

**Business Report  
of the Mercator Group  
and the company  
Poslovni sistem Mercator, d.d.,  
for the period 1-3 2011**



Poslovni sistem Mercator, d.d.  
Management Board

May 2011

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## SUMMARY

### **Mercator Group sees stable operations in the first quarter of 2011 with growth of revenues reaching 6 percent**

#### **Rising revenues despite the persistently harsh economic conditions**

In the first quarter of 2011, changes resulting from the economic hardship are still manifest in the composition and volume of consumption. In addition to these changes, unemployment rate is mounting as well as several insolvency proceedings were instituted at major companies. Moreover, the problem of late payments was aggravated and commercial banks were still more reluctant to provide credit than before the onset of the economic crisis. In the first quarter of 2011, the Serbian dinar exchange rate stabilized. Despite exacting conditions, Mercator Group generated EUR 676 million of revenues in the first quarter of 2011, which is 6.0 percent more than in the same period last year.

#### **Price investments to improve the Mercator's customers purchasing power**

Throughout the period of severe economic conditions and mounting upstream prices, Mercator committed considerable funding to keep retail prices down and to maintain the consumers' purchasing power. Company Management Board adopted the Mercator Customer Purchasing Power Improvement Program which will be supported by EUR 10 million in 2011. At Mercator, we have made the commitment not to increase our prices on the account of profit margins. We make sure with full diligence and responsibility to our customers that we shall keep in our aisles only those products that deliver the best quality to price ratio. At the expense of our profit margins and for the benefit of our customers, we have frozen the prices of over 300 fast-moving consumer products and basic products of our Mercator private label; cut the prices of over 2,000 products of various brands; by the end of 2011, we shall develop 200 new products with the most favourable quality to price ratio.

#### **Profit for the period amounts to EUR 10,179 thousand**

In the period 1-3 2011, Mercator Group generated EUR 10,179 thousand of profit, which is 25.1 percent of the 2011 annual plan. Net income is consistent with the year on year dynamics.

#### **Stable cash flows, smooth investment and financial operations**

The relevant indicator of the ability to generate operating cash flows, which also accounts for the expansion of Mercator Group's retail network through operating lease, is the gross cash flow from operating activities before rental expenses which amounted to EUR 54,060 thousand in the period 1-3 2011, or 23.9 percent of the figure planned for the entire year 2011. Stable generation of cash flows from operating activities, even in the time of economic hardship, indicates great financial power, competitiveness, and business efficiency of the Group.

Mercator Group invested EUR 47.4 million in the period 1-3 2011, mostly into development of retail network. This figure accounts for 38.1 percent of the annual investment plan. In the period at hand, we acquired 8,453 m<sup>2</sup> of new gross area, of which 73 percent was by operating lease and 27 percent was by acquisitions or construction.

As at March 31<sup>st</sup> 2011, Mercator Group had 23,589 employees, of which 48.2 percent were employed abroad.

# BUSINESS REPORT

## GENERAL INFORMATION

### Parent company profile

Full name	<b>Poslovni sistem Mercator, d.d.</b>
Abbreviated name	Mercator, d.d.
Activity	G 47.110 - Retail in non-specialized food retail outlets
Registration number	5300231
VAT tax code	45884595
Court registry date	January 1 <sup>st</sup> 1990
Company share capital as at March 31 <sup>st</sup> 2011	EUR 157,128,514.53
Number of shares issued and paid-up as at March 31 <sup>st</sup> 2011	3,765,361
Share listing	Ljubljana Stock Exchange, d.d., prime market, symbol MELR
President of the Management Board	Žiga Debeljak
Senior Vice Presidents	Mateja Jesenek, Melita Kolbezen, Vera Aljančič Falež, Peter Zavrl, Stanka Čurovič
Supervisory Board Chairman	Robert Šega
Deputy Supervisory Board Chairwoman	Jadranka Dakič

### Mercator Group composition as at March 31<sup>st</sup> 2011

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

\* The company has not yet commenced its business operations.

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

## **MAJOR EVENTS IN THE PERIOD 1-3 2011**

### **RETAIL NETWORK DEVELOPMENT**

In the period 1-3 2011, our CAPEX amounted to EUR 47,426 thousand while our divestment from property, plant, and equipment totalled at EUR 4,912 thousand. The Group acquired 11 new units spanning 8,453 square meters, which includes real estate owned by Mercator and operating leases.

### **STRATEGIC COMBINATIONS AND CHANGES IN THE COMPOSITION OF MERCATOR GROUP**

The strategic alliance agreement, signed on June 30<sup>th</sup> 2010, under which the Montenegrin company Mercator-CG, d.o.o., Podgorica, is to take over the trade activities and all employees of the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., as well as obtain 77 trade facilities owned by the two companies, on a long-term lease, has entered into force on January 27<sup>th</sup> 2011, as the key conditions in the agreement were fulfilled.

On February 16<sup>th</sup> 2011, the company Poslovni sistem Mercator, d.d., signed an agreement to dispose of its 100-percent shareholding in the company Eta, živilska industrija, d.d., Kamnik. The agreement will be effective as soon as the prerequisites specified therein are satisfied.

### **CORPORATE GOVERNANCE**

Supervisory Board of the company Poslovni sistem Mercator, d.d., held one meeting in the period 1-3 2011, and adopted the Annual Report for the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2010. The Supervisory Board also confirmed the Supervisory Board Report on the Audit of Annual Report, opinion on the proposal for allocation of distributable profit, and the proposal by the Audit Committee to the Shareholders Assembly to appoint the company KPMG Slovenija, d.o.o., to audit the financial statements of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2011.

### **PROCESSES OF DISPOSAL OF COMPANY SHARES**

On March 31<sup>st</sup> 2011, the company Poslovni sistem Mercator, d.d., addressed a letter to the shareholders in support of an international offering of a majority shareholding of the company in order to stabilize its ownership composition by engaging an appropriate development-minded strategic partner and to maximize the value for all shareholders.

### **CORPORATE ACTIVITIES**

In March 2011, the Mercator Group Management Board presented the Group's operations in 2010 and major plans for the future at an international press conference.

On March 10<sup>th</sup> 2011, we held the 11<sup>th</sup> meeting of Mercator Group financial partners, which was attended by approximately 70 representatives of commercial banks, leasing companies, and other financial institutions.

### **AWARDS RECEIVED**

World Finance, a magazine covering global business and finance, every year conducts a survey on excellence in business and singles out those corporations, companies, business groups, or organizations that represent a criterion of success and best practice in the world of finance and business. Mercator was awarded for excellent corporate governance in

Slovenia for serving the interests of all stakeholders in the best possible way despite harsh business environment.

In one of Europe's largest consumer surveys, Trusted Brand 2011, conducted globally by the Reader's Digest Magazine, Mercator was awarded in the Shopping Center category for the fifth straight year.

## **MAJOR EVENTS AFTER THE PERIOD**

### **RETAIL NETWORK DEVELOPMENT**

In April 2011, Mercator Group opened a hypermarket in Osijek, Croatia, and a Cash & Carry store in Mladenovac, Serbia.

### **STRATEGIC BUSINESS COMBINATIONS**

The agreement on strategic alliance signed on August 4<sup>th</sup> 2010, based on which the company Mercator-S, d.o.o., Serbia, was to take over the trade operations of the Coka Group in the Serbian market, came into effect on April 5<sup>th</sup> 2011 as the key conditions were met.

### **CORPORATE ACTIVITIES**

On April 6<sup>th</sup> 2011, the 12<sup>th</sup> marketing days were held. Marketing days are a traditional meeting of Mercator's management with major suppliers and partners from all markets of Mercator's operations, attended by over 420 representatives from Slovenia and South-eastern Europe.

### **PROCESSES OF DISPOSAL OF COMPANY SHARES**

On April 26<sup>th</sup> 2011, the Competition Protection Office of the Republic of Slovenia (the CPO) issued their decision No. 306-29/2011-4 which restricted the Central Securities Clearing Corporation from transferring the ownership of shares of the company Poslovni sistem Mercator, d.d., held by the companies NLB, d.d., NKBM, d.d., Gorenjska banka, d.d., Abanka, d.d., Banka Koper, d.d., Banka Celje, d.d., Pivovarna Laško, d.d., Pivovarna Union, d.d., and Radenska d.d., without prior consent by the CPO.

## MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-3 2011

	Mercator Group			Index	Index
	1-3 2011	Plan 2011	1-3 2010	1-3 2011/ 1-3 2010	1-3 2011/ Plan 2011
Revenue (EUR thousand)	675,515	2,944,889	637,168	106.0	22.9
Results from operating activities (EUR thousand)	25,205	103,054	22,668	111.2	24.5
Profit before income tax (EUR thousand)	13,324	53,577	9,418	141.5	24.9
Profit for the financial period (EUR thousand)	10,179	40,527	6,652	153.0	25.1
Gross cash flow from operating activities (EUR thousand)	44,329	180,011	43,719	101.4	24.6
Gross cash flow from operating activities before rental expenses (EUR thousand)	54,060	225,803	51,948	104.1	23.9
Capital expenditure (EUR thousand)	47,426	124,586	32,806	144.6	38.1
Return on equity*	5.6%	5.3%	3.7%	151.8	105.8
Return on sales	1.5%	1.4%	1.0%	144.3	109.5
Gross cash flow from operating activities / Revenue	6.6%	6.1%	6.9%	95.6	107.4
Gross cash flow from operating activities before rental expenses / Revenue	8.0%	7.7%	8.2%	98.2	104.4
Number of employees based on hours worked	22,171	22,621	21,294	104.1	98.0
Number of employees as at the end of the period	23,589	24,436	22,446	105.1	96.5

\* The indicator is adjusted to the annual level

## DEVELOPMENT AND REAL ESTATE MANAGEMENT

In the first quarter of 2011, our development and real estate operations continued to be focused on acquisition of new sales and logistics infrastructure. Consistently with the medium-term investment plan, we preferred leasing retail area and moved away from the principle of predominantly own construction. Furthermore, we carried out various development activities to optimize Mercator's real estate management and analyzed the possibilities to update the concept of Mercator's shopping centers, to improve the composition of third-party providers and the mix of products and services there, and to establish strategic partnership with renowned international providers. In addition to activating the unused land and divestment from assets not needed for operations, we launched the preparations for monetization of our property.

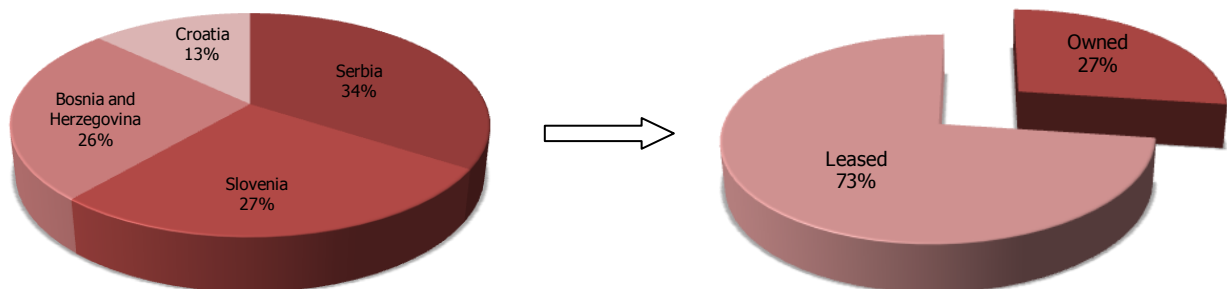
## Investment and divestment

	Capital expenditure 1-3 2011 (in EUR 000)	Structure (%)
Slovenia	8,151	17.2 %
Serbia	33,953	71.6 %
Croatia	3,067	6.5 %
Bosnia and Herzegovina	569	1.2 %
Montenegro	1,183	2.5 %
Bulgaria	440	0.9 %
Albania	63	0.1 %
<b>TOTAL</b>	<b>47,426</b>	<b>100.0 %</b>

Investments in development of retail capacity (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 89.3 percent of total investments; 3.2 percent was allocated for refurbishment of the existing facilities; and the remaining 7.5 percent was invested into logistics, IT, and non-trade activities.

In the period 1-3 2011, we acquired 8,453 m<sup>2</sup> of new gross area, of which 73 percent was by operating lease and 27 percent was by acquisitions or construction. In the period 1-3 2011, Mercator Group disposed of EUR 4,912 thousand worth of property, plant and equipment.

### Share of newly launched retail area by markets



### Summary of retail unit launches by markets

#### Slovenia

- Area of new facilities: 2,292 m<sup>2</sup>
- Number of new retail units: 1
- Openings/launches: Food processing plant – Kranj Cupcake in Naklo.



#### Serbia

- Area of new facilities: 2,888 m<sup>2</sup>
- Number of new retail units: 6
- Openings: Supermarket in Velika Plana; hardware and electronics store in Velika Plana; hardware and electronics store Jerina in Smederevo; superette in Požarevac; and 2 superettes v Smederevo.



## Croatia

- Area of new facilities: 1,091 m<sup>2</sup>
- Number of new retail units: 2
- Openings: Supermarket Dubrava in Zagreb; Intersport at NC Supernova in Imotski.



## Bosnia and Herzegovina

- Area of new facilities: 2,182 m<sup>2</sup>
- Number of new retail units: 2
- Openings: Supermarket including outlets with complementary offer at the City Center in Cazin; Superette in Fojnica.



## Summary of total surface gross area as at March 31<sup>st</sup> 2011

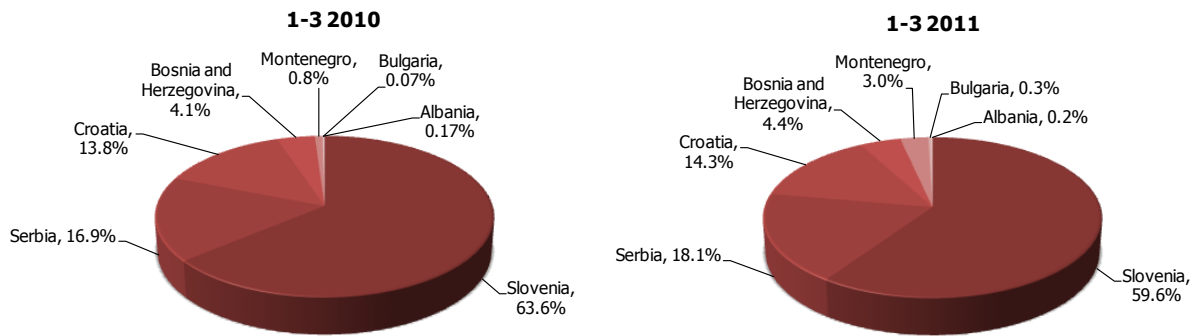
Gross retail area in m <sup>2</sup>	Used for own operations	Leased out	Total as at March 31 <sup>th</sup> 2010
Owned retail area	839,451	183,544	1,022,995
Leased retail area	326,011	14,121	340,132
<b>Total retail area</b>	<b>1,165,462</b>	<b>197,665</b>	<b>1,363,127</b>
Owned warehouse capacity	151,735	0	151,735
Leased warehouse capacity	22,329	0	22,329
<b>Total warehouse capacity</b>	<b>174,064</b>	<b>0</b>	<b>174,064</b>
Owned commercial facilities	25,437	2,347	27,783
Leased commercial facilities	4,840	71	4,911
<b>Total commercial facilities</b>	<b>30,277</b>	<b>2,418</b>	<b>32,695</b>
<b>GROSS AREA UNDER MANAGEMENT</b>	<b>1,369,804</b>	<b>200,083</b>	<b>1,569,886</b>
- of which owned	1,016,623	185,891	1,202,514
- of which leased	353,181	14,192	367,373

## SALES AND MARKETING

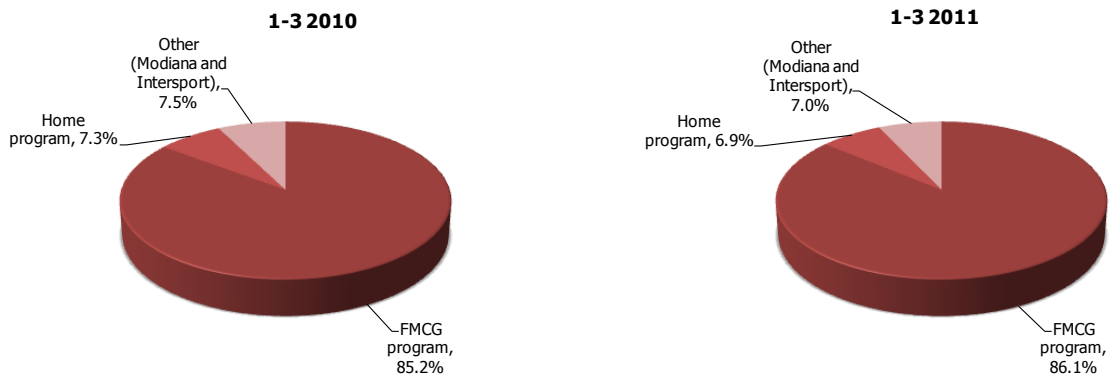
### Sales

In the period 1-3 2011, Mercator Group generated EUR 675,515 of sales revenues, which is 6.0 percent more relative to the period 1-3 2010. Majority of Group revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. In the first quarter of 2011, revenues from sales of goods, material, and products in Slovenia rose by 0.7 percent; in foreign markets, the growth rate was at 18.7 percent. Revenue growth is a result of the strategic alliances carried out, retail network development, and marketing activities.

## Mercator Group net sales revenues by geographical segments



## Mercator Group revenues from trade operations by programs



In the period 1-3 2011, the majority of Mercator Group trade revenues resulted from sales of fast-moving consumer goods as they accounted for 86.1 percent of total net sales revenues; revenues from other specialized programs amounted to 13.9 percent.

## Marketing

Mercator Group's vision, mission, and operating strategies place the consumers at the heart of our efforts. In the first quarter of 2011, we worked to pursue our key policies:

### 1. Mercator is the consumers' first choice when shopping for fast-moving consumer goods and home products

Mercator Group wants to be the first choice of consumers shopping for fast-moving consumer goods and thus become the leading and largest retail chain offering FMCG and home products. To this end, we have defined new marketing communication activity called **"We meant it"** in order to point out to the consumers our favourable priced offer and the offer of locally sourced products at our stores. We have **locked the prices** of over 300 products of the Mercator, Grosuplje Bakery, and Generic line products until June 30<sup>th</sup> 2011. **We cut the prices** of over 2,000 products of various brands and we are actively including the **offer of**

*Ko želimo storiti nekaj za vas,*  
**mislimo resno.**  
*V Mercatorju smo se zavezali, da bomo poskrbeli za ugodne nakupe in podpirali lokalne pridelovalce.*

**Zaklenjene cene**  
 Več kot 300 izdelkov različnih blagovnih znamk in izdelkov generične vrste vaji do 30. junija 2011.

**Več kot 2000 izdelkov z znižano ceno**  
 Zbogom svoji ceni! Če cene več kot 2000 izdelkov različnih blagovnih znamk.

**Velika izbira lokalnih izdelkov**  
 Na svojih polkah namenjamo kar 70% prostora izdelkom slovenskega izvora.

**Mercator najboljši sosed**

**locally grown produce** in our aisles. Our special offers and campaigns include the widest possible selection of products in order to allow more favourable shopping in these harsh economic conditions.

In March, Mercator line was promoted with the **"Buy 4 pay 3"** activity that included over 1,100 products. The fourth, least expensive product, was presented to the customers free of charge.

Lumpi Club members were offered **lower prices on all products of the Lumpi line**. In addition, we opened the first "Sweet Corner" offering the products of the Kranj Cupcake line, in hypermarket Kranj Primskovo.

In order to provide a more convenient shopping experience for our consumers, we launched our **home products web store** in March and offered a product at a 50-percent discount each day in the first month of its operation.

Customers are offered **twelve private label lines** which include alimentary products, household products, apparel, appliances and consumer electronics, cosmetics, child care products, toys, ready-made food, pastry, and products for a healthy diet. Two private label lines are currently being revamped and another one is in the development stage.

**2. Mercator is offering FMCG and home products to create the best value for the consumers.**

In order to offer a varied and well-priced mix of products and services, we continuously prepare various sales promotion activities in all markets of our operations. Following are the key activities in the first three months:

Country	Key activities
Slovenia	<ul style="list-style-type: none"> <li>• Offer of fresh program with the activity "Five per day - fill your bag at half price"</li> <li>• "Collect and choose" customer loyalty program</li> <li>• Weekend offers and theme-oriented category discounts</li> <li>• Tuesday's YES! discount, Thursday's discount for retirees, and special Saturday's discounts for all purchases made on the last Saturday in March.</li> </ul>
Serbia	<ul style="list-style-type: none"> <li>• 10-percent weekend discounts</li> <li>• Category discounts and Wednesday's discounts for the retirees</li> <li>• Weekend campaign "Shopping Adventure" with a 10-percent discount from 2 PM to 6 PM.</li> <li>• "Collect and choose" customer loyalty program</li> </ul>
Croatia	<ul style="list-style-type: none"> <li>• "Super price" activity for particular products, and Thursday's retiree discounts</li> <li>• Seasonal offer "Good idea"</li> <li>• "Collect and choose" customer loyalty program</li> </ul>
Bosnia and Herzegovina	<ul style="list-style-type: none"> <li>• Mercator's star of the month with the most favourable offer of selected products in each given month</li> <li>• Weekend campaigns, Tuesday's YES! discount and Thursday's retiree discount</li> <li>• Locally sourced offer of fruit and vegetables in our activities "Our Garden" and "Five per day".</li> <li>• One product from the private label lines is presented free of charge for every purchase above KM 50.</li> <li>• "Happy Monday" with a favourable offer of fresh program between 4 PM and 10 PM.</li> <li>• "Collect and choose" customer loyalty program</li> </ul>

Country	Key activities
Montenegro	<ul style="list-style-type: none"> <li>Weekend campaigns at the Roda and Mercator stores</li> <li>Fortnight and monthly special offers</li> <li>Tuesday's YES! discount and the activity of deferred payment with 4 instalments for the retirees.</li> <li>"Collect and choose" customer loyalty program</li> </ul>
Bulgaria	<ul style="list-style-type: none"> <li>Fortnight offer of the most favourably priced products - Top 10</li> <li>10-percent weekend discount for purchases above BGN 40</li> <li>20-percent discount on particular brands from Monday to Wednesday</li> <li>"Collect and choose" customer loyalty program</li> </ul>
Albania	<ul style="list-style-type: none"> <li>Regular fortnight campaign flyers</li> <li>Weekend campaigns "5 per day" with offer of three best-priced fruit and vegetable products.</li> <li>Activity of the "Collect and Choose" customer loyalty program including offer of bathroom textile products made of organically grown cotton</li> </ul>

Value for consumers is also generated with our **Mercator Pika customer loyalty card** as we regularly conduct activities to reward our loyal customers with double or triple Pika points and special Pika discounts and other benefits for club members.

### 3. Mercator offers consumers high-quality service and a pleasant shopping environment.

Mercator Group is committed to rendering high-quality services that allow the consumers a pleasant and convenient shopping experience. To this end, we are constantly introducing new technologies and services to our stores.

In the first three months of this year, we introduced 10 wine vending corners which allow the consumers to test the local offer of high-quality products and reuse of packaging. In addition to regular offer of fast-moving consumer goods, we also offer our customers photography and travel services (the catalogue "Spring-Summer 2011" was issued in the period at hand). We are currently also developing our insurance services.

### 4. Mercator's operations improve the quality of life in the Group's social and natural environment.

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

In 2011, we emphasize the fundamental principle of sustainable development according to which our needs today should be satisfied in a way that does not threaten the future of the generations to come. As the largest retailer in the region, we promote with our conduct and business decisions the principles of sustainable development in terms of corporate social responsibility, environment protection, and economic sustainability.



## Digital communication

The period of the first quarter of 2011 saw two major projects in digital communication: Mercator home products web store and mobile applications. The former project opened up the door of the web to those looking to shop for appliances and electronics in the most convenient way possible; the latter brings us closer to the customers at each step via mobile communication devices as we offered them a simple and quick overview of our stores (location, working hours, contact) and the option to check the amount spent and the number of bonus points on the Pika card.



## Store formats

By expanding its retail network to South-eastern European countries, Mercator is entering markets of different economic maturity and efficiency. In order to best adapt to the needs of the customers in all markets of our operations and to improve our responsiveness regarding the offer of high-quality goods and reasonable prices, a multi-level brand strategy and a wide range of store formats were developed at Mercator.

Mercator brand includes Mercator centers and shopping centers, hypermarkets, supermarkets, neighbourhood stores, comfort shops, Cash & Carry stores, and discount stores under the Hura! brand. In addition, we developed the Mercator web store which allows saving time and while shopping comfortably without leaving your armchair. On March 1<sup>st</sup> 2011, Mercator also launched its home products web store; hence, we are pursuing the goal of a multi-format retailer on the web as well.



Roda brand includes Roda centers, Roda megamarkets, Roda supermarkets and markets, and Roda Cash & Carry stores.

Getro brand includes Getro Cash & Carry stores and Getro markets.

Mercator Group also operates several non-alimentary store formats: home improvement and gardening centers, interior decoration stores, hardware and electronics stores, and Modiana, Beautique, and Intersport stores.

## Composition of retail units as at March 31<sup>st</sup> 2011

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	ALBANIA	BULGARIA	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	21	13	12	6	2	1	4	59	285,932	186,142
Supermarkets	62	14	20	12	5	-	-	113	162,889	105,935
Neighbour stores	402	61	48	7	71	2	-	591	256,859	150,023
Comfort stores	1	-	1	1	-	-	-	3	6,215	3,669
Getro market	-	-	23	-	-	-	-	23	12,518	7,986
Cash & Carry	12	3	16	-	-	-	-	31	135,864	96,678
Hard discount stores	15	-	-	-	-	-	-	15	11,890	8,572
Restaurants	20	6	-	2	1	-	-	29	9,115	5,136
M Holidays	12	-	-	-	-	-	-	12	222	222
Franchise stores	224	-	34	-	-	-	-	258	51,422	33,677
<b>TOTAL FMCG program</b>	<b>769</b>	<b>97</b>	<b>154</b>	<b>28</b>	<b>79</b>	<b>3</b>	<b>4</b>	<b>1,134</b>	<b>932,925</b>	<b>598,041</b>
Home program	63	9	14	-	3	-	-	89	128,839	68,921
Furniture program	32	2	-	-	1	-	-	35	34,870	26,345
<b>Total home program</b>	<b>95</b>	<b>11</b>	<b>14</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>124</b>	<b>163,709</b>	<b>95,266</b>
Clothing program and drugstores	96	19	30	13	1	-	-	159	68,948	57,931
Clothing program	75	10	30	9	1	-	-	125	65,073	54,726
Drugstores and perfumeries	21	9	-	4	-	-	-	34	3,876	3,205
Intersport	32	10	27	9	2	2	-	82	51,302	39,376
<b>TOTAL specialised programs</b>	<b>128</b>	<b>29</b>	<b>57</b>	<b>22</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>241</b>	<b>120,251</b>	<b>97,307</b>
<b>TOTAL</b>	<b>992</b>	<b>137</b>	<b>225</b>	<b>50</b>	<b>86</b>	<b>5</b>	<b>4</b>	<b>1,499</b>	<b>1,216,884</b>	<b>790,614</b>

## Development of new technological solutions

Mercator is an innovative retailer. In terms of development of store formats, this includes implementation of modern technology and equipment in sales facilities, which make the shopping experience easier and more pleasant. The following activities took place in the period 1-3 2011: development of info stands for selected categories of cosmetics; beverage vending machines - installing 10 wine vending corners at hypermarkets; installation of 8 self checkout machines in hypermarket in Belgrade; testing the fruit and vegetable moistening system at 2 stores; and preparation for testing of digital price tags at the point of sale.



## Development of new store concepts

This year, we are planning a comprehensive refurbishment of the Maximarket department store consistently with the newly defined store and marketing concept (i.e. the cult place for quality shopping), which includes refurbishment of particular floors of the store. Hence, all visual and other templates for the refurbishment were prepared early in 2011.

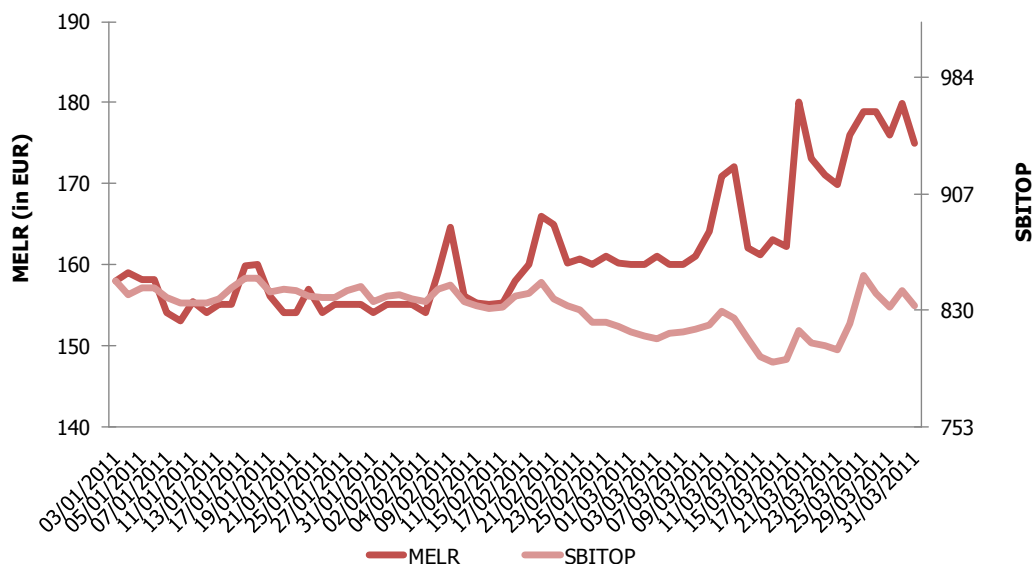
## MERCATOR SHARE AND INVESTOR RELATIONS

### Mercator share and ownership structure

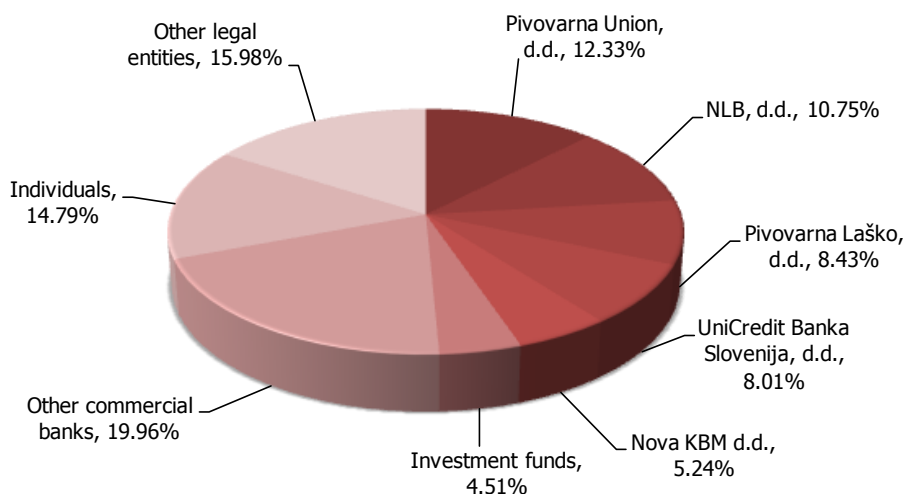
**Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31<sup>st</sup> 2011:**

Code / Symbol	MELR
Type	Ordinary shares
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	15,933

**Movement of closing price per MELR share in the period 1-3 2011, compared to the movement of the SBI20 index:**



## Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31<sup>st</sup> 2011:



### Major Shareholders

As at March 31<sup>st</sup> 2011, the following ten largest shareholders combined owned **60.04 percent** of the company.

As at March 31<sup>st</sup> 2011, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **16.90 percent**, which is 1.89 percentage point more than at the end of 2010.

Major Shareholders	Country	Number of shares	Share
1 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2 NLB, d.d.	Slovenia	404,832	10.75%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Nova KBM d.d.	Slovenia	197,274	5.24%
6 GB d.d., Kranj	Slovenia	142,920	3.80%
7 Rodić M&B Trgovina, d.o.o.	Serbia	127,039	3.37%
8 Societe Generale-Splitska Banka, d.d.	Croatia	104,951	2.79%
9 Abanka Vipava, d.d.	Slovenia	103,400	2.75%
10 Radenska, d.d.	Slovenia	96,952	2.57%
<b>Total</b>		<b>2,260,693</b>	<b>60.04%</b>

### Shares held by Management and Supervisory Board members as at March 31<sup>st</sup> 2011

First and last name	Position	Number of shares	Share
<b>Management Board</b>			
1 Žiga Debeljak	Management Board President	1,100	0.0292%
2 Mateja Jesenek	Senior Vice President	1,000	0.0266%
3 Melita Kolbezen	Senior Vice President	0	0.0000%
4 Vera Aljančič Falež	Senior Vice President	30	0.0008%
5 Peter Zavrl	Senior Vice President	60	0.0016%
6 Stanka Čurović	Senior Vice President	0	0.0000%
<b>Total</b>		<b>2,190</b>	<b>0.0582%</b>

<b>Supervisory Board</b>			
1	Robert Šega	Supervisory Board Chairman	0 0.0000%
2	Jadranka Dakič	Deputy Supervisory Board Chairwoman	0 0.0000%
3	Štefan Vavti	Supervisory Board member	0 0.0000%
4	Kristjan Verbič	Supervisory Board member	0 0.0000%
5	Matjaž Kovačič	Supervisory Board member	0 0.0000%
6	Miro Medvešek	Supervisory Board member	0 0.0000%
7	Mateja Širec	Supervisory Board member	36 0.0010%
8	Jože Cvetek	Supervisory Board member	2,000 0.0531%
9	Janez Strniša	Supervisory Board member	0 0.0000%
10	Ivica Župetić	Supervisory Board member	0 0.0000%
		<b>Total</b>	<b>2,036 0.0541%</b>

### Key information for the shareholders

	<b>March 31<sup>st</sup> 2011</b>	<b>Dec. 31<sup>st</sup> 2010</b>	<b>Index</b>
Number of shares registered in Court Register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	658,938,175	593,797,430	111.0
Market value of share (in EUR)	175.00	157.70	111.0
Book value per share (in EUR)	225.24	221.76	101.6
Minimum close rate in the period (in EUR)	153.00	131.20	116.6
Maximum close rate in the period (in EUR)	180.00	171.50	105.0
Average close rate in the period (in EUR)	161.34	154.14	104.7
Earnings per share (in EUR)*	14.2	9.9	144.0

\* The indicator is adjusted to the annual level

Market capitalization is calculated by multiplying the number of shares entered into the court register as at the last day of the period with market price per share on the last day of the period.

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

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

### Treasury shares and authorized capital

As at March 31<sup>st</sup> 2011, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-3 2011, the company neither acquired nor disposed of treasury shares.

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

## FINANCIAL REPORT

### ACCOUNTING POLICIES

All financial statements of the Mercator Group for the period 1-3 2011 have been prepared in compliance with International Financial Reporting Standards and are unaudited.

### CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Condensed consolidated financial statements for the period 1-3 2011 include the company Mercator, d.d., and its subsidiaries, as follows:

- **in Slovenia:** Intersport ISI, d.o.o., Modiana, d.o.o., Eta, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., and M - nepremičnine, d.o.o.;
- **abroad:** Mercator - H, d.o.o., Croatia, Intersport - H, d.o.o., Croatia, Modiana, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, Intersport S - ISI, d.o.o., Serbia, Modiana, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Intersport - BH, d.o.o., Bosnia and Herzegovina, Modiana, d.o.o., Bosnia and Herzegovina, Mercator - CG, d.o.o., Montenegro, Mercator - K, l.l.c., Kosovo, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment International, d.o.o., Macedonia, Mercator - B, e.o.o.d., Bulgaria, and Mercator - A, sh.p.k., Albania;

(hereinafter referred to as "Mercator Group"). Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

## Condensed consolidated statement of financial position

EUR thousand	31/3/2011	31/12/2010	31/3/2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,907,733	1,870,428	1,856,262
Investment property	3,835	3,894	4,066
Intangible assets	51,411	52,626	53,134
Deferred tax assets	8,804	8,700	8,109
Loans and deposits	68,292	77,113	50,832
Available-for-sale financial assets	3,959	3,959	5,474
	<b>2,044,034</b>	<b>2,016,720</b>	<b>1,977,877</b>
<b>Current assets</b>			
Inventories	323,095	322,081	281,682
Trade and other receivables	269,812	231,871	270,415
Current tax assets	-	-	6,847
Loans and deposits	2,369	17,346	15,112
Derivative financial instruments	58	70	310
Cash and cash equivalents	12,920	20,766	9,544
	<b>608,254</b>	<b>592,134</b>	<b>583,910</b>
<b>Total assets</b>	<b>2,652,288</b>	<b>2,608,854</b>	<b>2,561,787</b>
<b>EQUITY</b>			
Ordinary shares	157,129	157,129	157,129
Share premium	198,872	198,872	198,872
Treasury shares	(3,235)	(3,235)	(3,235)
Revenue reserves	270,194	270,194	270,195
Fair value reserve	201,123	200,187	184,541
Retained earnings	37,067	6,671	29,928
Profit for the period	10,183	30,396	6,658
Currency translation reserve	(54,338)	(62,295)	(43,008)
<b>Total equity attributable to owners of the Company</b>	<b>816,995</b>	<b>797,919</b>	<b>801,080</b>
<b>Non-controlling interest</b>	<b>241</b>	<b>246</b>	<b>251</b>
<b>Total equity</b>	<b>817,236</b>	<b>798,165</b>	<b>801,331</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	2,512	2,447	2,872
Financial liabilities	799,335	674,375	652,002
Deferred tax liabilities	51,373	51,269	49,229
Provisions	36,041	35,709	34,641
	<b>889,261</b>	<b>763,800</b>	<b>738,744</b>
<b>Current liabilities</b>			
Trade and other payables	568,670	642,666	478,310
Current tax liabilities	3,543	5,892	2,913
Financial liabilities	372,047	395,853	534,484
Derivative financial instruments	1,531	2,478	6,005
	<b>945,791</b>	<b>1,046,889</b>	<b>1,021,712</b>
<b>Total liabilities</b>	<b>1,835,052</b>	<b>1,810,689</b>	<b>1,760,456</b>
<b>Total equity and liabilities</b>	<b>2,652,288</b>	<b>2,608,854</b>	<b>2,561,787</b>

## Condensed consolidated income statement

EUR thousand	1-3 2011	1-3 2010
Revenue	675,515	637,168
Cost of sales	(632,195)	(595,420)
<b>Gross profit</b>	<b>43,320</b>	<b>41,748</b>
Administrative expenses	(24,561)	(24,315)
Other income	6,446	5,235
<b>Results from operating activities</b>	<b>25,205</b>	<b>22,668</b>
Finance income	1,343	1,280
Finance expense	(13,224)	(14,530)
<b>Net finance expense</b>	<b>(11,881)</b>	<b>(13,250)</b>
<b>Profit before income tax</b>	<b>13,324</b>	<b>9,418</b>
Income tax expense	(3,145)	(2,766)
<b>Profit for the period</b>	<b>10,179</b>	<b>6,652</b>
Profit for the period, attributable to:		
Owners of the Company	10,183	6,658
Non-controlling interest	(4)	(6)

## Condensed consolidated statement of comprehensive income

EUR thousand	1-3 2011	1-3 2010
Profit for the period	10,179	6,652
<b>Other comprehensive income</b>		
Foreign currency translation differences for foreign operations	7,956	(9,223)
Effective portion of changes in fair value of cash flow hedges	936	(1,488)
<b>Other comprehensive income for the period</b>	<b>8,892</b>	<b>(10,711)</b>
<b>Total comprehensive income for the period</b>	<b>19,071</b>	<b>(4,059)</b>
Total comprehensive income for the period, attributable to:		
Owners of the Company	19,076	(4,056)
Non-controlling interest	(5)	(3)

## Condensed consolidated statement of changes in equity

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the Company	Non-controlling interest	Total
<b>Balance at 1<sup>st</sup> January 2010</b>	157,129	198,872	(3,235)	270,194	186,029	8,697	21,232	(33,782)	805,136	254	805,390
<b>Total comprehensive income for the period</b>											
Profit for the period	-	-	-	-	-	-	6,658	-	6,658	(6)	6,652
Other comprehensive income	-	-	-	-	(1,488)	-	-	(9,226)	(10,714)	3	(10,711)
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>(1,488)</b>	-	<b>6,658</b>	<b>(9,226)</b>	<b>(4,056)</b>	<b>(3)</b>	<b>(4,059)</b>
<b>Transactions with owners, recognized directly in equity</b>											
Transfer of profit for the period to retained earnings	-	-	-	-	-	21,232	(21,232)	-	-	-	-
<b>Balance at 31<sup>st</sup> March 2010</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>270,194</b>	<b>184,541</b>	<b>29,929</b>	<b>6,658</b>	<b>(43,008)</b>	<b>801,080</b>	<b>251</b>	<b>801,331</b>

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the Company	Non-controlling interest	Total
<b>Balance at 1<sup>st</sup> January 2011</b>	157,129	198,872	(3,235)	270,194	200,187	6,671	30,396	(62,295)	797,919	246	798,165
<b>Total comprehensive income for the period</b>											
Profit for the period	-	-	-	-	-	-	10,183	-	10,183	(4)	10,179
Other comprehensive income	-	-	-	-	936	-	-	7,957	8,893	(1)	8,892
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>936</b>	-	<b>10,183</b>	<b>7,957</b>	<b>19,076</b>	<b>(5)</b>	<b>19,071</b>
<b>Transactions with owners, recognized directly in equity</b>											
Transfer of profit for the period to retained earnings	-	-	-	-	-	30,396	(30,396)	-	-	-	-
<b>Balance at 31<sup>st</sup> March 2011</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>270,194</b>	<b>201,123</b>	<b>37,067</b>	<b>10,183</b>	<b>(54,338)</b>	<b>816,995</b>	<b>241</b>	<b>817,236</b>

## Condensed consolidated statement of cash flows

EUR thousand	1-3 2011	1-3 2010
<b>Cash flows from operating activities</b>		
<b>Gross cash flow from operating activities</b>	<b>44,329</b>	<b>43,718</b>
Change in inventories	(1,014)	10,368
Change in trade and other receivables	(37,916)	(109,695)
Change in trade and other payables	(81,480)	(43,926)
	<b>(76,082)</b>	<b>(99,535)</b>
Interest paid	(12,114)	(10,756)
Income tax paid	(3,145)	(2,394)
<b>Net cash from operating activities</b>	<b>(91,342)</b>	<b>(112,685)</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and investment property	(46,943)	(26,798)
Acquisition of intangible assets	(483)	(4,670)
Loans and deposits made	-	(4,081)
Proceeds from sale of property, plant, and equipment and investment property	4,912	1,930
Interest received	684	607
Loans and deposits received	23,773	7,358
<b>Net cash used in investing activities</b>	<b>(18,057)</b>	<b>(25,654)</b>
<b>Cash flows from financing activities</b>		
Proceeds (repayments) from borrowings	101,154	131,510
<b>Net cash from financing activities</b>	<b>101,154</b>	<b>131,510</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(8,244)</b>	<b>(6,828)</b>
Cash and cash equivalents at the beginning of the year	20,766	16,844
Effect of exchange rate fluctuations on cash and cash equivalents	397	(472)
<b>Cash and cash equivalents at the end of the year</b>	<b>12,920</b>	<b>9,544</b>

## **Notes to condensed consolidated interim financial statements**

### **Notes to condensed consolidated income statement**

#### **Revenues**

In the period 1-3 2011, Mercator Group generated EUR 675,515 thousand of revenues, which is 6.0 percent more relative to the period 1-3 2010. Majority of Group revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. In the first quarter of 2011, revenues from sales of goods, material, and products in Slovenia rose by 0.7 percent relative to the same period in 2010; in foreign markets, the growth rate was at 18.7 percent. Revenue growth is a result of the strategic alliances carried out, retail network development, and marketing activities.

#### **Operating costs**

Mercator Group costs of sales which include the purchase value of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 632,195 thousand in the period 1-3 2011. In the period at hand, Mercator Group committed funds to price investments in order to retain the purchasing power of the consumers. This resulted in a relatively lower net income compared to the equivalent period last year. Thus, Mercator Group gave up a part of its profit margin in order to alleviate the negative effects of upward pressure on the prices of strategic raw materials for the customers.

Administrative expenses at Mercator Group in the period 1-3 2011 amount to EUR 24,561 thousand.

#### **Results**

In the period 1-3 2011, Mercator Group's results from operating activities amounted to EUR 25,205 thousand. Profit before income tax amounted to EUR 13,324 thousand, and profit for the period was at EUR 10,179 thousand.

#### **Gross cash flow from operating activities**

Mercator Group's gross cash flow from operating activities in the period 1-3 2011 amounted to EUR 44,329 thousand, which is 1.4 percent more relative to the period 1-3 2010, and which amounts to 24.6% of the figure planned for the entire year 2011.

#### **Gross cash flow from operating activities before rental expenses**

The relevant indicator of the ability to generate operating cash flow, which also accounts for the expansion of Mercator Group's retail network through operating lease, is the gross cash flow from operating activities before rental expenses which amounted to EUR 54,060 thousand in the period 1-3 2011, which is 4.1% more than in the period 1-3 2010 and represents 23.9 percent of the figure planned for the entire year 2011.

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

## Notes to condensed consolidated statement of financial position

### Assets

Mercator Group assets as at March 31<sup>st</sup> 2011 amounted to EUR 2,652,288 thousand, which is EUR 43,434 thousand more than at the end of 2010.

As at March 31<sup>st</sup> 2011, the value of Mercator Group non-current assets amounted to EUR 2,044,034 thousand, which is EUR 27,314 thousand more than as at December 31<sup>st</sup> 2010. The biggest share of non-current assets is represented by property, plant and equipment, accounting for 93.3% (EUR 1,907,733 thousand) of the total figure. Their value rose by EUR 37,305 thousand relative to the end of 2010. The change in value in the period 1-3 2011 is related to investments, depreciation and amortization, and disposal of unnecessary and non-viable property, plant, and equipment.

As at March 31<sup>st</sup> 2011, the value of Mercator Group current assets amounts to EUR 608,254 thousand, which is EUR 16,120 thousand more than at the end of 2010. The largest share thereof includes inventories (53.1%) and trade and other receivables (44.4%).

### Equity and liabilities

Mercator Group equity as at March 31<sup>st</sup> 2011 amounts to EUR 817,236 thousand, which is EUR 19,071 thousand or 2.4% more than as at 2010. The increase mostly pertains to net profit for the period and currency translation reserve.

As at March 31<sup>st</sup> 2011, total financial liabilities amount to EUR 1,171,382 thousand, which is EUR 101,154 thousand more than as at the end of 2010. In the composition of financial liabilities, non-current (long-term) liabilities represent 68.2% percent while current (short-term) liabilities represent the remaining 31.8% percent (as at December 31<sup>st</sup> 2010, the ratio between non-current and current financial liabilities was 63.0 : 37.0). Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 1,085,315 thousand as at March 31<sup>st</sup> 2011 (December 31<sup>st</sup> 2010: EUR 949,081 thousand). The increase in financial liabilities is a result of year-on-year dynamics in the trade industry and implementation of 38 percent of the annual investment plan already in the first quarter of 2011.

As at March 31<sup>st</sup> 2011, provisions amounted to EUR 36,041 thousand. Compared to the end of 2010, provisions have increased by EUR 332 thousand.

Trade and other payables as at March 31<sup>st</sup> 2011 amounted to EUR 571,182 thousand, which is EUR 73,931 thousand less than at the end of 2010. The decrease in trade payables is a result of year-on-year dynamics in the trade industry.

### Transactions with associated parties

There are two groups of associated parties at the company Poslovni sistem Mercator, d.d.: managerial staff and subsidiaries. Managerial staff includes members of management boards, supervisory boards, and employees with individual employment contracts working at Mercator Group companies.

Transactions between the company Poslovni sistem Mercator, d.d., and its subsidiaries within the Mercator Group, taking place as a part of various forms of business and financial activity, are always effected according to the arm's length principle. Managerial staff receives compensation and reward in compliance with their respective employment contracts or consistently with the Shareholder Assembly resolutions (Supervisory Board members).

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

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Mercator, d.d., is the parent/controlling company of a group of associated companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Macedonia, Albania, Kosovo, and Bulgaria.

The company has a double role: it is predominantly engaged in fast-moving consumer goods retail; however, it also performs various group-related corporate tasks for the companies included in the Mercator Group. Hence, 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 is more sensible to apply above all the consolidated financial statements that present an account of the performance of the Mercator Group as a uniform business entity.

In addition, due to the transfer of a part of operating activities to the companies Intersport ISI, d.o.o., and Modiana, d.o.o., financial statements of the company Poslovni sistem Mercator, d.d., are not fully comparable between particular periods.

## Condensed statement of financial position

EUR thousand	31/3/2011	31/12/2010	31/3/2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,010,053	1,014,704	1,006,089
Investment property	3,835	3,894	4,077
Intangible assets	9,161	9,652	10,282
Deferred tax assets	8,217	8,216	8,172
Loans and deposits	276	286	311
Investment into equity of subsidiaries	620,812	618,813	598,280
Available-for-sale financial assets	3,547	3,547	4,972
	<b>1,655,903</b>	<b>1,659,112</b>	<b>1,632,184</b>
<b>Current assets</b>			
Inventories	156,652	153,926	142,460
Trade and other receivables	175,238	158,906	200,256
Current tax assets	-	-	3,995
Loans and deposits	44,243	48,849	36,453
Derivative financial instruments	58	70	310
Cash and cash equivalents	-	3,829	133
	<b>376,191</b>	<b>365,580</b>	<b>383,607</b>
<b>Total assets</b>	<b>2,032,094</b>	<b>2,024,692</b>	<b>2,015,792</b>
<b>EQUITY</b>			
Ordinary equity	157,129	157,129	157,129
Share premium	198,872	198,872	198,872
Treasury shares	(3,235)	(3,235)	-3,235
Revenue reserves	238,015	238,015	238,015
Fair value reserve	195,371	194,435	166,667
Retained earnings	40,418	3,612	27,153
Profit for the period	12,046	36,806	9,996
	<b>838,616</b>	<b>825,634</b>	<b>794,597</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	2,447	2,447	2,872
Financial liabilities	558,550	456,547	406,530
Deferred tax liabilities	40,814	40,814	38,049
Provisions	29,796	29,459	29,612
	<b>631,607</b>	<b>529,267</b>	<b>477,063</b>
<b>Current liabilities</b>			
Trade and other payables	300,229	341,239	296,138
Current tax liabilities	2,092	5,754	2,392
Financial liabilities	258,019	320,320	439,597
Derivative financial instruments	1,531	2,478	6,005
	<b>561,871</b>	<b>669,791</b>	<b>744,132</b>
<b>Total liabilities</b>	<b>1,193,478</b>	<b>1,199,058</b>	<b>1,221,194</b>
<b>Total equity and liabilities</b>	<b>2,032,094</b>	<b>2,024,692</b>	<b>2,015,792</b>

## Condensed income statement

EUR thousand	1-3 2011	1-3 2010
Revenue	380,104	426,359
Cost of sales	(347,362)	(391,217)
<b>Gross profit</b>	<b>32,742</b>	<b>35,142</b>
Administrative expenses	(13,262)	(14,968)
Other income	3,750	4,515
<b>Results from operating activities</b>	<b>23,230</b>	<b>24,689</b>
Finance income	1,708	1,003
Finance expense	(9,881)	(13,351)
<b>Net finance expense</b>	<b>(8,173)</b>	<b>(12,348)</b>
<b>Profit before income tax</b>	<b>15,057</b>	<b>12,341</b>
Income tax expenses	(3,011)	(2,345)
<b>Profit for the period</b>	<b>12,046</b>	<b>9,996</b>

## Condensed statement of comprehensive income

EUR thousand	1-3 2011	1-3 2010
Profit for the period	12,046	9,996
<b>Other comprehensive income</b>		
Effective portion of changes in fair value of cash flow hedges	936	(1,488)
<b>Other comprehensive income for the period</b>	<b>936</b>	<b>(1,488)</b>
<b>Total comprehensive income for the period</b>	<b>12,982</b>	<b>8,509</b>

## Condensed statement of changes in equity

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total
<b>Balance at 1<sup>st</sup> January 2010</b>	157,129	198,872	(3,235)	238,015	168,155	7,872	19,281	786,088
<b>Total comprehensive income for the period</b>								
Profit for the period	-	-	-	-	-	-	9,996	9,996
Other comprehensive income	-	-	-	-	(1,488)	-	-	(1,488)
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>(1,488)</b>	-	<b>9,996</b>	<b>8,509</b>
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Transfer of profit for the period to retained earnings	-	-	-	-	-	19,281	(19,281)	-
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	19,281	(19,281)	-
<b>Total transactions with owners</b>	-	-	-	-	-	19,281	(19,281)	-
<b>Balance at 31<sup>st</sup> March 2010</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>238,015</b>	<b>166,667</b>	<b>27,153</b>	<b>9,996</b>	<b>794,597</b>

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total
<b>Balance at 1<sup>st</sup> January 2011</b>	157,129	198,872	(3,235)	238,015	194,435	3,612	36,806	825,634
<b>Total comprehensive income for the period</b>								
Profit for the period	-	-	-	-	-	-	12,046	12,046
Other comprehensive income	-	-	-	-	936	-	-	936
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>936</b>	-	<b>12,046</b>	<b>12,982</b>
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Transfer of profit for the period to retained earnings	-	-	-	-	-	36,806	(36,806)	-
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	36,806	(36,806)	-
<b>Total transactions with owners</b>	-	-	-	-	-	36,806	(36,806)	-
<b>Balance at 31<sup>st</sup> March 2011</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>238,015</b>	<b>195,371</b>	<b>40,418</b>	<b>12,046</b>	<b>838,616</b>

## Condensed statement of cash flows

EUR thousand

	1-3 2011	1-3 2010
<b>Cash flows from operating activities</b>		
<b>Gross cash flow from operating activities</b>	<b>33,662</b>	<b>34,314</b>
Change in inventories	(2,726)	35,630
Change in trade and other receivables	(16,332)	(66,759)
Change in trade and other payables	(39,833)	(57,312)
Interest paid	(9,820)	(13,259)
Income tax paid	(3,011)	(2,092)
<b>Net cash from operating activities</b>	<b>(38,060)</b>	<b>(69,478)</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries	(7,000)	(11,103)
Acquisition of property, plant and equipment and investment property	(7,091)	(7,313)
Acquisition of intangible assets	(406)	(243)
Loans and deposits made	-	(35,506)
Proceeds from sale of property, plant and equipment	3,205	-
Proceeds from sale of subsidiaries	-	1,908
Interest received	1,214	656
Loans and deposits received	4,616	-
<b>Net cash used in investing activities</b>	<b>(5,462)</b>	<b>(51,601)</b>
<b>Cash flows from financing activities</b>		
Proceeds (repayments) from borrowings	39,702	118,755
Dividends paid	(9)	-
<b>Net cash from (used in) financing activities</b>	<b>39,693</b>	<b>118,755</b>
<b>Net increase in cash and cash equivalents</b>	<b>(3,829)</b>	<b>(2,324)</b>
Cash and cash equivalents at the beginning of the year	3,829	2,457
<b>Cash and cash equivalents at the end of the year</b>	<b>-</b>	<b>133</b>

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

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

Poslovni sistem Mercator, d.d.  
Management Board

Ljubljana, May 17<sup>th</sup> 2011