Mercator Group revenues from sales by geographical segments

In Slovenia, revenues from sales of the Mercator Group amounted to EUR 411,585 thousand in the period 1-3 2009, which is 0.7 percent more than in the same period last year. Revenues from retail rose by 1.8 percent, revenues from wholesale fell by 2.3 percent.

In **foreign markets**, revenues from sales in the period 1-3 2009 amounted to EUR 206,071 thousand, which is 2.1 percent more than in the same period last year. Assuming a constant euro exchange rate of the Serbian currency, companies abroad would have attained revenues from sales in the amount of EUR 220,107 thousand, which would mean a 9-percent growth compared to the same period last year. The increase is primarily the result of opening of new and refurbished retail units.

Mercator Group 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.

In the period 1-3 2009, the majority of Mercator Group trade activity revenues resulted from sales of **market program** products as they accounted for 85 percent of trade activity revenues from sales; share of total revenues from sales generated in other **specialized trade programs** amounted to 15 percent.

CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category Management

In the first quarter of 2009, category management was focused on adapting our offer to the stringent conditions of declining purchasing power, and on improving the price competitiveness and perception, employing all tactics otherwise available as a part of category management (products - assortment, prices, promotions, and positioning).

In terms of price competitiveness and perception, we have prepared the first wave of price changes in Slovenia (we cut prices of 2,800 products). We are regularly monitoring the price competitiveness index and the price perception and adjust our activities in this regard accordingly.

With respect to promotion policy we have prepared an overview of the impact of individual measures (advertising, exposure / positioning, discounts) on the increase of sales volume, for different categories and different types of promotion activities. Our findings are aggregated and combined using a price optimization tool which will also serve as tool for managing all price modifications for a particular item. In addition, we have tested the effect of promotion by exposure (conspicuous positioning) on the sales volume, based on which we shall commence optimization of promotion by exposure at the point of sale.

Purchasing of trade goods and supplier relations

In the first quarter of 2009, we continued looking for new procurement sources and adjusting our offer to various segments of customers; the currently prevailing market conditions pushed the offer for the most price-sensitive customers to the forefront of our attention.

We carried out activities to mitigate the recurring price pressures on the part of suppliers and looked for the best solutions for our customers by negotiating the postponement of any price increases.

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

In the first quarter of 2009, negotiations with suppliers have already been completed, while they are in the final stages in foreign markets. We have operationalized the contractual agreements with our suppliers for all activities, including execution at the points of sale. We continue to cut down delivery failures, inventories, and to optimize our operations.

We entered agreements and launched activities with the suppliers in order to enter the Bulgarian and Albanian market.

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

LOGISTICS

In the period 1-3 2009, we continued to provide quality logistics services for all entities of the system that require them.

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

In Slovenia:

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

In foreign markets:

In Bulgaria, we inspected several potential warehousing facilities and potential locations for construction of new warehouses. Given the current dynamics of development of Bulgarian market, we are looking for optimum temporary and long-term solutions.

ORGANIZATION AND QUALITY OF OPERATIONS

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

Organization management

We have implemented the organizational changes resulting from the transfer of activities of the company M-Rodić, d.o.o., to Mercator-S, d.o.o.; we reorganized the company Mercator-H, d.o.o. We revised the catalogue of workplaces / jobs and updated the electronic collection of organizational rules - Mercator standards.

Quality standards

At the company Poslovni sistem Mercator, d.d., the Internal Audit Plan 2009 has been prepared and confirmed; furthermore, the spring part of the internal audit has been completed. We are now carrying on the activities to establish the environment management system in compliance with the provisions of the ISO 14001 standard, and the food safety management system in compliance with the ISO 22000 standard. The first part of certification assessment for the environment management system ISO 14001 has been completed and the preparations for the integrated external assessment (audit of the Rules and Regulations on Quality Management, preparation of reports for management's review) are under way. The integrated external assessment will take place from May 25th to 29th. As a part of the project of obtaining the ISO 9001 quality certificate at the company Mercator-S, d.o.o., we have completed most of the documentation for this system and trained internal auditors. In the company Poslovni sistem Mercator, d.d., we introduced electronic application for paperless management of incompliance, recommendations, and commendations.

Internal control at our sales units

We have been following the legislation changes in the field of goods and services flow processes in commerce, notified the users on requirements, advised them and introduced these changes into internal standards. We submitted to the Slovenian Chamber of Commerce a proposal on the change to the Regulation 120/05, 70/08, with regard to the part that stipulates document tracking / traceability for at least 2 years, or 6 months for quickly perishable products.

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

With regard to food safety, we are currently in the preparation stage for the first part of external ISO 22000 certification which, among other, includes a revision of the

existing standards. Based on legislative requirements and the requirements of this standard, the management appointed a project task force responsible for withdrawing the products during store working hours, outside the regular working hours of administrative workers. We are also establishing a unified system of tracking results of both state and own monitoring of certain products (meat and meat produce, private label, fruit and vegetables, etc.).

Strategic project of general optimization of operations

Within the framework of the performance of the **strategic project of a general optimization of operations** in the Mercator Group, we have been active in the area of increased efficiency and operating cost reduction in the period 1-3 2009:

- ✓ We have identified the effects of inter-sector links that affect, particularly in a period of crisis, the attainment of goals with regard to inventory turnover in retail. Furthermore, we analyzed these effects and launched the preparation of additional measures.
- ✓ We have established a constant data transfer connection between the company Mercator-S, d.o.o., and the central data warehouse of the Mercator Group. This connection will enable constant exchange of data required for analytical tools intended for inventory management at Mercator-S, d.o.o. We have also prepared a series of workshops for implementation of these tools, and started user training.
- ✓ In the field of logistics and transport, we are revising the business model of the fresh fruit and vegetable supply chain. This model will provide improved quality of goods at our stores.
- ✓ We have launched the cost optimization of the system of centralized procurement of non-trade goods and services; the optimization was started in the field of investment projects and fuels.

The environment protection cost management project includes preparing measures to cut the costs.

INFORMATION TECHNOLOGY

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

- ✓ As a part of the **support function IT system revision project**, we completed the extension of the use of the basic SAP modules in the companies Mercator-H, d.o.o., and Mercator-BH, d.o.o., as well as carried out the preparations to use these modules in the company Mercator-BL, d.o.o.
- ✓ As a part of the **material operation IT system revision project** or the implementation of the G.O.L.D. software solution for operation management in retail, logistics, and wholesales, we carried out the following:
 - we have started to use the G.O.L.D. CENTRAL module intended for editing and maintaining master data, managing procurement processes, and managing

promotion activities. Over 350 stores of the market program were connected to this module;

- We connected two pilot stores to the G.O.L.D. SHOP module (module for ordering and inventory management in the store) by integrating the new POS trade system.

The following activities were carried out in other fields:

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

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

FINANCIAL MANAGEMENT

Financial liabilities

In the period 1-3 2009, financial liabilities in the Mercator Group rose by EUR 45,978 thousand or by 4.4 percent compared to the end of 2008, which indicates that the Mercator Group has continued to successfully obtain new financing sources. The increase is a result of the intra-year dynamics of the requirements for cash.

Net borrowings of the Mercator Group, calculated as the difference between financial liabilities (current and non-current financial liabilities with derivative financial instruments) and financial assets (cash including available-for-sale financial assets and cash deposits) of the Mercator Group, as at March 31st 2009, amounts to EUR 1,024,973 thousand.

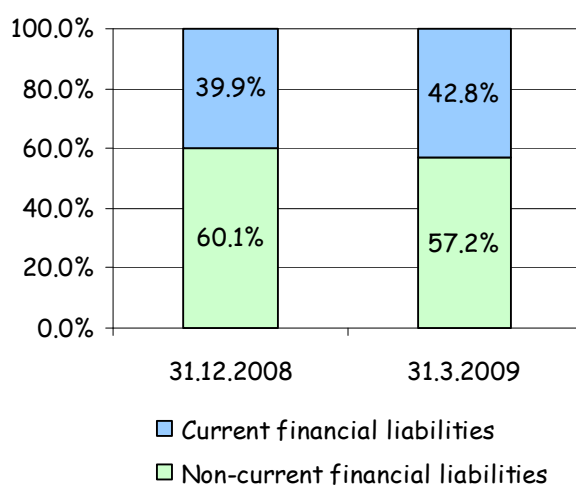
Capitalization ratio

As at March 31st 2009, the capitalization ratio of the Mercator Group amounted to 1 : 1.30 (at the end of 2008, the ratio was 1 : 1.22); this is the ratio between equity - comprising disclosed equity plus provisions for liabilities and charges, and debt capital - comprising non-current and current financial liabilities.

Long term coverage of non-current assets

As at March 31st 2009, long-term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 80.3 percent.

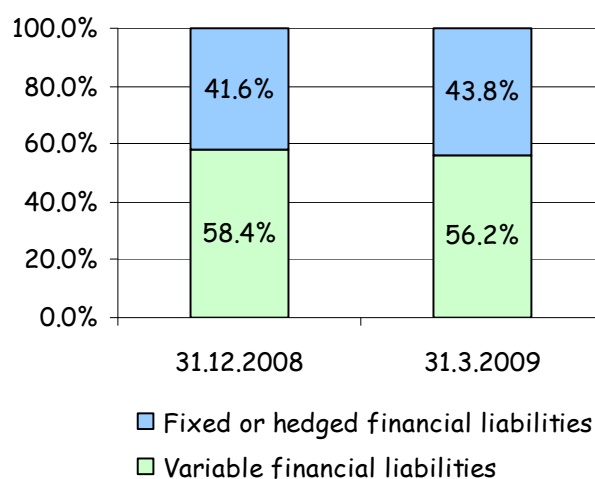
Ratio between current and non-current financial liabilities



Obtaining sources of financing

In the period 1-3 2009, Mercator signed agreements on bilateral short-term loans for refinancing the existing sources. Despite harsh conditions in the financial markets, we have managed to completely refinance all due borrowings in the period at hand.

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



MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

As at March 31st 2009, share capital of the company Poslovni sistem Mercator, d.d., was divided into 3,765,361 shares. Nominal value of each share amounts to EUR 41.73.

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

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

Key information for the shareholders

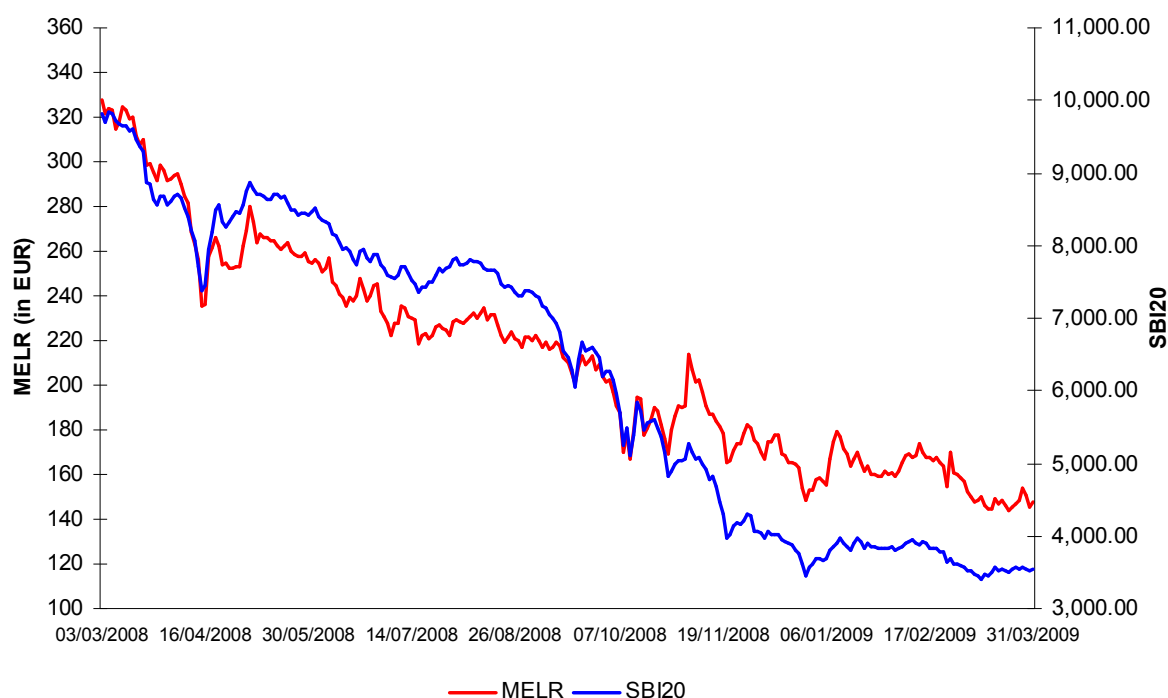
	March 31 st 2009
Number of shares registered in Court Register	3,765,361
Market capitalization (in EUR)	555,353,094
Market value of share (in EUR)	147.49
Book value per share (in EUR)	210.33
Annual low (in EUR)	144.03
Annual high (in EUR)	178.92
Weighted average market price, excluding block and cross trades (in EUR)	159.95
Earnings per share (in EUR)	1.7

Equity market capitalization is calculated as the product of the number of shares entered into Court Register as at March 31st, and the market price per share as at March 31st.

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 March 31st, 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:

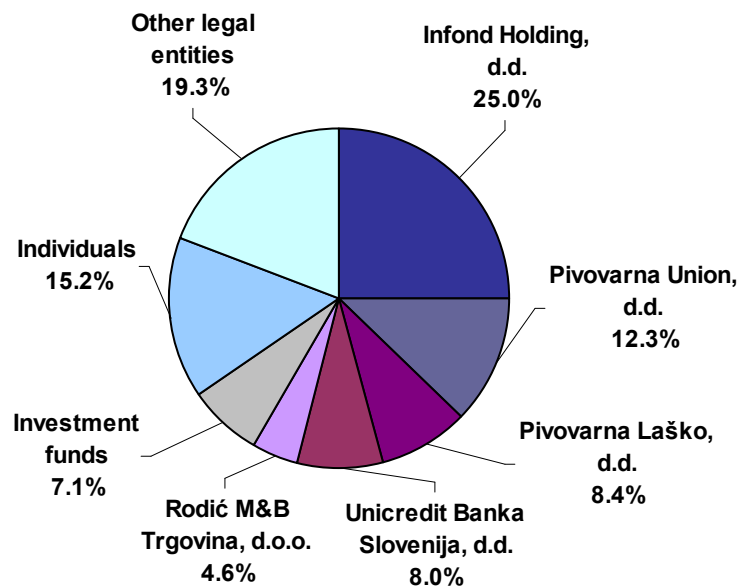
- ✓ EUR 4.00 per share in 2007,
- ✓ EUR 4.25 per share in 2008,
- ✓ EUR 4.50 per share in 2009,
- ✓ EUR 4.75 per share in 2010.

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 March 31st 2009, the **Share Register** of the company Poslovni sistem Mercator, d.d., indicated **17,248** shareholders or 52 less compared to the situation as at December 31st 2008.

As at March 31st 2009, the **ownership structure** of the company Poslovni sistem Mercator, d.d., was as follows:



Major shareholders

As at March 31st 2009, the following ten largest shareholders combined owned **69.4 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	301,195	8.00%
5 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 NFD 1 Delniški investicijski sklad, d.d.	Slovenia	107,211	2.85%
7 Radenska, d.d.	Slovenia	96,952	2.57%
8 Hypo bank, d.d.	Slovenia	77,967	2.07%
9 Smallcap World Fund	USA	69,933	1.86%
10 KLM Naložbe, d.d.	Slovenia	61,490	1.63%
Total		2,612,454	69.38%

Foreign shareholders

As at March 31st 2009, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.18 percent**, which is 0.06 percentage points less than at the end of 2008.

Shares owned by Management Board members as at March 31st 2009

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 March 31st 2009

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

Treasury shares

As at March 31st 2009, the company Poslovni sistem Mercator, d.d., held 42,381 treasury shares with the total value of EUR 3,250 thousand. In the period 1-3 2009, the company Poslovni sistem Mercator, d.d., neither acquired neither disposed of treasury shares.

RISK MANAGEMENT

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

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

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

✓ With regard to **business risks**, we focused on managing the following:

- Risk of a decline in the purchasing power:

As a result of harsh economic conditions, the risk of a decline in purchasing power has become more severe. Furthermore, changes in shopping habits and behavior of our customers has also been perceived. From the aspect of sales and the related risk of a decline in the purchasing power, we focused particularly on the markets of Slovenia and Croatia in the first quarter of 2009. In order to manage Mercator Group's exposure to this risk, we adopted measures and tools that enable reducing and controlling the effects of the expected decline in purchasing power. In Slovenia, we cut prices of 2,800 products; by the end of the year, we are planning to cut prices of additional most commonly sold items. We have also set up a system of constant monitoring and measuring of key indicators of customer conduct /behavior when shopping for FMCG (fast-moving consumer goods). Implementation of the same measures was initiated in Croatian market.

✓ With regard to **financial risks**, we were focused on managing the following aspects:

- Credit risk:

Due to the aggravation of the economic crisis, exposure of companies to liquidity problems is increasing; hence, credit risk in Mercator's wholesale is also increasing; the same applies to the probability that claims / receivables arising from deferred or overdue payments will only be settled partly or not at all. In the first quarter of 2009, we intensified our activities in receivable collection processes, restricted the exposure to individual customers; we also started to request first-rate insurance from customers with poorer ratings. Within the Mercator Pika card system, we have started to implement a new model for defining the overdraft credit line conditions and initial overdraft lines for new users.

- Refinancing risks:

As a result of the global financial crisis, credit activity of the banks has also shrunk and there is a risk that the banks will refuse to refinance the existing financial liabilities. Mercator has already held bilateral meetings with all banking partners and presented its expectations with regard to future cooperation. In the first quarter of the year, all short-term borrowings were successfully refinanced. Moreover, we managed to acquire EUR 18.8 million worth of new short-term loans and EUR 15 million worth of long-term finance loans.

- Foreign currency risks:

For Mercator Group, foreign currency risk, defined as the probability of a loss of economic benefit due to a change in the exchange rate of a particular currency, appears in the markets of Serbia and Croatia; in other markets of Mercator Group operations, the legal tender is either euro or a currency pegged to euro in a fixed exchange rate system. Therefore, we are actively monitoring the macroeconomic background of the changes in exchange rates and attempt to adapt our operations so as to mitigate the exposure to the foreign currency risk, by responding to general trends and by natural hedging.

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

As announced in the Business Plan for the year 2009 and the 2008 Annual Report, Management Board reevaluated in the first quarter of the year the exposure to key risks and reevaluated the risks in light of the current development of major factors affecting these risks. According to the Management Board's assessment, Mercator Group's total exposure to business, financial, and operating risks has not change considerably compared to the assessment dating from December 31st 2008.

SOCIALLY ACCOUNTABLE ACTION

Sponsorships, Donations, and Charity Campaigns

In **Slovenia**, we continued to pursue the principles of sustainable development and accountability towards the environment; hence, we backed in March 2009 the eco-schools from across Slovenia in their project of planting 10 thousand fruit trees of indigenous species; these trees will be planted around schools, in public areas.

We have teamed up with the company Henkel Slovenia to back a not-for-profit organization "Rdeči noski" ("Red Noses") - Clown Doctors in order to present their activity and mission to the general public and to raise as much funds as possible for their efforts. The clown doctors upraise the children in hospitals, bringing them laughter and cheerfulness much needed for their recovery.

We also responded to the needs of the Red Cross of Slovenia and supplied the aid for 300 families to its regional association in Ljubljana; furthermore, we supplied 16 tons of

food for the socially endangered individuals, families, and groups of population to each of the remaining 12 regional associations.

In addition to the annual sponsorship agreements with national sports organizations and major sports clubs, we traditionally backed the foundation "Z glavo na zabavo" ("Party Without Loosing Your Head"), Cankarjev dom (culture and events center), National Gallery, National Museum, International Center of Visual Arts, Municipal Museum, and the Faculty of Economics.

Numerous projects that we sponsored also include the Ptuj carnival, the Istria carnival, the Unicef project "Povej!" ("Say it out loud!") to aid children victims of violence and their families, and the charity concert for constructing the first Slovenian center for children with the Down syndrome.

In **Serbia**, we donated products to the maternity department of the Šabac General Hospital upon the opening of the Roda Center Šabac. We again sponsored the "Euroleague Basketball Nike International Junior Classification Tournament" in Belgrade; at the end of March, we also sponsored the concert of Slovenian musician Zoran Predin in Novi Sad. Furthermore, we signed an agreement on three year sponsorship of the traditional "Dragon Children's Games" in Novi Sad.

In **Croatia**, we announced for the first time a public call for applications for our sponsorships and donations and selected organizations and projects which we shall support in their socially accountable activities. We also supported the traditional carnivals in Rijeka, Velika Gorica, Sombor, and Zadar. We funded the diving club Vrtoglavica ("Vertigo") which carries out a special diving program for children with special needs; we cooperate with the Croatian Association for Therapeutic Horse Riding, particularly in terms of training volunteers; this is also our central humanitarian campaign. We supported the Vilibald Association with their campaign "A Gift to the Plane Earth" in which we gave away to the customers of Mercator center Zagreb linen shopping bags painted with children's paintings.

In **Bosnia and Herzegovina**, we started the year with donations to 52 children who were born on the first day of the year. We also carried out the first public call for applications for sponsorships and donations and awarded our support to the Female Handball Club Ljubuški, Brčko Vidovdan Running Competition, Tuzla Bicycle Race, "Giro di Sarajevo", and KUD (Cultural-Artistic Society) Lola in Sarajevo. In cooperation with the Dobro ("Good") Association, we raised funds to aid 92 deprived families, and supported the project "A Walk For Life" which was aimed at raising funds for the purchase of a mammography equipment. The company Mercator-BH, d.o.o., also sponsors the volleyball club "Jedinstvo" from Brčko, and the Slovenian "Cankar" Society in Sarajevo.

In **Montenegro**, too, we take an active role in the society. Among other activities, we sponsored the children's quiz show "Through the Doors of Knowledge to a Trip", and continued to sponsor the handball club "Budućnost" and the karate club "Ariston". We also donated funds to the "Maksim Gorki" elementary school.

Care for the Environment

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

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

- ✓ We prepared all required documentation and carried out an internal assessment for the requirements of **establishing an environment management system** in compliance with the ISO 14001 standard.
- ✓ We are aware of the importance of information on the environmental impact in the decision-making process; therefore, we started to set up a **system of key environment efficiency indicator management** which will lead to sound management of the company's environmental impacts.
- ✓ In order to **reduce the use of power and fuels for heating**, we have set up a project that will lead to a drop in the specific use of power and fuels for heating at our facilities.
- ✓ In order to **optimize the business processes that bear an impact on the environment**, we have set up an infrastructural project for managing environmental data, goals, and projects.
- ✓ In order to comply with the provisions of the Regulation on Light Pollution and reduce the use of power, we prepared an **internal lighting standard** for lighting elements with corporate graphics.
- ✓ In order to rationalize the use of energy, we prepared a **manual for efficient use of energy for our employees**.
- ✓ We included in regular sale the **reusable shopping bags**, thus helping our customers take a step towards a more environment-friendly daily conduct.
- ✓ We joined the **European Project for Sustainable Plastic Materials PLASTiCE** called "Innovative value chain development for sustainable plastics in Central Europe"; in Slovenia, the project is managed by the Institute of Chemistry.

Human Resource Management

Number of employees

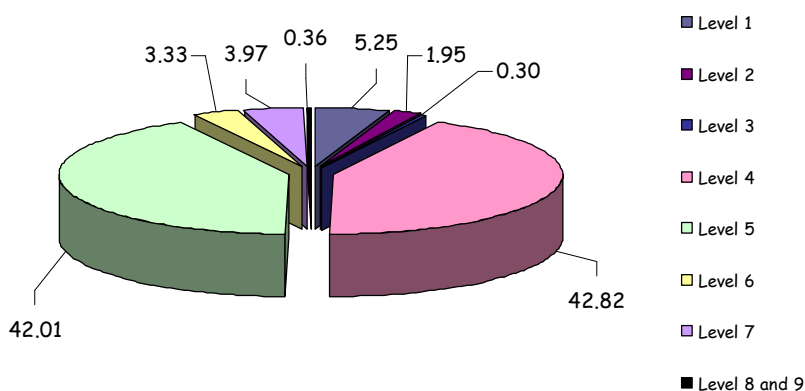
As at March 31st 2009, the Mercator Group employed **21,548** people of which **39.1 percent** were employed in foreign markets. The company Poslovni sistem Mercator, d.d., had **12,693** employees, or **58.9 percent** of all employees.

In the period 1-3 2009, the number of employees in the Mercator Group dropped by 0.4 percent.

Number of employees

	No. of employees as at 31 th December 2008	No. of employees as at 31 th March 2009	Planned no. of employees as at 31 th December 2009	Index No. of employees as at 31 th March 2009 / Plan as at 31 th December 2009	No. of employees based on hours worked in 1-3 2009
SLOVENIA	13,139	13,125	13,249	99.1	12,280
FOREIGN MARKETS	8,497	8,423	8,828	95.4	8,134
TOTAL MERCATOR GROUP	21,636	21,548	22,077	97.6	20,414

Breakdown by level of education



Absenteeism due to sick leaves

Total level of sick leaves at the **Mercator Group** amounted to 5.68 percent in the period 1-3 2009, of which 3.11 % was charged to the Group companies, and 2.57 % to national health insurance companies. Employees on sick leave were absent from work a total 617,137 working hours. In the same period last year, total absenteeism was lower by 0.15 percentage point as it amounted to 5.53 percent.

Total level of sick leaves at the company **Poslovni sistem Mercator, d.d.**, amounted to 6.74 percent in the period at hand, of which 3.82 percent was charged to the Group companies, and 2.92 percent to national health insurance companies. Employees on sick leave were absent from work a total 434,531 working hours. In the same period last year, total absenteeism amounted to 6,73 percent; therefore, this year's figure is 0.01 percentage point higher .

Employment of the disabled

Mercator Group employs 900 disabled persons or 4.18 percent of all employees. Of these, 831 are employed in the parent company, 64 in non-trading sector, and 5 persons in foreign markets. Compared to the period 1-3 2009, the share of disabled persons in the Group rose by 0.09 percentage point.


Percentage of disabled persons in the parent company is 6.55 (0.01 percentage points more than in the period 1-3 2008).

Employee relations

Career planning for key employees

- ✓ As at March 31st 2009, Mercator Group employed **2,902 associates identified as key employees**; of these, 2,117 were employed at the parent company.
- ✓ In Slovenia, we started conducting **career discussions with key employees**.
- ✓ We have surveyed and estimated the **interest of key employees** from the parent company for temporary **work in foreign markets**. 53 candidates applied with which special discussions were held.
- ✓ **Evaluation of key employee competencies according to the 360 degree method** is being carried out for the first time in Croatia and in Serbia.

Education and training

- ✓ Key employees take part in various forms of **managerial education**. Workshops dealing with the issues of leadership, public appearances, communication, and intercultural sensitivity, have been warmly welcomed.
- ✓ Employees in administration were trained in **occupational health and safety and fire safety**. This time, training was carried out for the first time in the form of electronic self-studying using prepared study materials and a final knowledge test.
- ✓ In Croatia, we have launched the **Store Manager School**, while in Serbia, the current generation has already completed it. In Slovenia, we worked with the retail management to prepare and coordinate a two-day program of **Mercator School for Deputy Store Managers**.
- ✓ **Tutors / coaches** are increasingly active in Slovenia. According to our estimation, they carried out 800 visits at the market program departments, thus **improving the expert training and quality of services provided by our store personnel**. We also started the training of the third generation for the market program and confirmed the training program for newly listed tutors / coaches from Intersport, hardware and electronics, apparel / textile, and cash & carry.
- ✓ In Croatia, we introduced an internal project called "**IT Friday**" in which employees from IT departments carry out practical one-hour training each Friday. The contents of the training are proposed by the employees from all fields.

Staffing and recruitment

- ✓ At the company Poslovni sistem Mercator, d.d., we received 2,232 applications for employment, which is 17 percent more than in the same period last year. We have employed **210 new employees**, mostly in the operative segment.
- ✓ In 2009, **staffing** is also focused on foreign markets, particularly in key employees in Banja Luka in Bosnia and Herzegovina, and in Bulgaria.
- ✓ On February 1st 2009, we appointed a new director of the company **Mercator-H, d.o.o.**, Croatia.
- ✓ We worked actively with the Slovenian Chamber of Commerce to compile an initiative to **deregulate the occupation of salesperson**; the initiative was submitted by the said organization to the Slovenian Ministry of Labor, Family, and Social Affairs in order to facilitate the recruitment of operative workers.
- ✓ We have adopted the **standard for recruitment for Poslovni sistem Mercator, d.d.**
- ✓ We have set up the **employment portal** on our website, at www.mercator.si/kariera



Motivation and compensation

- ✓ In the first quarter of 2009, an **expert task force for changes in the employee compensation system** was inaugurated. The task of this team is to monitor and improve the employee compensation system in the parent company.
- ✓ In March 2009, we collected and coordinated the **proposals for promotion** of key and promising employees, employees at other posts, and employees that will be reappointed to new posts.
- ✓ We organized **7 festive events** for employees who were presented with special awards for reaching a **major milestone** in their career (10, 20, 30, and 40 years of active employment) in the second half of 2008. In 2009, we started presenting greeting cards to the jubilarians, along with monetary reward.

Communication with employees

- ✓ **Annual discussions** have been launched in the Mercator Group.
- ✓ We have published the first issue of the "Časomer" ("Timekeeper") internal **magazine**. The first issue was also published in Serbia and Montenegro. In Croatia and Bosnia and Herzegovina, the magazines are in the preparation stage.
- ✓ On March 30th 2009, we announced a call for applications for the elections to the Worker's Council.

Intercultural organizational development

- ✓ At 25 managerial meetings across the trade division of the Mercator Group, we have presented the **results of Corporate Climate and Employee Satisfaction Survey**.
- ✓ **The Mercator Hiking Society** has 290 members. In the period at hand, they organized 3 trips which were attended by a total of 334 hikers.



Occupational health and safety

- ✓ The project "**Family-Friendly Company**" included presenting a "**Lumpi Package**" to sixty newborn babies of the employees at the controlling company.
- ✓ For 2009, the Management Board of the company Poslovni sistem Mercator, d.d., allocated EUR 100,000 to the **Mercator Humanitarian Foundation** for awarding humanitarian aid. Of this sum, EUR 19,271 has already been granted and paid to 32 applicants in the first quarter of 2009.



- ✓ We have launched the project "**Promotion of health at the company Mercator, d.d.**". A project team was appointed which will be responsible for appropriate and effective implementation of measures to reduce absenteeism. We have also launched intensive control of sick leaves. A team was appointed to resolve issues related to workplace ergonomics. In March 2009, we purchased several company bicycles intended for shorter work-related trips and errands at the parent company headquarters.
- ✓ In the period 1-3 2009, 197 **work accidents** occurred in the Mercator Group (0.16 percentage point less more than in the same period last year), of which 151 occurred in the parent company. All accidents combined resulted in 4,687 lost working days. The most common injuries are cuts and falls.
- ✓ We organized the first **meeting** of Mercator representatives with the **presidents of disability evaluation committees** in order to aid a closer cooperation between personal and authorized doctors, representatives of disability evaluation committees, and human resource managers.
- ✓ Activities of archiving, occupational health and safety, and fire safety were transferred from the parent company to the **Mercator Social Enterprise ("Mercator - Invalidsko podjetje")**. Employees are thus providing the services of occupational safety and fire safety both for the controlling company and for the company Mercator IP, d.o.o. On March 23rd 2009, company Management Board

confirmed the plan for further expansion of the operating activities of the social enterprise which currently employs 62 persons.

Customer Communication

- ✓ On March 1st, we published the revised catalogue "**Shopping Companion**" ("Nakupovalni sopotnik"), which presents the offer of our shopping centers in Ljubljana (Mercator Center Ljubljana, Trade Center Šmartinska, Hypermarket Rudnik, and Maximarket). In addition to the assortment, the catalogue also presents novelties, and announces events and special benefits.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2009 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 19 subsidiaries, in which the controlling company directly or indirectly holds 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., and M - nepremičnine;
- ✓ **abroad:** Mercator - H, d.o.o., Croatia, Belpana, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, M - Rodić, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator Makedonija, d.o.o., Macedonia, Investment International, d.o.o., Macedonia, and Mercator - B, e.o.o.d., Bulgaria.

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	1-3 2008	Plan 2009	1-3 2009	Index	Index
1	2	3	4	5	7=5/3	8=5/4
A.	Net sales revenues	610,811	2,798,426	617,656	101.1	22.1
1.	Net sales of goods, materials and products	559,415	2,582,042	562,214	100.5	21.8
2.	Net sales of services	52,768	221,613	56,952	107.9	25.7
3.	Expenses for given discounts	-1,373	-5,229	-1,510	110.0	28.9
B.	Cost of sales	-448,283	-2,099,671	-453,368	101.1	21.6
1.	Purchase value of goods and material sold	-449,878	-2,104,376	-455,402	101.2	21.6
2.	Received discounts	2,312	9,434	3,135	135.6	33.2
3.	Other expenses	-717	-4,729	-1,101	153.6	23.3
C.	Gross profit	162,528	698,756	164,288	101.1	23.5
D.	Selling and marketing costs	-119,083	-530,983	-118,114	99.2	22.2
E.	Administrative expenses	-26,368	-73,977	-23,820	90.3	32.2
F.	Other income	5,016	10,589	2,278	45.4	21.5
G.	Results from operating activities	22,092	104,385	24,632	111.5	23.6
H.	Finance income	2,689	9,969	6,072	225.8	60.9
I.	Finance expenses	-13,236	-75,677	-22,254	168.1	29.4
J.	Profit before income tax	11,546	38,678	8,450	73.2	21.8
K.	Income tax expense	-2,221	-7,683	-1,732	78.0	22.5
L.	Deferred income tax	0	-838	-269	-	32.1
M.	Profit for the financial period	9,325	30,157	6,449	69.2	21.4
N.	Attributable to equity holders of the Company	9,323	30,151	6,524	70.0	21.6
O.	Attributable to minority interest	2	6	-75	-	-
P.	Number of employees based on hours worked	20,361	21,332	20,414	100.3	95.7
Q.	Gross cash flow from operating activities	41,735	183,670	44,738	107.2	24.4
R.	Gross cash flow from operating activities before rental expenses	45,874	206,642	51,062	111.3	24.7

Consolidated Balance Sheet

EUR thousand

	Type of assets / liabilities	31.12.2008	Plan 31.12.2009	31.3.2009	Structure 31.3.2009	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
A.	NON-CURRENT ASSETS	1,873,310	1,887,465	1,873,771	75.5%	100.0
I.	Property, plant and equipment	1,771,963	1,808,199	1,776,612	71.6%	100.3
II.	Investment property	9,563	9,238	10,442	0.4%	109.2
III.	Intangible assets	78,196	55,899	73,217	3.0%	93.6
IV.	Deferred tax assets	8,380	7,306	8,380	0.3%	100.0
V.	Trade and other receivables	333	396	262	0.0%	78.7
VI.	Bank deposits	51	0	48	0.0%	94.1
VII.	Available-for-sale financial assets	4,824	6,428	4,810	0.2%	99.7
B.	CURRENT ASSETS	666,811	578,638	606,881	24.5%	91.0
I.	Inventories	272,391	268,482	282,483	11.4%	103.7
II.	Trade and other receivables	329,123	299,473	287,869	11.6%	87.5
III.	Bank deposits	18,618	0	3,947	0.2%	21.2
IV.	Current tax assets	809	0	2,607	0.1%	322.2
V.	Derivative financial instruments	0	0	0	0.0%	-
VI.	Cash and cash equivalents	45,870	10,683	29,975	1.2%	65.3
	TOTAL ASSETS	2,540,121	2,466,103	2,480,652	100.0%	97.7
A.	EQUITY	814,100	818,899	801,425	32.3%	98.4
	Total equity attributable to equity holders of the Company	812,092	816,855	799,498	32.2%	98.4
I.	Ordinary shares	157,129	157,129	157,129	6.3%	100.0
II.	Share premium	198,848	198,848	198,848	8.0%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.1%	100.0
IV.	Revenue reserves	267,640	247,720	267,640	10.8%	100.0
V.	Fair value reserve	188,751	165,346	184,486	7.4%	97.7
VI.	Retained earnings	0	28,134	24,682	1.0%	-
VII.	Profit for the year	24,682	30,151	6,524	0.3%	26.4
VIII.	Currency translation reserve	-21,708	-7,223	-36,561	-1.5%	168.4
	Minority interest	2,008	2,044	1,927	0.1%	96.0
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	708,969	676,801	704,105	28.4%	99.3
I.	Trade and other payables	2,271	0	1,981	0.1%	87.2
II.	Financial liabilities	622,787	593,435	618,128	24.9%	99.3
III.	Deferred tax liabilities	52,496	49,032	52,465	2.1%	99.9
IV.	Provisions	31,415	34,334	31,531	1.3%	100.4
D.	Current liabilities	1,017,052	970,403	975,122	39.3%	95.9
I.	Trade and other payables	599,933	566,611	503,168	20.3%	83.9
II.	Current tax liabilities	724	7,910	657	0.0%	90.7
III.	Financial liabilities	412,797	395,623	463,434	18.7%	112.3
IV.	Derivative financial instruments	3,598	260	7,863	0.3%	218.5
	TOTAL LIABILITIES	1,726,021	1,647,204	1,679,227	67.7%	97.3
	TOTAL EQUITY AND LIABILITIES	2,540,121	2,466,103	2,480,652	100.0%	97.7
	Number of employees as at the end of the period	21,636	22,077	21,548	-	99.6

Consolidated Cash Flow Statement

EUR thousand

Cash flows	1-3 2008	1-3 2009
Cash flows from operating activities		
Gross cash flow from operating activities	41,735	44,738
Change in trade and other receivables	-20,765	34,758
Change in inventories	-8,014	-10,092
Change in trade and other payables	-34,788	-97,123
Changes in working capital	-63,567	-72,457
Interest paid	-11,776	-18,577
Income tax paid	-2,221	-1,732
Net cash from operating activities	-35,829	-48,028
Cash flows from investing activities		
Acquisition of subsidiaries	-3	0
Acquisition of property, plant and equipment	-35,352	-34,014
Acquisition of intangible assets	-3,343	-354
Acquisition of available-for-sale financial assets	0	0
Deposits made	0	0
Proceeds from sale of subsidiaries	0	0
Proceeds from sale of property, plant and equipment	4,991	1,004
Proceeds from sale of intangible assets	55	0
Proceeds from sale of available-for-sale financial assets	7,210	0
Interest received	1,830	5,357
Dividends received	0	0
Deposits repayments received	0	14,796
Net cash used in investing activities	-24,612	-13,211
Cash flows from financing activities		
Proceeds (repayments) of borrowings	54,331	45,978
Dividends paid to company shareholders	0	0
Net cash from financing activities	54,331	45,978
Net increase in cash and cash equivalents	-6,110	-15,261
Cash and cash equivalents at the beginning of the period	23,089	45,870
Currency translation differences	-1	-634
Cash and cash equivalents at the end of the year	16,978	29,975

Consolidated Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January, 2008	157,129	198,848	-3,250	243,309	68,078	0	26,047	-4,223	685,938	2,258	688,196
Revaluation of property	0	0	0	0	157,507	0	0	0	157,507	0	157,507
Change in fair value of cash flow hedges	0	0	0	0	-4,232	0	0	0	-4,232	0	-4,232
Other changes in equity	0	0	0	0	-5,528	6,928	0	0	1,400	-2	1,398
Currency translation differences	0	0	0	0	0	0	0	116	116	2	118
Total income (expense) recognized directly in equity	0	0	0	0	147,747	6,928	0	116	154,791	0	154,791
Profit for the period	0	0	0	0	0	0	9,323	0	9,323	2	9,325
Total recognized income (expense)	0	0	0	0	147,747	6,928	9,323	116	164,114	2	164,116
Balance at 31 March, 2008	157,129	198,848	-3,250	243,309	215,825	6,928	35,370	-4,107	850,052	2,260	852,312

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January, 2009	157,129	198,848	-3,250	267,640	188,751	0	24,682	-21,708	812,092	2,008	814,100
Change in fair value of cash flow hedges	0	0	0	0	-4,265	0	0	0	-4,265	0	-4,265
Currency translation differences	0	0	0	0	0	0	0	-14,853	-14,853	-6	-14,859
Total income (expense) recognized directly in equity	0	0	0	0	-4,265	0	0	-14,853	-19,118	-6	-19,124
Profit for the period	0	0	0	0	0	0	6,524	0	6,524	-75	6,449
Total recognized income (expense)	0	0	0	0	-4,265	0	6,524	-14,853	-12,594	-81	-12,675
Transfer of profit for previous year to retained earnings	0	0	0	0	0	24,682	-24,682	0	0	0	0
Balance at 31 March, 2009	157,129	198,848	-3,250	267,640	184,486	24,682	6,524	-36,561	799,498	1,927	801,425

NOTES TO THE CONSOLIDATED INCOME STATEMENT

✓ **Net sales revenues**

Net sales revenues for the period 1-3 2009 amounted to EUR 617,656 thousand and arrived at 22.1 % of planned net sales revenues for the year 2009; they exceed the figure from the comparable period last year by 1.1 %. At a constant euro exchange rate of the Serbian currency, the dinar, net sales revenues would have amounted to EUR 631,692 thousand which would mean a 3.4 percent growth compared to the same period last year.

Revenues resulting from the sale of goods, material, and products amount to EUR 562,214 thousand which is 0.5 percent more than in the same period last year.

✓ **Cost of sales**

Costs of sales including production costs, purchase value of sold goods and material, and other operating expenditures, amounted in the relevant period to EUR 453,368 thousand, and exceeded the figure for this category in the same period last year by 1.1 %.

Costs of sales also include received early payment discounts which amounted to EUR 3,135 thousand in the period 1-3 2009, which is EUR 823 thousand more than in the same period last year.

✓ **Gross profit**

Gross profit for the period 1-3 2009 amounted to EUR 164,288 thousand, which is a 1.1 percent increase compared to the period 1-3 2008 and represents 23.5 % of the 2009 plan.

The share of gross profit in revenues from sales in the period 1-3 2009 amounted to 26.6 percent, which is approximately the same as in the same period last year.

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

Selling costs and administrative expenses amounted to EUR 141,934 thousand, which is 2.4 percent less than in the comparable period last year, and represents 23.5 percent of the 2009 plan.

Expenses by nature

EUR thousand

	Type of Cost	1-3 2008	Plan 2009	1-3 2009	Index	Index
1	2	3	4	5	6=5/3	7=5/4
1.	Costs of material	21,596	84,429	22,854	105.8	27.1
2.	Costs of services	40,289	172,354	38,034	94.4	22.1
3.	Depreciation and amortisation	23,301	94,801	23,613	101.3	24.9
4.	Provisions for other liabilities and charges	0	0	0	-	-
5.	Labour costs	69,385	296,567	68,468	98.7	23.1
6.	Other expenses	5,424	7,744	2,032	37.5	26.2
7.	Changes in the value of inventories	-6,375	-19,030	-6,208	97.4	32.6
8.	Cost of goods sold	439,380	2,062,955	445,332	101.4	21.6
9.	Impairments and receivable write-offs	18	80	76	419.7	95.1
10.	Other expenses	717	4,729	1,101	153.6	23.3
11.	TOTAL COSTS	593,735	2,704,629	595,302	100.3	22.0

Also included among the administrative expenses are the losses from the disposal of property, plant, and equipment in the amount of EUR 76 thousand.

The share of costs excluding depreciation and negative revaluation adjustments in net revenues amounts to 19.1 percent, which is 0.9 percentage point lower than in the same period last year. Increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, logistics infrastructure optimization, and cost rationalization measures in the Mercator Group.

✓ Other income

Other income amounted to EUR 2,278 thousand, of which EUR 621 thousand is related to proceeds from disposal of property, plant, and equipment, while the remaining other revenues from operations relate to revenues from indemnities and other revenues.

✓ Results from operating activities

Results from operating activities for the period 1-3 2009 amounted to EUR 24,632 thousand, which is EUR 2,540 thousand, or 11.5 % more than the same figure for the period 1-3 2008. Results from operating activities in the first quarter of the year represent 23.6 % of the 2009 plan.

✓ Financial income and expenses

Financial income amounted to EUR 6,072 thousand, which is 125.8 percent more than in the period 1-3 2008. Financial revenues were mostly generated by regular interest received from financing, revenues from default interest, and positive currency translation differences.

Financial expenses for the relevant period amount to EUR 22,254 thousand, of which a major portion relates to costs from interest paid to commercial banks and negative currency translation differences. Compared to the same period last year, they represent a 68.1 % increase, mostly resulting from increases in interest rates and larger scope of total debt.

Net effect of currency translation differences is negative and it amounts to EUR 2,850 thousand (in the period 1-3 2008, it amounted to EUR 79 thousand).

✓ **Profit for the financial period**

In the period 1-3 2009, the Mercator Group generated EUR 6,449 thousand of net profit, which is 30.8 percent less than in the same period last year; this figure amounts to 21.4 percent of the 2009 plan. Attainment of net income is consistent with the intra-year dynamics of revenue generation and it is consistent with the annual plan.

✓ **Gross cash flow from operating activities**

Gross cash flow from operating activities (EBITDA) of the Mercator Group for the period 1-3 2009 amounted to EUR 44,738 thousand, which is 7.2 percent more than in the period 1-3 2008, arriving at 24.4 percent of the 2009 plan. Relevant indicator of the Group's capacity to generate cash flow from operating activities, which also accounts for expansion of the Mercator Group retail network by operative lease, i.e. the gross cash flow from operating activities before rents (EBITDAR - earnings before interest, taxes, depreciation, amortization, and rents) amounts to EUR 51,062 thousand in the period 1-3 2009, which is 11.3 percent more than in the same period last year, arriving at 24.7 percent of the figure planned for 2009.

Assuming a constant exchange rate in Serbia, the Mercator Group would have attained EUR 45,437 thousand of gross cash flow from operating activities, which would mean an 8.9 percent growth compared to the same period last year. Gross cash flow from operating activities before rents (EBITDAR) in such case would have amounted to EUR 52,126 thousand, presenting a 13.6 percent growth over the same period last year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

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

As at March 31st 2009, the value of PPE, investment property, and intangible assets amounts to EUR 1,860,271 thousand, which is EUR 549 thousand more than at the beginning of the year; these assets represent 75.0 % of total assets.

Other changes in the period 1-3 2009 are related to investments, depreciation and amortization, disposal of commercially unviable assets, and currency translation differences.

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

As at March 31st 2009, available-for-sale financial assets amount to EUR 4,810 thousand, which is EUR 14 thousand less than as at December 31st 2008.

✓ **Inventories**

Inventories of raw materials, material, and trade goods as at March 31st 2009 amount to EUR 282,483 thousand, and represent 46.5 % of the total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 10,092 thousand, or 3.7 percent.

✓ **Trade and other receivables**

As at March 31st 2009, trade and other receivables amounted to EUR 288,131 thousand, which is EUR 41,325 thousand less than at the beginning of the year.

✓ **Bank deposits**

As at March 31st 2009, bank deposits amount to EUR 3,995 thousand, which is EUR 14,674 thousand less than as at the end of 2008.

✓ **Equity**

In the period 1-3 2009, the equity of the Group decreased by EUR 12,675 thousand. Major changes are related to the following:

- increase by net profit of the majority interest holder attained in the period 1-3 2009, in the amount of EUR 6,524 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 4,265 thousand;
- decrease in equity due to currency translation differences in the translation of financial statements of foreign companies into the representation currency, in the amount of EUR 14,853 thousand;
- decrease in minority capital in the amount of EUR 81 thousand;

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 3.5 %.

✓ **Trade and other payables**

Trade and other payables as at March 31st 2009 amounted to EUR 505,149 thousand, which is EUR 97,055 thousand less than at the end of 2008.

✓ **Financial liabilities**

Non-current financial liabilities as at March 31st 2009 amount to EUR 618,128 thousand, and have decreased by EUR 4,659 thousand compared to the beginning of the year.

Current financial liabilities as at March 31st 2009 amount to EUR 463,434 thousand, and have increased by EUR 50,637 thousand compared to the beginning of the year.

Total financial liabilities as at March 31st 2009 amount to EUR 1,081,562 thousand, which is EUR 45,978 thousand more than at the end of 2008.

In the composition of financial liabilities, non-current financial liabilities represent 57.2 percent, and current financial liabilities represent 42.8 percent (as at December 31st 2008, the ratio between non-current and current financial liabilities was 60.1 : 39.9).

As at March 31st 2009, net debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets of the Mercator Group amounted to EUR 1,024,973 thousand.

✓ Provisions

As at March 31st 2009, the provisions amounted to EUR 31,531 thousand. Compared to the beginning of the year, these provisions have decreased by EUR 116 thousand.

✓ Derivative financial instruments

As at March 31st 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 7,863 thousand, which is EUR 4,265 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ Deferred tax liabilities

As at March 31st 2009, the net deferred tax liabilities totaled at EUR 44,085 thousand.

Financial Indicators

	Mercator Group		
	1-3 2008	Plan 2009	1-3 2009
Indicators of profitability			
Return on equity*	5.4%	3.8%	3.5%
Return on sales	1.5%	1.1%	1.0%
Gross profit / revenue	26.6%	25.0%	26.6%
Indicators of financial structure			
Financial liabilities / equity	1.0	1.2	1.3
Equity and provisions to total equity and liabilities	39.3%	34.6%	33.6%
Financial liabilities to total equity and liabilities	39.5%	40.1%	43.6%
Trade and other payables to total equity and liabilities	20.3%	23.0%	20.4%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	13.6	13.9	13.4
Revenue / labour costs	8.8	9.4	9.0
Revenue per employee per hours worked (EUR thousand)*	132.0	131.2	133.1
Value added per employee per hours worked (EUR thousand)*	24.0	22.5	24.4
Business costs / sales	23.6%	21.8%	23.2%
Gross cash flows from operating activities / revenue	6.8%	6.6%	7.2%
Gross cash flows from operating activities before rental expenses / revenue	7.5%	7.4%	8.3%
Invested capital (EUR)	1,764,555	1,895,782	1,937,917
Gross cash flows from operating activities / invested capital*	10.4%	9.7%	10.2%

* 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

		1-3 2008	Plan 2009	1-3 2009	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Net sales revenues	409,666	1,814,343	412,531	100.7	22.7
1.	Net sales of goods, materials and products	373,271	1,673,583	377,450	101.1	22.6
2.	Net sales of services	37,545	146,391	36,335	96.8	24.8
3.	Expenses for given discounts	-1,149	-5,631	-1,254	109.1	22.3
B.	Cost of sales	-294,385	-1,336,853	-300,504	102.1	22.5
1.	Purchase value of goods and material sold	-295,342	-1,338,401	-300,333	101.7	22.4
2.	Received discounts	1,088	4,863	878	80.7	18.1
3.	Other expenses	-131	-3,315	-1,050	800.2	31.7
C.	Gross profit	115,282	477,490	112,027	97.2	23.5
D.	Selling and marketing costs	-81,239	-353,349	-77,742	95.7	22.0
E.	Administrative expenses	-20,168	-52,631	-16,759	83.1	31.8
F.	Other income	3,226	6,565	1,553	48.1	23.6
G.	Results from operating activities	17,100	78,075	19,079	111.6	24.4
H.	Finance income	1,983	3,165	2,382	120.1	75.3
I.	Finance expenses	-8,821	-52,452	-13,320	151.0	25.4
J.	Profit before income tax	10,262	28,788	8,141	79.3	28.3
K.	Income tax expense	-2,052	-5,447	-1,588	77.4	29.2
L.	Deferred income tax	0	-838	-292	-	34.8
M.	Profit for the financial period	8,210	22,503	6,261	76.3	27.8
N.	Number of employees based on hours worked	12,058	12,153	11,880	98.5	97.7

Balance Sheet

EUR thousand

		31.12.2008	Plan 31.12.2009	31.3.2009	Structure 31.3.2009	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
A.	NON-CURRENT ASSETS	1,600,654	1,608,534	1,600,967	80.8%	100.0
I.	Property, plant and equipment	1,001,697	1,031,128	1,000,945	50.5%	99.9
II.	Investment property	9,563	9,238	10,490	0.5%	109.7
III.	Intangible assets	12,420	1,849	10,770	0.5%	86.7
IV.	Deferred tax assets	8,430	7,298	8,430	0.4%	100.0
V.	Trade and other receivables	261	284	251	0.0%	96.1
VI.	Bank deposits	51	0	48	0.0%	93.3
VII.	Participation in equity of group companies	564,019	553,090	565,819	28.6%	100.3
VIII.	Available-for-sale financial assets	4,213	5,646	4,213	0.2%	100.0
B.	CURRENT ASSETS	431,690	394,867	380,191	19.2%	88.1
I.	Inventories	180,819	183,473	181,195	9.1%	100.2
II.	Trade and other receivables	234,630	210,883	197,773	10.0%	84.3
III.	Bank deposits	15,700	0	0	0.0%	-
IV.	Current tax assets	541	0	1,223	0.1%	226.0
V.	Derivative financial instruments	0	0	0	0.0%	-
VI.	Cash and cash equivalents	0	511	0	0.0%	-
	TOTAL ASSETS	2,032,344	2,003,401	1,981,158	100.0%	97.5
A.	EQUITY	781,041	783,877	783,036	39.5%	100.3
I.	Ordinary shares	157,129	157,129	157,129	7.9%	100.0
II.	Share premium	198,848	198,848	198,848	10.0%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.2%	100.0
IV.	Revenue reserves	235,460	219,390	235,460	11.9%	100.0
V.	Fair value reserve	173,341	175,609	169,075	8.5%	97.5
VI.	Retained earnings	3,444	13,648	19,513	1.0%	566.6
VII.	Profit for the year	16,070	22,503	6,261	0.3%	39.0
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	480,507	527,729	469,482	23.7%	97.7
I.	Trade and other payables	2,271	0	1,981	0.1%	87.2
II.	Financial liabilities	411,959	456,269	401,012	20.2%	97.3
III.	Deferred tax liabilities	39,054	40,829	39,347	2.0%	100.7
IV.	Provisions	27,222	30,632	27,143	1.4%	99.7
D.	Current liabilities	770,796	691,794	728,640	36.8%	94.5
I.	Trade and other payables	423,490	379,909	328,890	16.6%	77.7
II.	Current tax liabilities	0	7,760	0	0.0%	-
III.	Financial liabilities	343,708	303,866	391,887	19.8%	114.0
IV.	Derivative financial instruments	3,598	260	7,863	0.4%	218.5
	TOTAL LIABILITIES	1,251,303	1,219,524	1,198,122	60.5%	95.7
	TOTAL EQUITY AND LIABILITIES	2,032,344	2,003,401	1,981,158	100.0%	97.5
	Number of employees as at the end of the period	12,737	13,006	12,693	-	99.7

Cash Flow Statement

EUR thousand

	1-3 2008	1-3 2009
Cash flows from operating activities		
Gross cash flow from operating activities	28,324	29,616
Change in trade and other receivables	-23,814	36,185
Change in inventories	-5,315	-376
Change in trade and other payables	-32,418	-94,670
Changes in working capital	-61,547	-58,861
Cash from operating activities	-33,223	-29,246
Interest paid	-8,273	-12,108
Income tax paid	-2,052	-1,588
Net cash from operating activities	-43,549	-42,942
Cash flows from investing activities		
Acquisition of subsidiaries	-15,020	-1,800
Acquisition of property, plant and equipment	-15,273	-11,163
Acquisition of intangible assets	-3,078	-262
Acquisition of available-for-sale financial assets	0	0
Deposits made	0	0
Proceeds from sale of subsidiaries	0	0
Proceeds from sale of property, plant and equipment	4,047	971
Proceeds from sale of intangible assets	0	0
Proceeds from sale of available-for-sale financial assets	7,210	0
Interest received	1,354	2,261
Dividends received	0	0
Deposits repayments received	0	15,703
Net cash used in investing activities	-20,760	5,710
Cash flows from financing activities		
Proceeds from issue of share capital	0	0
Proceeds (repayments) of borrowings	64,592	37,232
Dividends paid to company shareholders	0	0
Net cash from financing activities	64,592	37,232
Net increase in cash and cash equivalents	283	0
Cash and cash equivalents at the beginning of the period	288	0
Cash and cash equivalents at the end of the year	572	0

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	20,414	0	683,035
Revaluation of property	0	0	0	0	157,507	0	0	157,507
Change in fair value of cash flow hedges	0	0	0	0	-4,232	0	0	-4,232
Other changes in equity	0	0	0	0	-3,997	6,881	0	2,884
Total income (expense) recognized directly in equity	0	0	0	0	149,279	6,881	0	156,159
Profit for the period	0	0	0	0	0	0	8,210	8,210
Total recognized income (expense)	0	0	0	0	149,279	6,881	8,210	164,369
Balance at 31 March, 2008	157,129	198,848	-3,250	214,979	244,194	27,294	8,210	847,404

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Total
Balance at 1 January, 2009	157,129	198,848	-3,250	235,460	173,341	3,444	16,070	781,041
Change in fair value of cash flow hedges	0	0	0	0	-4,265	0	0	-4,265
Total income (expense) recognized directly in equity	0	0	0	0	-4,265	0	0	-4,265
Profit for the period	0	0	0	0	0	0	6,261	6,261
Total recognized income (expense)	0	0	0	0	-4,265	0	6,261	1,995
Transfer of profit for previous year to retained ear	0	0	0	0	0	16,070	-16,070	0
Balance at 31 March, 2009	157,129	198,848	-3,250	235,460	169,075	19,513	6,261	783,036

NOTES TO THE INCOME STATEMENT

✓ **Net sales revenues**

Net sales revenues for the period 1-3 2009 amounted to EUR 412,531 thousand, which is an increase of 0.7 % over the comparable period last year, and represents 22.7 percent of planned net sales revenues for the year 2009.

Revenues resulting from the sales of goods, materials, and products amounted to EUR 377,450 thousand, which is 1.1 % more compared to the same period last year. In retail, revenues rose by 1.8 percent, while in retail, they fell by 2.3 percent.

Revenues from sales of services amounted to EUR 36,335 thousand, which is a 3.2 percent decline compared to the same period last year.

✓ **Cost of sales**

Cost of sales including manufacturing / production costs, purchase value of goods and materials sold, and other expenses in the relevant period, amounted to EUR 300,504 thousand, and exceed the figure for the same period last year by 2.1 percent.

✓ **Gross profit**

Gross profit for the period 1-3 2009 amounted to EUR 112,027 thousand, which is 2.8 percent less compared to the period 1-3 2008 and represents 23.5 % of the 2009 plan.

The share of gross profit in revenues from sales in the period 1-3 2009 amounted to 27.2 percent, which is 1 percentage point less than in the same period last year. This is a result of highly committed marketing activities which are in progress in compliance with the relevant plans.

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

Selling and marketing costs and administrative expenses amount to EUR 94,501 thousand, which is 6.8 percent less than in the same period last year; the figure represents 23.3 percent of the planned value for 2009.

The share of selling and marketing costs and administrative expenses excluding amortization / depreciation and revaluation adjustments, in total revenues, amounts to 19.9 percent, which is 1.7 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 implementation of cost rationalization measures in the company.

Administrative expenses also include losses from disposal of property, plant, and equipment in the amount of EUR 42 thousand.

✓ **Other income**

Other income in the period 1-3 2009 amounts to EUR 1,553 thousand, of which EUR 597 thousand is related to proceeds from disposal of property, plant, and equipment, while the remaining sum is related to proceeds from remunerations and other income. Compared to the same period last year, other income is lower by EUR 1,673 thousand.

✓ **Results from operating activities**

Results from operating activities in the period 1-3 2009 amount to EUR 19,079 thousand, which is 11.6 percent more than in the period 1-3 2008 and represents 24.4 percent of the total figure planned for the year 2009.

✓ **Financial income and expenses**

In the period 1-3 2009, financial income amounted to EUR 2,382 thousand, which is 20.1 percent more than in the period 1-3 2008. Financial income relates predominantly to financial income from interest received (EUR 1,782 thousand).

Financial expenses in the period 1-3 2009 amount to EUR 13,320 thousand, which is 51.0 percent more than in the same period last year. The majority of this figure, in the amount of EUR 12,085 thousand, relates to financial expenses from interest paid.

✓ **Profit for the financial period**

Company net profit for the period 1-3 2009 amounted to EUR 6,261 thousand, which is 23.7 percent less than in the same period of the last year, and represents 27.8 percent of the 2009 plan.

NOTES TO BALANCE SHEET

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

As at March 31st 2009, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,022,206 thousand, which is EUR 1,473 thousand less than at the beginning of the year. These assets represent 51,6 % of total assets. The change in this ratio is a result investment, amortization and depreciation, and disposal of commercially unviable assets.

✓ **Investment into interest of Group subsidiaries**

Investment into the interest, or equity, of Mercator Group subsidiaries increased by EUR 1,800 thousand in the period 1-3 2009, as a result of a capital increase in the company Investment International, d.o.o., Macedonia.

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

Available-for-sale financial assets as at March 31st 2009 amounted to EUR 4,213 thousand, which is the same as at the end of 2008.

✓ **Inventories**

Inventories of raw materials, material, and trade goods as at March 31st 2009 amount to EUR 181,195 thousand, and represent 47.7 % of total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 376 thousand, or 0.2 percent.

✓ **Current trade and other receivables**

As at March 31st 2009, trade and other receivables amounted to EUR 198,024 thousand, which is EUR 36,867 thousand less than at the beginning of the year.

✓ **Bank deposits**

As at March 31st 2009, bank deposits amount to EUR 48 thousand, which is EUR 15,703 thousand less than at the end of 2008.

✓ **Equity**

In the period 1-3 2009, company equity increased by EUR 1,995 thousand. The major changes are related to the following:

- increase by net profit generated in the period 1-3 2009, in the amount of EUR 6,261 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 4,265 thousand.

Net return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 3.5 %.

✓ **Trade and other payables**

Trade and other payables as at March 31st 2009 amounted to EUR 330,871 thousand, which is EUR 94,891 thousand less than at the end of 2008.

✓ **Financial liabilities**

As at March 31st 2009, financial liabilities amounted to EUR 792,899 thousand, which is EUR 37,232 thousand more than at the end of 2008.

In the composition of total financial liabilities, non-current financial liabilities represent 50.6 percent, and current financial liabilities represent the remaining 49.4 percent. As

at December 31st 2008, the ratio between non-current and current financial liabilities was 54.5 : 45.5).

As at March 31st 2009, net debt of the company, calculated as the difference between financial liabilities and financial assets, amounted to EUR 796,501 thousand.

✓ Provisions

As at March 31st 2009, the provisions amounted to EUR 27,143 thousand. Compared to the beginning of the year, the figure has decreased by EUR 79 thousand.

✓ Derivative financial instruments

As at March 31st 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 7,863 thousand, which is EUR 4,265 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ Deferred tax liabilities

As at March 31st 2009, the net deferred tax liabilities totaled at EUR 30,917 thousand.

Financial Indicators

	POSLOVNI SISTEM MERCATOR, D.D.		
	1-3 2008	Plan 2009	1-3 2009
Indicators of profitability			
Return on equity*	4.7%	2.9%	3.5%
Return on sales	2.0%	1.2%	1.5%
Gross profit / sales	28.1%	26.3%	27.2%
Indicators of financial structure			
Financial liabilities / equity	0.78	0.97	1.01
Equity and provisions for liabilities and charges to total equity and liabilities	46.8%	40.7%	40.9%
Financial liabilities to total equity and liabilities	35.2%	37.9%	40.0%
Trade and other payables to total equity and liabilities	17.0%	19.0%	16.7%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	17.1	17.8	18.5
Sales / labour costs	8.0	8.4	8.3
Revenues per employee per hours worked (EUR thousand)*	149.5	149.3	152.8
Business costs / sales	24.4%	22.5%	23.0%

* The indicator is adjusted to the annual level.