

**Business Report
of the Mercator Group
and the company
Poslovni sistem Mercator, d.d.,
for the period 1-9 2011**



Poslovni sistem Mercator, d.d.
Management Board

November 2011

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SUMMARY

Third quarter saw a nearly 8 percent revenue growth, further extensive investments to cut the prices offered to consumers, and additional aggravation of economic circumstances

Economic circumstances in the third quarter grow even harsher

In the third quarter of the year, economic circumstances in all markets of Mercator's operations deviated further, for the worse, from to the forecasts for 2011. Consumer confidence, an important harbinger of change in the economic atmosphere in the retail industry, continued to deteriorate. Despite the rather optimistic expectations and forecasts of economic recovery in early 2011, it turned out that the crunch of the economic crisis has, sadly, all but loosened its grip. Throughout Europe, leading indices of change in the economic environment started to decline again in the third quarter, possibly signalling a new recession. In addition, conditions in the global financial markets were severely tightened as well. Economic environment in all markets of our operations grew harsher in the third quarter, which bore a negative effect on the results of Mercator Group operations.

Extensive investments to cut prices contributed to the increase in Group revenue

Responding to the economic hardship, Mercator Group invested heavily into lower prices for the consumers in the third quarter in order to maintain their purchasing power. In addition, a part of the profit margin was allocated for reducing the negative effects of the pressure brought about by the increase in the price of strategic resources.

Thus, Mercator Group total revenue in the period 1-9 2011 amounted to EUR 2,175,723 thousand, which is 6.7 percent more than in the equivalent period last year. Growth of revenue in the third quarter, relative to the third quarter of 2010, was no less than 7.9 percent. Revenue rose by 0.8 percent in Slovenia; in foreign markets, the growth amounted to 16.2 percent.

Development activities

In the period 1-9 2011 Mercator Group invested EUR 85,464 thousand into retail network development. Over 70 thousand square meters of new gross area was acquired in the period.

In the period 1-9 2011, Mercator Group continued to pursue its growth strategy by acquiring the trade operations of the company Familija Marketi, d.o.o., in the Serbian market. Thus, it consolidated its position of the second largest retailer in the Serbian market.

On August 9th 2011, the company Poslovni sistem Mercator, d.d., became the 100-percent shareholder in the company En Plus, d.o.o. This acquisition will allow Mercator to install self-service gas stations on the parking lots of its major shopping centers, as planned in the strategic development policies for supplementary services.

Stable cash flows and financial operations

Mercator Group gross cash flows from operating activities before rent amounted to EUR 162,928 thousand, which is 4.7 percent more than in the equivalent period last year. Stable generation of cash flows from operating activities in spite of the worsening economic circumstances stands witness to great financial power, competitiveness, and business efficiency of the Group.

Given the uncertain conditions in the financial markets, we successfully diversified our financing sources and considerably improved the composition of our financial liabilities by maturity. The increase in EURIBOR inflated the financing costs, while exchange rates in the markets of Mercator operations were relatively stable in the period 1-9 2011.

Business results were negatively affected by extensive investment to cut our prices, although the administrative expenses were successfully contained

Mercator Group net income for the period 1-9 2011 amounts to EUR 27,049 thousand, which is 3.2 percent less than in the corresponding period last year. The figure was notably affected by extensive price investments, which represented Mercator's response to aggravated economic circumstances and the resulting drop in consumer purchasing power. With revenue growth exceeding 6 percent, administrative expenses only increased by approximately 3 percent, pointing to success of further cost rationalization devised to tackle the challenging economic circumstances.

Employees

As at September 30th 2011, the number of employees at Mercator Group was 23,480 which ranks Mercator among the largest employers in the entire Southeastern European region; with almost 12 thousand employees in Slovenia, it is also the largest employer in Slovenia.

In retail industry, last quarter is very important for overall results, particularly in severe economic conditions

Economic conditions and the effects thereof on the volume and composition of consumption and other business aspects grew even harsher in the third quarter of 2011, contrary to the expected improvement in the second half of the year. Circumstances are not likely to improve in the last quarter of 2011, which means that Mercator Group will be exposed throughout the second half of the year to much severer economic environment than assumed in the business plan. Therefore, uncertainty regarding the conditions of operations and further effects thereof on the results in the last quarter is very high, and since the last quarter bears a significant contribution to the overall annual results in retail industry, company Management Board is not able to reliably estimate after the end of the third quarter the effect of the said deviation from the expected economic conditions on the planned annual Mercator Group performance. In the last quarter, the Management Board will continue to adapt the Group operations to the economic circumstances in order to successfully pursue the planned business goals.

INTRODUCTION

MERCATOR GROUP PROFILE

Company Profile

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

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 - Retail in non-specialized food retail outlets
Registration number	5300231
VAT tax code	45884595
Court registry date	January 1 st 1990
Company share capital as at September 30 th 2011	EUR 157,128,514.53
Number of shares issued and paid-up as at September 30 th 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 September 30th 2011, Mercator Group included the following companies:

MERCATOR GROUP	
MERCATOR TRADE SLOVENIA	
Poslovni sistem Mercator, d.d., Slovenia	
Mercator IP, d.o.o., Slovenia (100.0 %)	M.COM, d.o.o., Slovenia (100.0 %)*
MERCATOR TRADE SOUTHEASTERN EUROPE	
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - 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 %)	
MERCATOR REAL ESTATE	
M - nepremičnine, d.o.o., Slovenia (100.0 %)	Investment Internacional, d.o.o.e.l., Macedonia (100.0 %)**
Mercator - Optima, d.o.o., Slovenia (100.0 %)	
OTHER OPERATING ACTIVITIES	
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 %)
Mercator - Emba, d.d., Slovenia (100.0 %)	M - Energija, d.o.o., Slovenia (100.0 %)

* The company has not yet commenced its business operations.

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

Corporate governance

Supervisory Board of the company Poslovni sistem Mercator, d.d., held three sessions in the period 1-9 2011. They adopted the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for 2010, and confirmed the Supervisory Board Report on the Annual Report audit, and the opinion on the allocation of distributable profit. The Supervisory Board confirmed the agenda for the 17th regular Shareholders Assembly, and the proposal by the Audit Committee 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. Furthermore, the Supervisory Board confirmed the Business report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2011 and the Business report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-6 2011. At the 13th session, the Supervisory Board was informed about the project "Establishing a hardware and electronics store chain", and the project "Refreshment of the offer of market program in Slovenia".

At the session held on May 19th 2011, the Works Council elected two new Supervisory Board members to represent the employees: Mr. Sandi Leban and Mr. Ivan Valand; they were appointed for a four-year term.

MERCATOR GROUP BUSINESS STRATEGY

Vision

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

Mission

Mercator's mission is:

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

Corporate values

Following are Mercator's corporate values:

Responsibility

Each employee is responsible for their work.

Responsiveness

Prompt response is our advantage.

Integrity

We work honestly and fairly.

Learning

We build on our knowledge and experience.

Respect

Each individual matters and deserves respect.

Cooperation

What one person cannot do, we can accomplish together.

Strategic objectives

Following are Mercator Group's fundamental strategic goals:

- 1) In our **domestic market** (Slovenia):
 - a. To retain the position of the leading fast moving consumer goods retailer.
 - b. To consolidate the position of the second largest retailer of home products.
 - c. To develop supplementary trade services related to our customer loyalty system.
- 2) In **existing foreign markets** (Serbia, Croatia, Bosnia and Herzegovina, Montenegro):
 - a. To consolidate or attain the position of the second largest fast moving consumer goods retailer.
 - b. To rank among the top three retailers of home products.
 - c. To develop supplementary trade services related to our customer loyalty system.
- 3) In **new foreign markets** (Bulgaria, Albania, Macedonia, Republic of Kosovo):
 - a. To rank among the top five retailers of fast moving consumer goods.

MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-9 2011

	Mercator Group		Index
	1-9 2011	1-9 2010	1-9 2011/ 1-9 2010
Revenue (EUR thousand)	2,175,723	2,038,796	106.7
Results from operating activities (EUR thousand)	72,142	78,077	92.4
Profit before income tax (EUR thousand)	36,185	36,582	98.9
Profit for the financial period (EUR thousand)	27,049	27,945	96.8
Gross cash flow from operating activities (EUR thousand)	130,602	129,886	100.6
Gross cash flow from operating activities before rental expenses (EUR thousand)	162,928	155,549	104.7
Capital expenditure (EUR thousand)	85,464	64,807	131.9
Return on equity*	4.6%	4.7%	97.2
Return on sales	1.2%	1.4%	90.7
Gross cash flow from operating activities / revenue	6.0%	6.4%	94.2
Gross cash flow from operating activities before rental expenses / revenue	7.5%	7.6%	98.2
Number of employees based on hours worked	22,354	21,053	106.2
Number of employees as at the end of the period	23,480	23,256	101.0

* The indicator is adjusted to the annual level.

MAJOR EVENTS IN THE PERIOD 1-9 2011

RETAIL NETWORK DEVELOPMENT

In the period 1-9 2011, we:

- invested EUR 85,464 thousand,
- divested EUR 6,773 thousand,
- acquired 31 new units spanning 70,315 square meters in all markets of operation, which includes real estate owned by Mercator and operating leases.

STRATEGIC BUSINESS ALLIANCES

The agreement on strategic alliance signed on June 30th 2010, based on which the company Mercator - CG, d.o.o., was to take over the trade operations and employees, as well as assume the long-term lease of 77 trade facilities of the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., came into effect on January 27th 2011 as the key conditions were met.

The agreement on strategic alliance signed on August 4th 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 5th 2011 as the key conditions were met.

The agreement on strategic alliance, signed on June 24th 2011, based on which the company Poslovni sistem Mercator, d.d., was to become the holder of 100-percent interest in the company En Plus, d.o.o., came into effect on August 9th 2011 as the key conditions were met. On September 28th 2011, the company was renamed to M - Energija, d.o.o.

On July 29th 2011, an agreement was signed on a strategic alliance between the company Familija Marketi, d.o.o., Belgrade, the company Robne kuće Beograd, d.o.o., Belgrade, and the company Mercator - S, d.o.o., Novi Sad. With the agreement, the company Mercator - S,

d.o.o., took over the trade operations and employees of the company Familija Marketi, d.o.o., and acquired on a long-term operating lease 27 trade facilities of the company Robne kuće Beograd, d.o.o., with a total area of over 22 thousand square meters.

CHANGES IN THE COMPOSITION OF MERCATOR GROUP

On February 16th 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 is effective as of June 30th 2011.

FINANCIAL MANAGEMENT

In the period 1-9 2011, the company Poslovni sistem Mercator, d.d., completed the drawing of the following major credit lines:

- In March 2011, the company completed the drawing of a syndicated loan in the amount of EUR 130 million.
- On March 9th 2011, the company signed a long-term assignable loan (Ger.: Schuldschein-Darlehen) agreement for an amount of EUR 58 million.
- In September 2011, the company completed the drawing of a syndicated loan in the amount of EUR 137.6 million. The syndicated credit facility was divided into two tranches: tranche A has a maturity of four years and requires repayment of principal in a single amount; tranche B has a four-year maturity, with semi-annual principal repayment. Ten commercial banks based in Slovenia and abroad were involved in the syndicated loan.

Newly acquired long-term financing was allocated for the improvement of the composition of financing sources by maturity.

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

On April 6th 2011, the marketing day was held for the twelfth consecutive year. Marketing days are a traditional meeting of Mercator management with major suppliers and partners from all markets of Mercator operations, attended by over 420 representatives of Mercator suppliers from Slovenia and Southeastern Europe.

AWARDS RECEIVED

World Finance, a magazine covering global business and finance, 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 won the award for excellent corporate governance in Slovenia for serving the interests of all stakeholders in the best possible way despite harsh business environment.



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



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

Nine popular products of Pekarna Grosuplje, Mercator in-house bakery, received the gold medal at this year's 11th bread, pastry, and pasta competition held by the Bakers Section of the Chamber of Agricultural and Food Companies at the Slovenian Chamber of Commerce and Industry.



MAJOR EVENTS AFTER THE PERIOD

RETAIL NETWORK DEVELOPMENT

On October 5th 2011, the refurbished Maxi department store was opened. Refurbishment took place consistently with the newly devised store and marketing concept, according to which Maxi is a cult, or legendary, destination for quality shopping. The refurbished Maxi will become the leading venue for haute fashion shopping, expressing the individual's lifestyle, a place of inspiration, entertainment, shopping, quality, and services, as well as an environment for socializing.

STRATEGIC BUSINESS ALLIANCES

On October 20th 2011, the company Drvopromet, d.o.o., Sarajevo, and the company Mercator - BH, d.o.o., Sarajevo, signed the agreements on strategic alliances, according to which Mercator - BH, d.o.o., subject to meeting the conditions stipulated therein, will take over the trade operations of the company Drvopromet, d.o.o. By signing the agreements, the company Mercator - BH, d.o.o., will acquire on long-term operating lease 63 retail outlets "DP Marketi" held by the company Drvopromet, d.o.o., in Sarajevo and other cities of Bosnia and Herzegovina, with a total combined sales area of over 24 thousand square meters.

CORPORATE ACTIVITIES

On October 4th 2011, Cankarjev Dom in Ljubljana hosted the 5th traditional Mercator Human Resource Days. This year's instalment, titled "There is talent in all generations", attracted about 100 participants which included HR professionals, government officials, and representatives of social partners, employment, education, and healthcare institutions, and other companies.

The central focus of the 13th Mercator Marketing days was on informing Mercator suppliers with the activities of the project "Refreshment of the offer of market program in Slovenia" which are conducted by Mercator to continuously adapt the offer to the requirements of the customers. The event taking place on October 5th 2011 in the Smelt hall was attended by over 300 Slovenian suppliers.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON THE OPERATIONS OF THE MERCATOR IN THE PERIOD 1-9 2011

Economic conditions in the markets of Mercator operations in the period 1-9 2011

Economic circumstances in all markets of Mercator operations deviated further, for the worse, from the forecasts for 2011. Consumer confidence index, the first harbinger of change in the economic atmosphere in the retail industry, deteriorated further in Slovenia; similar changes were seen in other markets of our operations. Despite the rather optimistic expectations and forecasts of economic recovery in early 2011, it turned out that the crunch of the economic crisis has, sadly, all but loosened its grip. The leading indices the movement of which is a precursor to any change in the economic environment, started to decline in the third quarter in Europe, perhaps foreshadowing a new recession. Relatively high unemployment rate was still seen in all markets of Mercator operations. Given the numerous insolvency proceedings, it is expected to rise further by the end of 2011. Drastic austerity measures that European countries were compelled to adopt due to their mounting financial difficulties, bore a negative effect on the economic dynamics of the entire Euro zone. Spiralling debt and sky-rocketing fiscal deficits of Greece and Portugal, as well as Italy and Spain, negatively affected the economics of other European countries. High debt may lead to additional liquidity crunch that could hinder cash flows in other countries in which finances are currently still reasonably healthy. Bankruptcy of major countries would trigger a new cycle of financial crisis that could be even worse than the first one, with even severer impact on the consumers. The debt crisis that has impeded access to financing in recent months is therefore the main risk in further recovery of the European economy. In July, the European Central Bank (ECB) raised the interest rate by 0.25 percentage point for the second time this year in order to maintain price stability; the interest rate now amounts to 1.50%. As at September 30th 2011, the 6-month EURIBOR reached 1.753%, which is 42.9 percent more than as at the beginning of the year. The increase in EURIBOR had a negative impact as it drove up the financing costs. Exchange rates were relatively stable in the period at hand.

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

The markets of Mercator operations were challenged by the economic crisis which has extended into 2011. The crisis resulted in an increase of unemployment which has reached new historical highs in key markets of Mercator operations. Higher propensity to save and stagnating household purchasing power are reflected in lower shopping volumes, as well as lower value of the shopping basket. Shattered consumer confidence and an entire mix of effects from the environment will bear a permanent impact on the shopping behaviour. Most notably, consumers will become more rational and prudent.

In Slovenia, consumer confidence remained very low in the period 1-9 2011. Recession is felt by the consumers harder than ever¹. 25% respondents, a third more than in the previous survey, stated they were able to afford less. 72% of respondents said they felt the effects of

¹ Source: Marketing Monitor SMA, Valicon, Fall 2011.

recession in their daily lives. In addition, the number of consumers expecting their financial position to deteriorate further has also increased¹. The consumers expect a new wave of crisis. However, contrary to 2009, they are prepared for it with their new shopping behaviour. Low confidence, material drop in purchasing power, and pessimistic expectations lead to more rational consumption and higher price sensitivity, providing the ideal backdrop for development and rapid growth of discount retailers. According to Planet Retail, Slovenia ranks sixth globally by the market share attained by discount stores.

In the existing foreign markets (Croatia, Serbia, Bosnia and Herzegovina, and Montenegro), consumers responded differently to the crisis. In Serbia, the trend of declining sales volume and number of shopping sessions in the market for fast-moving consumer goods continued in the first half of 2011. Exchange rate and inflation of the Serbian dinar stabilized in the first half of 2011 and retail started to decline. In Croatia, the consumers first responded to higher prices by decreasing the number of shopping sessions. In 2010, there was a decrease in consumption and in the value of an average shopping basket. Along with the drop in sales volume, the latter is a result of increased consumption of products that represent an alternative to the leading brands, which is also reflected in the increased share of private labels. In Bosnia and Herzegovina, the consumers reacted much later, by reducing the frequency of shopping sessions. Less frequent shopping sessions are also related to the changes in the choice of store. Thus, the share of consumption at hypermarkets is increasing at the expense of small traditional stores. Contrary to the other two markets, the consumers responded to the crisis mostly by altering the composition of purchases which points to lesser loyalty to brands and higher demand for less expensive products. Retail in Bosnia and Herzegovina only saw a decline in terms of value in 2011.

New foreign markets (Bulgaria and Albania) are less developed; traditional forms of retail still prevail. There are many local retailers; particularly in Bulgaria, the number of international retailers has been increasing recently.

In March 2011, Belgian retailer Delhaize took over the Delta Maxi Group, thus entering the markets of Serbia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Albania. Entry of Delhaize is expected to make competition in the region even harsher.

DEVELOPMENT AND REAL ESTATE MANAGEMENT

In the period 1-9 2011, the company Poslovni system Mercator, d.d., in real estate development and management has geared towards meeting the goals laid down in the adopted development strategy. Key task was the acquisition of new sales and logistics infrastructure. Consistently with the medium-term investment plan, the company preferred leasing retail area and moved away from the principle of predominantly own construction. Proactively were developed relations with local and international investors and sought opportunities in their projects.

Furthermore, various development activities to optimize Mercator real estate management were carried out and the possibilities to update the concept of Mercator shopping centers were analyzed to improve the mix of products and services there, and to establish strategic partnership with renowned international brands.

Following are Mercator key goals in real estate management:



Investment and Divestment

In the period 1-9 2011, investment into property, plant, and equipment (CAPEX) amounted to EUR 85,464 thousand. 26.5% of this sum was invested in Slovenia; 71.2% was invested in existing foreign markets (Serbia, Croatia, Bosnia and Herzegovina, and Montenegro); and 2.3% was invested in new foreign markets (Albania, Bulgaria and Macedonia).

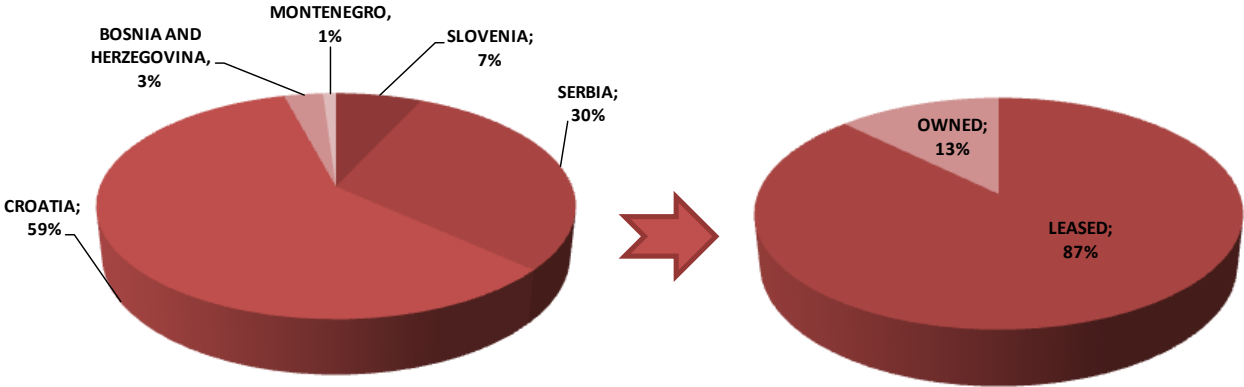
Capital expenditure		
	1-9 2011 (in EUR 000)	Structure (%)
Slovenia	22,605	26.5%
Serbia	43,514	50.9%
Croatia	11,412	13.4%
Bosnia and Herzegovina	1,198	1.4%
Montenegro	4,728	5.5%
Bulgaria	540	0.6%
Albania	144	0.2%
Macedonia	1,323	1.5%
TOTAL	85,464	100.0%

Investments in development of retail capacity (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 69% of total investments; 16% was allocated for refurbishment of the existing facilities; and the remaining 15% was invested into logistics, IT, and non-trade activities.

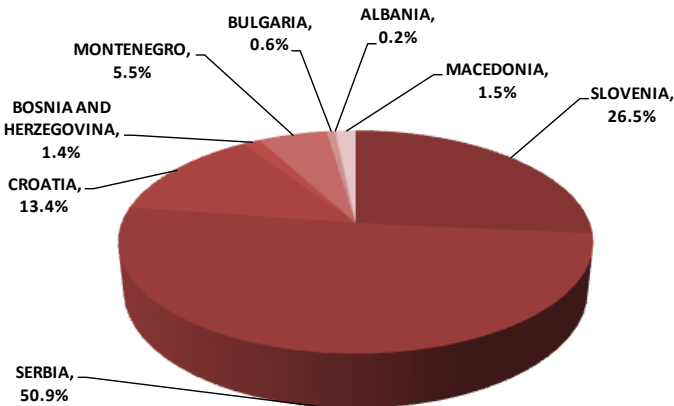
In the period 1-9 2011, 70,315 square meters of new gross area were acquired, of which 87% was acquired by operating lease and 13% by acquisitions or construction.

In the period 1-9 2011, Mercator Group disposed of EUR 6,773 thousand worth of property, plant and equipment.

Share of newly launched facilities by markets



Share of investments by markets



Summary of retail unit launches by markets

Slovenia

- Area of new facilities: 4,823 m²
- Number of new retail units: 3
- Openings: Kranjski kolaček (Kranj cupcake) plant in Naklo, and hardware, electronics, and construction Mercator center in Murska Sobota; herbal pharmacy in the department store Maxi in Ljubljana



Serbia

- Area of new facilities: 21,024 m²
- Number of new retail units: 17
- Openings: supermarket and hardware and electronics center in Velika Plana; hardware and electronics center in Smederevo; superette in Požarevac, Stanišići, Riđica, Futog, and two in Smederevo; Roda center in Vrbas; mega market in Smederevo; restaurant in Novi Sad; and Cash & Carry in Mladenovac; Roda center in Jagodina; supermarket in Loznica; supermarket in Zaječar and hardware and electronics center in Zaječar



Croatia

- Area of new facilities: 41,557 m²
- Number of new retail units: 7
- Openings: supermarket in Zagreb; Intersport in Imotski; trade center in Rovinj; hypermarket in Osijek; supermarket and Intersport store in Biograd; logistic - distribution center Sveta Nedelja near Zagreb



Bosnia and Herzegovina

- Area of new facilities: 2,182 m²
- Number of new retail units: 2
- Openings: supermarket with supplementary offer outlets in Cazin, and superette in Fojnica



Montenegro

- Area of new facilities: 728 m²
- Number of new retail units: 3
- Openings: superette in Berane and Pljevlja, and a small discount store in Zelenik



Summary of total gross retail area as at September 30th 2011

Gross retail area in square meter	Used for own operations	Leased out	Total as at September 30 th 2011
Owned retail area	841,758	176,890	1,018,647
Leased retail area	340,023	14,402	354,425
Total retail area	1,181,780	191,292	1,373,073
Owned warehouse capacity	141,875	0	141,875
Leased warehouse capacity	54,288	0	54,288
Total warehouse capacity	196,163	0	196,163
Owned commercial facilities	25,597	2,177	27,774
Leased commercial facilities	4,840	71	4,911
Total commercial facilities	30,437	2,248	32,685
GROSS AREA UNDER MANAGEMENT	1,408,381	193,540	1,601,921
- of which owned	1,009,230	179,067	1,188,297
- of which leased	399,151	14,473	413,624

Activities of real property monetization

Reaping the growth potential laying in real property is highly important for successful operations of the Mercator Group. In comparison to its European competitors, Mercator balance sheet includes a relatively higher amount of real estate or assets which could, were they monetized, be used to reduce debt.

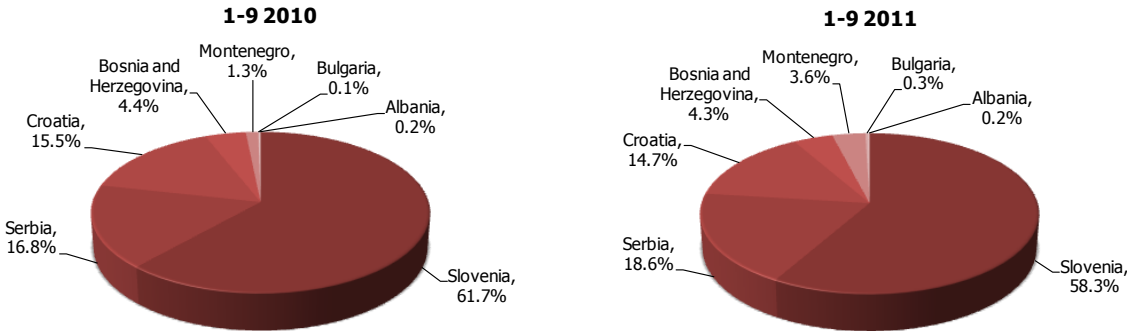
In the first half of the year, Mercator carried on its activities of the real estate monetization project, as laid down in the medium-term plan. In an international tender, Mercator selected an internationally acclaimed monetization consultant, the consulting company Cushman & Wakefield from Great Britain, and launched activities for monetization project implementation. Working with the selected consultant, the company shall compose an appropriate real estate portfolio and offer it to international investors. Consistently with the goals laid down in the medium term Business Plan of the Mercator Group, we shall select the investors and carry out the sale and leaseback of real estate in Slovenia and in Croatia in the years 2012 and 2013, in the planned value of EUR 250 million in each of these two years.

SALES AND MARKETING

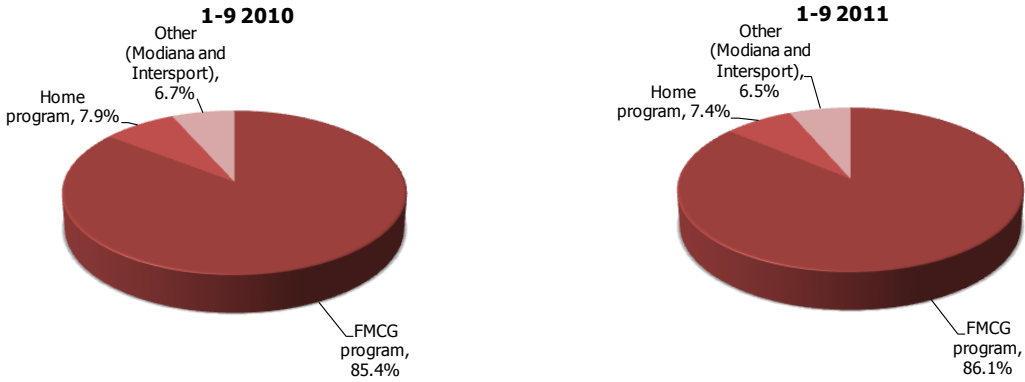
Sales

In the period 1-9 2011, Mercator Group generated EUR 2,175,723 thousand of revenue, which is 6.7 percent more relative to the period 1-9 2010. Majority of Group revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. Revenue rose by 0.8 percent in Slovenia; in foreign markets, the growth amounted to 16.2 percent. Revenue rose by 7.9 percent in the third quarter of 2011, relative to the third quarter of 2010.

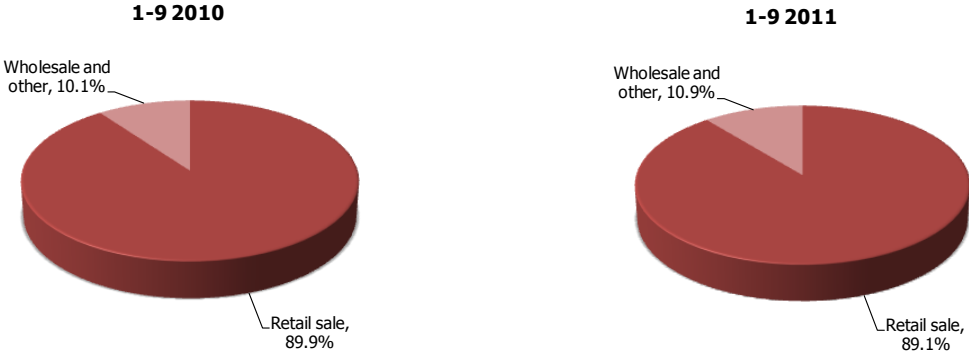
Mercator Group revenue by geographical segments:



Mercator Group revenue from trade operations by programs:



Mercator Group revenue by type of sale:



In the period 1-9 2011, Mercator Group generated 89.1% of revenue in retail of goods and material, while 10.9% was generated by wholesale.

Marketing

With a strong focus on the consumer, Mercator Group activities in the first nine months of the year were mostly dedicated to adaptation to the permanently changed shopping behaviour. Increasingly rational consumers in all markets of Mercator operations continued to seek best value for their money and become more willing to buy private label products. Therefore, particular attention was paid to extending the offer of private labels which offer our customers quality products at reasonable prices. At the same time, many short-term sales promotion activities were aimed at allowing less expensive shopping for fast-moving consumer goods to our customers in the harsh economic conditions, thus contributing to relief of financial burden imposed on their households.

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

In order to be the first choice of consumers shopping for fast-moving consumer goods and thus become the leading and largest retail chain offering fast-moving consumer goods, we devised the market communication activity "We care" in Slovenia. Group of activities includes cutting prices of over 2,000 prices of various brands. In March 2011, Mercator brand was highlighted through the activity "Buy 4 pay 3" that included over 1,100 products. Lumpi Club members were offered Lumpi label products at lower prices, and Healthy Living Club members were offered discounts on Healthy Lifestyle label products.

In the period 1-9 2011, Mercator Group allocated a considerable amount of funds for price investments in order to retain the purchasing power of the consumers, and thus effectively committed a part of its profit margin for offsetting the negative pressure on prices, introduced by higher prices of strategic raw materials.

In order to provide organic products at reasonable prices, Mercator introduced in September the Mercator Bio label in Slovenia. It is an independent line of 23 organic products grown or processed according to strict ecological standards.



In September 2011, we held an open door day to celebrate the 60th anniversary of the Grosuplje Bakery. The event included promotional offer and entertainment for children. Grosuplje Bakery products free of additives won nine gold medals for excellent work and development in the right direction by the Slovenian Chamber of Commerce and Industry. Since February 2011, sales promotion activities have also included a two-day event Bread Festival that includes offering a 10 percent discount on all Grosuplje Bakery products, product tastings, exhibition, and entertainment with Matevž the baker.



In August, we launched the first children's customer loyalty program "Smurfs". For every purchase above 10 EUR, the customer was awarded a collectible card which could be both collected in an album or used to play a social game.



In times of economic hardship, consumers are less prone to shop for durable goods. Therefore, we prepared regular monthly sales promotion activities to support sales in retail formats M Tehnika (hardware and electronics), M Pohištvo (furniture), and M Gradnja (construction). In the period 1-9 2011, **activity of 10 percent discount on all products was carried out 18 times**. Furthermore, we started to implement the new visual identity for labelling and signage at the stores and for advertising of the technical consumer goods program projects in the media, with the campaign titled From A to Z.

Customers are offered thirteen private label lines which include alimentary products, household products, apparel, technical consumer goods, cosmetics, child care products, toys, ready-made food, pastry, and products for a healthy diet. Two private label lines are currently being revamped and a new textile label is in the development stage. The revised cosmetics line MyBody was successfully introduced in the markets of Serbia, Bosnia and Herzegovina, and Montenegro.

Number of Mercator private label products:

Country	Number of lines	Number of products
Slovenia	13	2,874
Serbia	9	819
Croatia	8	1,990
Bosnia and Herzegovina	9	982
Montenegro	6	1,545
Bulgaria	4	265
Albania	7	382

2. Mercator is offering fast-moving consumer goods and home products to create the best value for the consumers.

In order to provide our customers a varied and reasonably priced offer of products and to improve the image and reputation of a retailer offering reasonable prices, we continuously conduct sales promotion activities in all markets of our operations.

Country	Key activities accomplished in the period 1-9 2011
Slovenia	<ul style="list-style-type: none"> • Regular weekly campaigns and special offers, weekend offers, and category discounts • Tuesday's "YES!" ("TO!") discount and Thursday's retiree discount • Collect and Choose customer loyalty program, M holidays customer loyalty program • "Thirsty? Have some refreshment!" campaign • Coupon for 20 percent discount on a select product in the weekly flyer Treats, and in select printed media • Children customer loyalty program "Smurfs"
Serbia	<ul style="list-style-type: none"> • Regular monthly campaign Mercator and Roda • Tuesday's "YES!" ("TO!") discounts • Collect and Choose customer loyalty program, Dorneo customer loyalty program • 10 percent weekend discount at the Roda megamarkets • Flyer with discounts on the private label products • Category discounts and Wednesday's retirees discounts • Weekend campaign "Shopping adventure" with a 10 percent discount
Croatia	<ul style="list-style-type: none"> • Regular special offers • Tuesday's "YES!" ("TO!") discount and Thursday's retiree discount • "Super Price" activity for some products • Collect and Choose customer loyalty program, Dorneo customer loyalty program
Bosnia and Herzegovina	<ul style="list-style-type: none"> • Regular monthly campaign, weekend campaigns, and special theme-oriented campaigns • Tuesday's "YES!" ("TO!") discount and Thursday's retiree discount • Collect and Choose customer loyalty program, Dorneo customer loyalty program • Mercator star of the month with the most favourable offer of selected products in each given month • Monday Price of the Day – special offer of two products from the FMCG offer • One product from the private label line is presented free of charge for every purchase above KM 50 (every Wednesday) • Happy Monday – 10 percent discount on textile products • Brand days • "Thirsty? Have some refreshment!" campaign

Montenegro	<ul style="list-style-type: none"> • Fortnight and monthly special offers • Tuesday's "YES!" ("TO!") discounts • Collect and Choose customer loyalty program, Dormeo customer loyalty program • Weekend campaigns at the Roda and Mercator stores • Activity of deferred payment with 4 instalments for the retirees.
Bulgaria	<ul style="list-style-type: none"> • Regular fortnight campaign • Collect and Choose customer loyalty program, Dormeo customer loyalty program • Fortnight offer of the most favourably priced products "TOP 10" • 10 percent weekend discount for purchases above certain amount • 20 percent discount on particular product categories from Monday to Wednesday • "Input prices" project – assortment of input products at low prices, special labelling, and sales promotion at the stores
Albania	<ul style="list-style-type: none"> • Regular fortnight campaign flyers • Tuesday's "YES!" ("TO!") discounts • Collect and Choose customer loyalty program, Dormeo customer loyalty program • Weekend campaign flyer

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

In the period 1-9 2011, we carried out **9 corporate campaigns double Pika bonus points at alimentary product stores**, and **10 triple Pika bonus points at the stores M Tehnika (hardware and electronics), M Gradnja (construction), and M Pohištvo (furniture)**.

Regular activities including discounts for card holders are carried out in other markets as well. In Croatia and in Bosnia and Herzegovina, activity to encourage non-active card holders was carried out as they were invited for a Saturday shopping with a 10 percent Pika coupon. In Banja Luka, direct marketing activities were carried out. Both active and non-active Mercator Pika card holders were sent personal mail with a coupon for a 10 percent discount for weekend shopping. In June, the Mercator Pika customer loyalty system was also launched in Montenegro.

Number of Mercator Pika card holders:

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro*	Total
As at Dec. 31 st 2010	1,006,051	185,175	272,024	143,814	/	1,607,064
As at Sep. 30 th 2011	1,069,149	206,698	305,982	175,487	22,003	1,779,319
Newly issued cards 1-9 2011	63,098	21,523	33,958	31,673	22,003	172,255

* Mercator Pika card was introduced in Montenegro in June 2011.

In June 2011, the **Senior Club** was founded in Slovenia. The purpose of the club is to simplify the process of proving the status of a retired person at Mercator stores in order to prove eligibility for Thursday's retiree discounts. Various activities will be carried out for club members, including awarding extra points, coupons for certain products, and discounts on certain products or product categories.

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 looking for new technologies and services that would make shopping at our stores easier and more interesting.

In the first half of this year, we introduced new wine vending corners which allow the consumers to test the local offer of high-quality products. In addition to regular offer of fast-moving consumer goods, we also offer our customers photography and travel services (the catalogues "Fall-Winter" and "Skiing" were issued in the period at hand). We are currently also developing our financial and insurance services.

In August 2011, Mercator acquired through a strategic combination with the company En Plus, d.o.o., a chain of 18 automatic self-service gas stations. The company was renamed to M - Energija, d.o.o. This strategic alliance is another step forward in the development of supplementary activities for the consumers. Offer of petrol for automobiles can be subsequently extended with other services like supply of natural gas for households, and electricity. We are also planning to extend the business network of gas stations to current locations of major Mercator shopping centers.

4. Mercator operations improve the quality of life in social and natural environment.

As the best neighbour, Mercator is manifesting its integration into the local environment through initiatives for local manufacturing, healthcare and care-free development of children, humanitarian activities, and sustainable development.

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. By pursuing the principles of sustainable development, we are reducing electric power consumption. In addition to relief of the environmental burden, this contributes to the efficiency of Mercator operations which will be increasingly challenged by the mounting fuel costs. Solid performance, in turn, allows long-term stability in the role of the largest employer in the retail industry in the region.

Mercator sustainability efforts also include the project Locality ("Lokalno") which includes products representing the local offer of farms and small growers, growers and producers of a certain region, and pan-Slovenian local offer. An important goal of the project is to shorten the transport routes to cut carbon emissions.

At the end of June 2011, we teamed up with the Finance daily paper to organize a contest "Draft solutions for packaging made of environmentally friendly packaging materials for organic and other products of Slovenian origin". The purpose of the contest was to find solutions for allowing the products of farmers and small growers to reach the aisles and the consumer. With this project, Mercator will provide a favourable cost of standard packaging for products of Slovenian origin, which will



comply with the modern guidelines, and which will be made of environmentally friendly raw materials. Thus, we will also reduce the final price of the products for our consumers.

Digital Communication

In digital communication, three major projects were carried out in the period 1-9 2011: Mercator hardware and electronics web store, development of mobile applications, and development of mobile web portal. 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 two projects bring us closer to the customers at each step via mobile communication devices as we offer them a simple and quick overview of the most convenient contents.

Websites and web stores

In March 2011, Mercator's web store with technical consumer goods was launched. In cooperation with the web store, we also introduced web payment with the green and gold Mercator Pika card. In June 2011, we set up the web portal "Mmm Recepti" ("Yummy Recipes") which offers the visitors numerous recipes by renowned chefs and also allows publishing user recipes. In August 2011, we set up the Smurfs website, allowing the visitors to trade their 3D Smurfs playing cards, play "Smurfastic" games, and find out more about the history of Smurfs and events at Mercator centers. Beautique, Modiana, and Intersport are also active on social networking sites.

Activities at social networking sites

The prize contest "Thirsty? Have some refreshment!" was successfully carried out and completed. Over 30,000 users took part. On Facebook, we set up an entry site addressing new visitors, and added two tabs: Mercator hardware and electronics web store and Smurfs web page. Using a special application "Call the result", we promoted the Mercator hardware and electronics web store. We used Facebook as one of the key media for communication with the users regarding our mobile applications; this included a special application for the mobile phones. Advertising on Facebook has proven a very successful tool.



Companies operating in foreign markets are also active on the Facebook network. The most active profile is that of Mercator center Banja Luka which already includes 46 thousand members. The customers learn about our offer through prize contests and announcement of events and special offers or campaigns invite them to our stores.

Early in 2011, we also upgraded the communication plan and our presence on the Twitter social network. Through short prize contests, providing information on local events, and direct participation in communication with other users, we build a positive awareness of the Mercator brand.

Mobile applications and mobile websites

In February 2011, the first in a series of mobile applications for smart phones was developed, called "Prodajna mesta" ("Stores"), which allows the user to search for the closest Mercator store, including information on working hours, given the user's location and the time of the query. Additional functionality of the application allows the user to access the service My Pika which is primarily available on-line. In August, we started to connect the

mobile communication which includes mobile applications and the mobile website adapted for viewing on various types of mobile phones.

In May 2011, mobile version of some key contents of the central web portal was developed. Mobile websites display the content in a way that is fully adapted to tablet computers and smart phones.

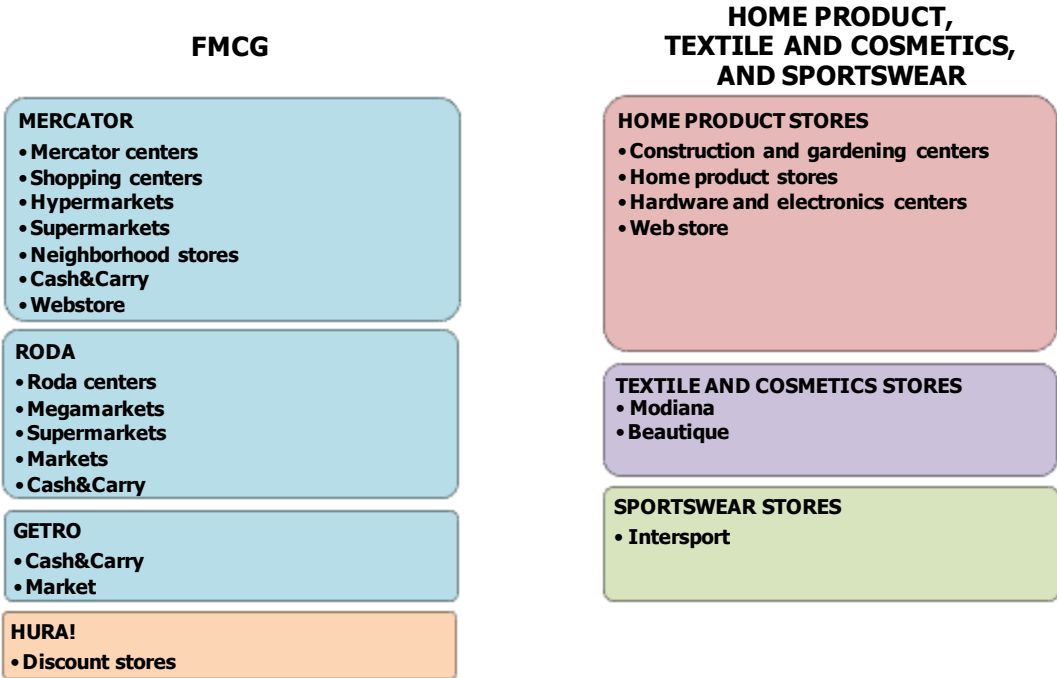
Monitoring Mercator presence in digital media

As of January 2011, we established a web clipping system for regular monitoring of Mercator's appearance on the Internet; the key target is to allow Mercator to respond to contents published in digital media as well, not only in classic media.

Store Formats

By expanding its retail network to Southeastern European countries, Mercator is entering markets of various economic maturity. In order to best adapt to the needs of the customers on these markets and to improve our responsiveness regarding the offer of high-quality goods at reasonable prices, a multi-level store brand strategy (Mercator, Hura!, Getro, Roda), and within the multi-format strategy, a wide range of store formats were developed at Mercator. These are intended to cater to major, previously planned shopping trips as well as minor, daily or occasional shopping for fast-moving consumer goods, but also for home products, textile and cosmetics, and sportswear.

Brands and store formats operating within the Mercator Group:



Composition of retail units as at September 30th 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	14	13	6	2	1	4	61	289,423	188,024
Supermarkets	62	17	21	12	5	-	-	117	169,619	109,654
Neighbour stores	401	63	47	7	73	2	-	593	257,029	151,154
Comfort stores	1	-	1	1	-	-	-	3	6,215	3,669
Getro market	-	-	23	-	-	-	-	23	12,518	7,986
Cash & Carry	13	4	16	-	-	-	-	33	141,223	100,348
Hard discount stores	12	-	-	-	-	-	-	12	9,774	6,971
Restaurants	20	7	-	2	1	-	-	30	9,296	5,302
M Holidays	12	-	-	-	-	-	-	12	222	222
TOTAL FMCG program	542	105	121	28	81	3	4	884	895,318	573,331
Home program	63	13	12	-	3	-	-	91	134,752	74,140
Furniture program	30	1	-	-	1	-	-	32	32,515	24,246
Total home program	93	14	12	-	4	-	-	123	167,267	98,386
Clothing program and drugstores	94	17	31	12	1	-	-	155	67,910	57,104
Clothing program	74	9	31	8	1	-	-	123	64,219	54,030
Drugstores and perfumeries	20	8	-	4	-	-	-	32	3,691	3,074
Intersport	32	9	29	9	2	2	-	83	51,286	39,625
TOTAL specialised programs	126	26	60	21	3	2	-	238	119,196	96,729
Franchise stores	225	-	51	-	-	-	-	276	35,852	49,787
TOTAL with franchise stores	986	145	244	49	88	5	4	1,521	1,217,632	818,232

Development of New Technological Solutions

Mercator is an innovative retailer. In terms of development of store formats, this includes implementation of state-of-the-art technology and equipment in sales facilities, which make the shopping experience easier and more pleasant. The following activities took place in the period 1-9 2011: development of info stands for selected categories of cosmetics; installing wine vending corners at select hypermarkets; installation of self checkout machines in hypermarket in Belgrade; testing the fruit and vegetable moistening system; testing the digital price tags at the point of sale; preliminary testing of magnifying glasses on shopping carts; and examining the introduction of smaller self checkout machines appropriate for smaller formats.

Development of New Store Concepts

Refurbishment of the Maximarket department store

On October 5th 2011, the refurbished Maxi department store was opened. Refurbishment took place consistently with the newly devised store and marketing concept, according to which Maxi is a cult, or legendary, destination for quality shopping. The refurbished Maxi will become the leading venue for haute fashion shopping, expressing the individual's lifestyle, a place of inspiration, entertainment, shopping, quality, and services, as well as an environment for socializing.

Convenience stores

Today, time is at a premium for every consumer. Therefore, we developed a new format of an urban convenience store that allows saving time and effort while shopping for a particular item. The first such store was opened on June 22nd 2011 at Kongresni trg, Ljubljana. Program mix of the store fully reflects the needs of the target customer (employees of nearby buildings, high school and college students, and passers-by running various errands), as well as the characteristics of the micro-location (offer appropriate also for nearby residents and tourists). Special features of the store include in particular the attractive offer of quality convenient products, a wide offer of fresh products, various coffee beverages, well stocked deli section, a corner offering typical



Slovenian products, and a smaller department with basic alimentary and non-alimentary products intended predominantly for the nearby residents.

Eco house

One of the goals of pursuing sustainable development at Mercator is to erect the first environmentally friendly or green store in Slovenia. It will represent a development concept that will include all fields of development. This specimen store will span approximately 900 square meters. The offer of this environmentally friendly store will combine an extensive and profound range of products in all categories which is characteristic of a supermarket, with the following highlights: wide offer of organic products of those categories that most commonly include healthy and safe food; locally grown products; fresh program and offer of fruit and vegetables. In the period 1-9 2011, floor plan and technology for the store were intensively prepared. Also in progress are the preparation of the visual identity of the store and development of new environmentally friendly technological solutions that will be installed in the Eco house.

Strategic projects and refreshment of FMCG offer

Activities of strategic projects "Refreshment of the offer of market program in Slovenia" and "Establishing a hardware and electronics store chain", as presented in the semi-annual report, were carried on in the third quarter.

FINANCIAL MANAGEMENT

Stable Financial Operations

Mercator Group net financial debt amounted to EUR 1,093,323 thousand at the end of the third quarter; as at June 30th 2011, it stood at EUR 1,075,107 thousand. Relative to the same period of last year, Mercator Group financial liabilities rose by 6.9 percent in the period 1-9 2011.

in 000 EUR	September 30 th 2011	December 31 st 2010	Index Sep. 30 th 2011/ Dec. 31 st 2010
Non-current financial liabilities excl. other financial liabilities	855,660	674,375	126.9
Current financial liabilities excl. other financial liabilities	320,594	391,482	81.9
Derivative financial instruments (liabilities)	4,224	2,478	170.5
Financial liabilities including derivative financial instruments	1,180,479	1,068,335	110.5
Cash and cash equivalents	15,283	20,766	73.6
Derivative financial instruments (assets)	225	70	321.0
Available-for-sale financial assets	3,851	3,959	97.3
Loans and deposits	67,797	94,459	71.8
Financial assets	87,155	119,254	73.1
NET FINANCIAL DEBT	1,093,323	949,081	115.2
Net financial debt / Gross cash flow from operating activities	6.28	5.58	112.5
Net financial debt / Fair value of real estate	63.7%	56.6%	112.6

Diversifying the Sources of Financing

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

In the period 1-9 2011, the company Poslovni sistem Mercator, d.d., completed the drawing of the following major credit lines:

- In March 2011, the company completed the drawing of a syndicated loan in the amount of EUR 130 million.
- On March 9th 2011, the company signed a long-term assignable loan (Ger.: Schuldschein-Darlehen) agreement for an amount of EUR 58 million.
- In September 2011, the company completed the drawing of a syndicated loan in the amount of EUR 137.6 million. The syndicated credit facility was divided into two tranches: tranche A has a maturity of four years and requires repayment of principal in a single amount; tranche B has a four-year maturity, with semi-annual principal repayment. Ten commercial banks based in Slovenia and abroad were involved in the syndicated loan.

Financing costs

The value of 6-month EURIBOR as at the end of 2010 was at 1.227%; EURIBOR reached its highest value in July when it peaked at 1.831%. This means a nearly 50-percent increase in the reference interest rate relative to the beginning of the year, which spells more expensive loans from commercial banks for the company. This also affected the Mercator Group as more expensive loans increased the interest expenses, which in turn had an impact on business results.

Debt to equity and current to non-current financial liability ratio

As at September 30th 2011, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.32. The ratio is a quotient between equity, which includes share capital as reported in financial statements and long-term provisions, and net financial debt.

In the period 1-9 2011, Mercator Group succeeded in improving the composition of financial liabilities by maturity. The share of non-current financial liabilities as at September 30th 2011 amounted to 72.7 percent (65.9 percent as at June 30th 2011).

Ratio of variable to fixed or hedged financial liabilities

As at September 30th 2011, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 43.4 % : 56.6 %. In the period 1-9 2011, Mercator Group exercised EUR 175 million of interest rate swaps, and EUR 175 million of interest rate caps, thus hedging a major part of its financial liabilities from mounting interest rates.

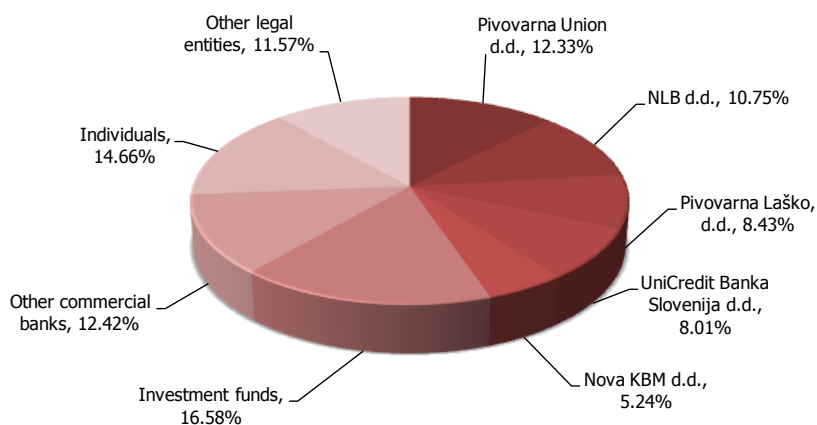
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at September 30th 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	15,555

Ownership structure of the company Poslovni sistem Mercator, d.d., as at September 30th 2011:



Major Shareholders

As at September 30th 2011, the following ten largest shareholders combined owned **62.80 percent** of the company:

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 Societe Generale-Splitska banka, d.d.	Croatia	210,180	5.58%
6 Nova KBM, d.d.	Slovenia	197,274	5.24%
7 GB, d.d.	Slovenia	142,920	3.80%
8 Rodić M&B Trgovina, d.o.o.	Serbia	125,902	3.34%
9 Abanka Vipava, d.d.	Slovenia	103,400	2.75%
10 Radenska, d.d.	Slovenia	96,952	2.57%
Total		2,364,785	62.80%

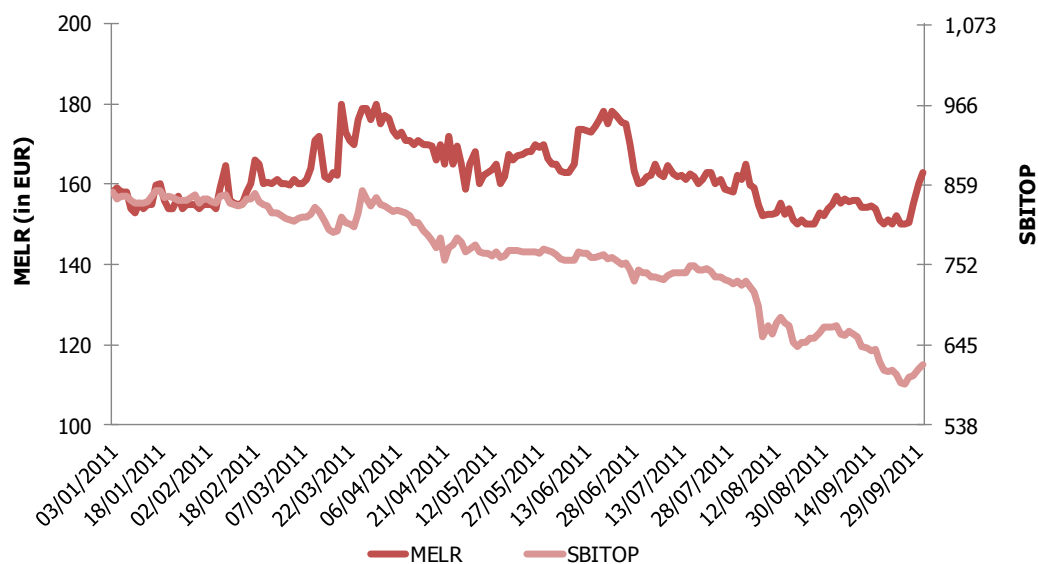
Foreign shareholders

As at September 30th 2011, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **16.95 percent**, which is 1.94 percentage point more than at the end of 2010.

Shares held by Management and Supervisory Board members as at September 30th 2011

	First and last name	Position	Number of shares	Share
Management board				
1	Žiga Debeljak	Management Board President	1,100	0.0292%
2	Mateja Jesenek	Senior Vice President	1,000	0.0266%
3	Melita Kolbezen	Senior Vice President	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%
		Total	2,190	0.0582%
Supervisory Board				
1	Robert Šega	Supervisory Board Chairman	0	0.0000%
2	Jadranka Dakič	Deputy Supervisory Board Chairwoman	0	0.0000%
3	Štefan Vavti	Supervisory Board member	0	0.0000%
4	Kristijan Verbič	Supervisory Board member	0	0.0000%
5	Matjaž Kovačič	Supervisory Board member	0	0.0000%
6	Miro Medvešek	Supervisory Board member	0	0.0000%
7	Mateja Širec	Supervisory Board member	36	0.0010%
8	Jože Cvetek	Supervisory Board member	2,000	0.0531%
9	Janez Strniša	Supervisory Board member	0	0.0000%
10	Ivica Župetič	Supervisory Board member	0	0.0000%
11	Sandi Leban	Supervisory Board member	0	0.0000%
12	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	2,036	0.0541%

Movement of closing price per MELR share in the period 1-9 2011, compared to the movement of the SBITOP index



Key information for the shareholders

	September 30 th 2011	December 31 st 2010	Index
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)	613,753,843	593,797,430	103.4
Market value of share (in EUR)	163.00	157.70	103.4
Book value per share (in EUR)	221.73	221.76	100.0
Minimum close rate in the period (in EUR)	150.00	131.20	114.3
Maximum close rate in the period (in EUR)	180.00	171.50	105.0
Average close rate in the period (in EUR)	162.06	154.14	105.1
Earnings per share (in EUR)*	12.3	9.9	124.2

* The indicator is adjusted to the annual level

Market capitalization is calculated as the product of the number of shares entered into Court Register as at the end of the period, and the market price per share as at the end of the period.

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

Dividend policy

At the 17th regular Shareholders Assembly held on June 22nd 2011, the resolution on the payment of dividends in the amount of **EUR 8.00** per share was adopted.

Approved capital

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

Treasury shares

As at September 30th 2011, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-9 2011, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Investor relations

In the period 1-9 2011, the company Poslovni sistem Mercator, d.d., conducted the following investor relations activities:

- On April 21st 2011, Mercator took part in the Days of Slovenian Capital Market held for promotion of Slovenian companies among domestic and international portfolio investors. The promotion included individual meetings of companies with the investors and financial analysts. Mercator was presented to the investors at individual meetings where operations of the Mercator Group in 2010 were presented, along with the medium term business plan for the period 2011-2015.
- On May 3rd 2011, Mercator took part in the presentation of companies listed in the Southeastern European stock exchanges. The event, organized by the Ljubljana Stock Exchange, Vienna Stock Exchange, and the Wood Investment Bank, took place in Stockholm, Sweden, and it was intended to present the companies to investors and

stock market analysts from Scandinavian countries. The key issue was a review of Mercator Group operations in 2010 and medium term business plan for the period 2011-2015.

- In the period 1-9 2011 Mercator participated twice in the webcast company presentation to investors and stock market analysts. The events were organized by the Ljubljana Stock Exchange.

Support to the process of disposal of a majority interest of company stock

The company Management Board is providing support, subject to possibilities provided by legislation and other restrictions, to the sale of majority shareholding of company Poslovni sistem Mercator, d.d., conducted by a consortium of shareholders, as the Board feels that consolidation of ownership composition is in the best interest of the company. The Management Board is conducting all activities to protect the interests of the company and the Mercator Group, consistently with its duties as specified by the relevant legislation. The company regularly informs shareholders about any major aspects of such activities through the stock market electronic information system.

RISK MANAGEMENT

In the period 1-9 2011, Mercator Group carried on the analysis of current and potential new risks, and the implementation of planned measures to hedge such risks. A lot of attention was paid to the management of the risk of a drop in purchasing power due to persistently low volume of demand in retail in all markets of our operations, risks pertaining to competition, and the risk of credit, liquidity, and foreign exchange risk. We also implemented the established risk management measures in all local markets.

Management of key risks in the period 1-9 2011

Business Risks

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

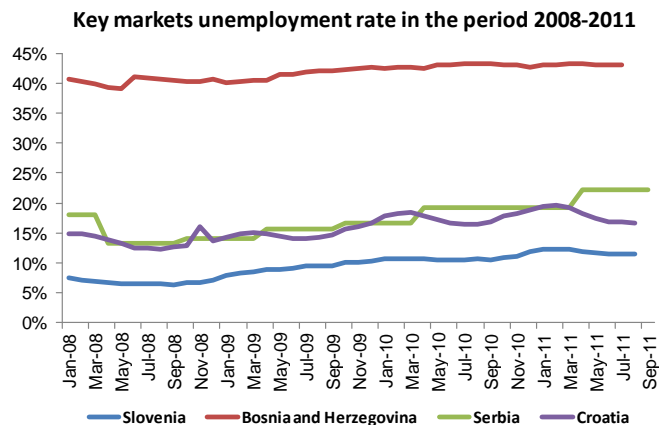
Risks in the operations of trade companies increase as a result of economic conditions due to changes in the shopping behaviour of the consumers, and particularly due to a drop in their purchasing power. The key indicator of purchasing power and the sense of security on the part of the consumers is the unemployment rate. In recent months, this category has reached the highest levels in the last five years in the key markets of Mercator operations. Consumer confidence is low, and an increasing share of the population expects further worsening of their financial position, which means that the trend of rationalizing the spending and shopping behaviour has become a permanent feature.

Business risks are also aggravated by unpredictable reactions by the competitors, changes in economic policies, foreign exchange fluctuations, and changes in the prices of tradable commodities.

Risk of a decline in purchasing power

Assessment of the risk of a decline in purchasing power (size of market) due to challenging economic conditions.

Unemployment rate as the key lever of increase in the risk of lower purchasing power of the general population has reached in recent months the highest levels of the last five years. In Slovenia, unemployment rate started to rise in the second half of 2008. At the end of 2010, several insolvency proceedings were instituted at major companies, which bore a major impact on the increase of the unemployment rate at the end of 2010 and in the first months of 2011. Unemployment rate was then



stabilized and it has remained at approximately the same level. For key foreign markets of Mercator operations, information from publicly available sources is much less accurate and up-to-date. The key lever of increase in the risk of lower purchasing power is the increase of the unemployment rate. According to the last measurement, unemployment rate in Serbia has risen considerably to the highest figure (22%) since 2008. In Croatia, too, unemployment in the first half of 2011 was higher than in the corresponding period of the year before, reaching 19%. Unemployment rate in Bosnia and Herzegovina was very high even before the economic crisis. Then, it increased additionally to reach an average of 43%.

Risks of sub-optimum marketing mix and effects of the competitive environment

Assessment of risk based on market conditions and Mercator's position in the Group's market of operations.

At Mercator Group, we are regularly monitoring the perception of key elements of the marketing mix and in the period 1-9 2011, we further pursued the implementation of the measures adopted to mitigate the risk of sub-optimum marketing mix and effects of the competition. Marketing mix is being adapted through the strategic project "Refreshment of the offer of market program in Slovenia" which aims to further adapt our offer to match the needs of our consumers.

Mercator Group allocated a considerable amount of funds for price investments in the period 1-9 2011, in order to sink retail prices and thereby maintain the purchasing power of the consumers. Hence, it effectively committed a part of its profit margin for offsetting the negative pressure on prices, introduced by higher prices of strategic raw materials. Lower prices will improve competitiveness of pricing and bring Mercator closer to the consumers who cut the value of their spending during the crisis.

Risks in the supply process

Assessment of global impact on Mercator supply processes.

In the first nine months of 2011, food prices have soared in particular, as a result of the changes at the commodity exchange (wheat, sugar etc.) and heavy dependence on the price of energy (oil). In 2011, we have carried on the well thought-out purchasing/supply policy, selecting proven and reliable supply sources and choosing various suppliers in each category in order to diversify or hedge the risk.

Financial risks

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

Major changes in global financial markets took place in the period 1-9 2011. The debt crisis that has impeded access to financing to growing number of countries in Euro zone in recent months represents the main risk in further recovery of the European economy. It has also resulted in more pessimistic atmosphere and expectations of both businesses and consumers, and above all, increased uncertainty in financial markets. In the Euro zone, economic growth in the second quarter was lower than laid out in the spring forecasts by the European Commission.

Credit risk in wholesale

Assessment of the risk that receivables from business partners resulting from deferred payment will only be settled partly or not at all.

In the period 1-9 2011, we saw an increase in payment defaults with some of our wholesale customers, which was mainly a result of impeded financing, for them. Mercator thus continued to restrict any deferral of payment without a first rate insurance.

Mercator Pika card credit risk

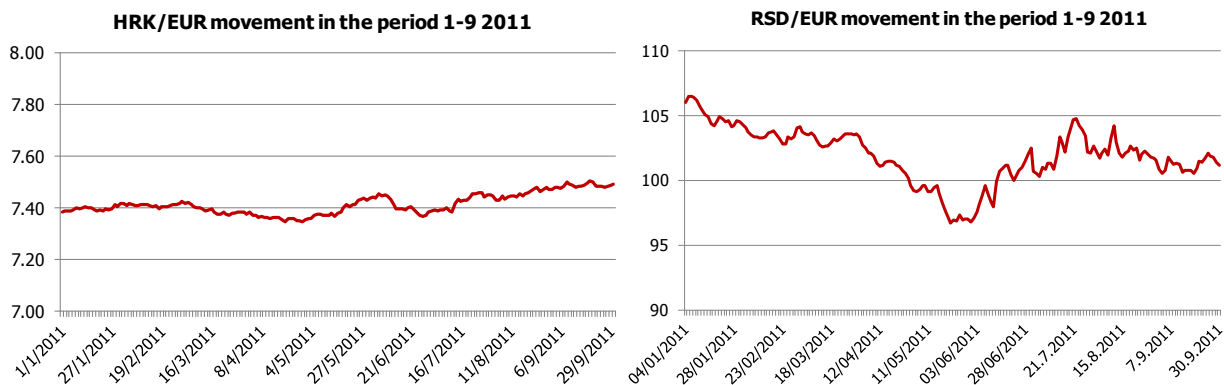
Assessment of the Mercator Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all).

In the period 1-9 2011, we carried on the implementation of measures adopted to mitigate credit risk pertaining to the Mercator Pika card.

Currency risk

Assessment of the loss of economic benefit due to changes in exchange rate.

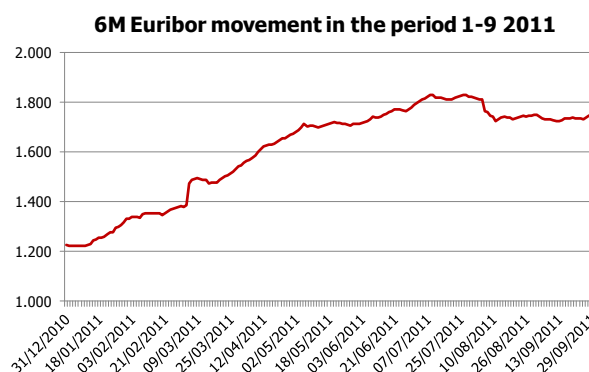
In the period 1-9 2011, the average exchange rate of the Croatian kuna was HRK 7.42 per 1 EUR; in the period 1-9 2010, the exchange rate was at HRK 7.26 per 1 EUR. Average exchange rate for the Serbian dinar was at RSD 101.92 per 1 EUR; average rate of the Serbian dinar in the equivalent period of 2010 was at RSD 101.32 per 1 EUR. Besides the measures already in place, no additional measures to hedge the foreign currency risk were required.



Interest rate risk

EURIBOR interest rate is subject to market fluctuations and it is changing daily, which can lead to increased financing costs.

In the period 1-9 2011, variable interest rate, the 6-month EURIBOR, rose from 1.227% to 1.753% (an increase of 42.9 percent), which resulted in higher interest expenses for the Mercator Group. In order to manage the interest rate risks, Mercator Group exercised EUR 175 million of interest rate swaps, and EUR 175 million of interest rate caps in the period 1-9 2011, thus hedging a major part of its financial liabilities from mounting interest rates.



Liquidity risk

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

In the period 1-9 2011, Mercator Group further pursued restructuring of current financial liabilities into non-current liabilities. In the period, we signed the highest syndicated loan in the history of the company operations, in the total amount of EUR 137.6 million, and drew on this credit facility. The ratio between non-current to current financial liabilities has improved from 63.0% : 37.0% (as at the end of 2010) to 72.7% : 27.3% (as at September 30th 2011).

Operational risks

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

Strategic operational risks

Risks of pursuit and attainment of the specified strategy and integration of companies into the Group.

Consistently with the strategic goals of the Group, we have carried on our activities to extend and adapt the strategy of expansion, particularly in foreign markets in 2011.

Category management operational risks

Risks related to delivery failures, increase in the prices of traded commodities, and seasonal effects.

Risks related to increase in prices of products at the commodity exchanges included, as expected, increase in prices in the period at hand. As a result, suppliers announced new, higher price lists. All price lists were also processed by our standard procedures which also include negotiations with suppliers on the prices announced and the date when changes would be effective. Following the approval of the price list, the prices of these products were defined at a competitive level. In order to improve our competitiveness, we adopted the measure of freezing the retail prices of Mercator private label products in some categories until June 30th 2011 (blue line fresh meat, milk and dairy products, generics, and Grosuplje Bakery products). After July 1st 2011, new prices for these products were defined

consistently with the principles of category management. Risks of delivery failures were not recorded in extent over the defined tolerable thresholds.

IT operational risks

Risk of failure of the central IT systems.

In order to manage this risk, we started to actively set up a third system space in Slovenia and Bulgaria that will include equipment intended for higher reliability and availability of key IT systems. In Albania, proactive establishment of backup copies of key elements of the IT system was commenced in the period at hand in order to manage this risk.

Environmental risks

Risk of inefficient use of electric energy.

We conducted the project of establishing the SAP PM module that will provide efficient management of technologies that consume the most electric energy in internal processes. A set of environmental characteristics was defined for property, plant, and equipment, as the basis for records on six sample locations. A set of internal and external environmental documents was prepared, for which central collection and access will be provided to all users.

Activities of implementing the application for environmental indicator monitoring SAP BI OK at the Mercator Group companies are in progress as planned. The first subsidiary to launch fuel data management is Mercator - S, d.o.o.

Regarding alternative energy sources and cutting the energy costs, a decision was made regarding the establishment of co-production of electric energy at all major trade facilities.

We replaced the current lighting in the garage, outdoor parking lot, and elements of the corporate visual identity on Mercator buildings.

Gradual transition to the systems of heating with non-fossil fuels is currently in progress.

Application for the public tender for co-financing of the projects of efficient use of electric energy by businesses (in the economy) for the period 2011-2013 has been prepared.

Mercator Group risk assessment

Despite further aggravation of economic circumstances, which is reflected in operating and financial risks, total exposure of the Mercator Group as at September 30th 2011, compared to the end of 2010, according to current estimates, remains **moderate**.

Any further aggravation of economic conditions and impact thereof on Mercator Group operations could result in further negative effect on risk exposure. Given the high level of uncertainty regarding the future development of economic conditions, no reliable estimate can be provided presently in this regard.

SUSTAINABILITY REPORT

WE CARE

Mercator operations are sustainable and responsible, creating a healthy and safe future for the people and the environment.

The fundamental principle of sustainable development is that our needs today should be satisfied in a way that does not threaten the future of the generations to come. As of 2011, this has become the guiding principle for Mercator Group. As one of the largest retailers in the region, we declare the responsibility, need, and commitment to make our conduct and business decisions consistent with the principles of sustainable development understood as a balance of business policies in the following fields:

- corporate social responsibility;
- environmental protection; and
- economic sustainability.



WE CARE ABOUT OUR CUSTOMERS

Care for the customers is Mercator's core and fundamental principle. Therefore, our marketing activities will be planned and conducted, in compliance with the marketing strategy laid down, with consideration of the trends and needs of our customers. These activities will reflect Mercator commitment to offering environmentally friendly products and services, and to promote environmental awareness and environmentally friendly activity. We shall continue to pay particular attention to all processes and procedures of providing food safety for products in our aisles, and to bring the information on our offer closer to the customers through innovative approaches.

Strategic GOALS

Care for food safety.

Activities accomplished in the period 1-9 2011

- Plan of regular controls included 594 internal controls, of which 217 were quick controls (a new type of control) and 17 were extraordinary controls.
 - Quality control was conducted for 382 alimentary products (1530 control samples) of our private labels. Sensory evaluation of over 320 products was conducted in the process of selecting new products.
 - Preparations for ISO 22000 standard audit have been commenced. All HACCP studies and pertaining documentation have been updated.
 - The process of removal and withdrawal was updated.
 - IT support for control monitoring, elimination, and internal inspection control was updated.
 - System for recording non-compliance in the process of food safety management is currently being developed.
 - We are creating a database and developing methodology based on systematically collected data on sales item quality, which will provide the basis for assessment of suppliers.
 - In February 2011, we completed the process of placing the wine vending corners at select Mercator hypermarkets in Slovenia.
- Introduction of environmentally friendly formats, standards, and technologies at our stores.

- We completed the test of fruit and vegetable moistening system implementation, which confirmed the reduction of waste.
- Also in the process of development is a dispensing machine that will offer local products and allow more rational use of packaging.
- We took an introductory tour of an example of the first green store which employs environmentally friendly solutions that would also be appropriate for Mercator Eco House.
- Process of the purchase of info stand that will be powered by renewable energy sources exclusively is currently under way.
- Digital price tags are being tested at three stores.

Marketing activities related to the offer of environmentally friendly and well-priced products and services, and informing and educating the consumers about the environmentally friendly activities.

Slovenia:

- In September 2011, a special flyer was distributed to present to the consumers the independent line of organic products, called Mercator Bio. The brand rests on the components of quality, local origin, reasonable price, and convenience. Currently, the line includes 23 products that can be tested by the consumers at numerous tasting and presentation stands at our stores.
- As at the end of March 2011, we launched the project "Local" ("Lokalno"), the purpose of which is to inform the consumers about the offer of locally grown products at our stores and to emphasize the importance of local production.
- We carried on the activity of "Trading in" ("Staro za novo") of used products at hypermarkets and technical consumer goods stores.
- In March 2011, we launched the events emphasizing "green", and prepared several "Green corners" at our shopping centers.
- In 2011, we received 9 gold medals from the Chamber of Commerce and Industry of Slovenia for the quality of nine kinds of bread by our Grosuplje bakery.
- In February 2011, we successfully completed the customer loyalty project during which our customers bought 223 thousand pieces of organic bathroom textile.
- At the end of June, we worked with the Finance daily paper to organize a contest for draft solutions for packaging made of environmentally friendly raw materials, which would be appropriate for products of farmers and minor growers.

Southeastern European markets:

- In June 2011, we took part in the national campaign "Let us Clean Up Serbia".
- Organic linen bags were presented to customers at our hypermarkets.
- In June 2011, used battery disposal equipment was installed at Mercator centers Belgrade and Novi Sad. These batteries will be taken to further processing according to ecological standards.
- In Bosnia and Herzegovina, the project "A minute before midnight for our planet" ("Minuta do dvanaest za našu planetu") was carried out in cooperation with elementary schools in May.

WE CARE ABOUT EMPLOYEES



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

Number of employees

	Number of employees as at Sep. 30 th 2011	Number of employees as at Dec. 31 st 2010	Number of employees Sep. 30 th 2011/ Dec. 31 st 2010	Number of employees based on hours worked in the period Jan.-Sep. 2011
Poslovni sistem Mercator, d.d.	10,570	10,606	99.7	9,944
Mercator IP, d.o.o.	340	295	115.3	272
Mercator Trade Slovenia	10,910	10,901	100.1	10,217
Mercator - S, d.o.o.	4,142	3,968	104.4	4,010
Mercator - H, d.o.o.	3,617	3,600	100.5	3,289
Mercator - BH, d.o.o.	862	826	104.4	848
M - BL, d.o.o.	266	262	101.5	248
Mercator - Mex, d.o.o.	-	326	-	-
Mercator - CG, d.o.o.	1,467	1,103	133.0	1,475
Mercator - B, e.o.o.d.	228	279	81.7	223
Mercator - A, sh.p.k.	132	121	109.1	109
Mercator Trade Southeastern Europe	10,714	10,485	102.2	10,202
Mercator - Optima, d.o.o.	15	16	93.8	13
Mercator real estate	15	16	93.8	13
Eta, d.d.	-	187	-	177
Mercator - Emba, d.d.	112	119	94.1	113
M - Energija, d.o.o.	4	-	-	1
Intersport ISI, d.o.o.	317	324	97.8	308
Intersport S-ISI, d.o.o.	108	114	94.7	103
Intersport H, d.o.o.	259	264	98.1	249
Intersport BH, d.o.o.	63	66	95.5	59
Modiana, d.o.o., Slovenia	597	616	96.9	559
Modiana, d.o.o., Serbia	133	142	93.7	122
Modiana, d.o.o., Croatia	169	169	100.0	163
Modiana, d.o.o., Bosnia and Herzegovina	79	79	100.0	70
Other operating activities	1,841	2,080	88.5	1,923
MERCATOR GROUP	23,480	23,482	100.0	22,354

In the period 1-9 2011, we wish to point out the 5th traditional Key Employee Conference which was attended by over 1,200 employees. We held team-building events for management teams at various levels, in Vogel and in Ohrid, Macedonia. 1,707 current and retired Mercator employees and their families spent their holidays at 105 Mercator holiday facilities in Slovenia and in Croatia.

Strategic GOALS

Leadership development.
Employee education and training.
Motivation and
rewards/compensation.
Staffing.
Hiring and training of sales
personnel.

Activities accomplished in the period 1-9 2011

- We organized Store Manager Schools in Slovenia for the field of Mercator Operations Slovenia and in Serbia for other markets.
 - We organized education and training in leadership, communication, and healthy lifestyle for the management of the field Mercator Operations Southeastern Europe.
 - The second regional team-building event was held in Ohrid. It was attended by 83 senior and executive employees/managers of the Mercator Operations Southeastern Europe companies. On Vogel, team-building workshops were attended by 22 teams that included a total of 357 managers.
 - We carried on the expansion of the training network which already includes 346 trainers in Slovenia and 228 trainers in the field of Mercator Operations Southeastern Europe.
 - We held 25 IT Friday workshops in Slovenia.
 - The 4th International Mercator Business Academy was completed.
 - In Serbia, the school for prospective managerial staff was launched with the idea to provide additional knowledge and skills to talented employees in order to prepare them for assuming more demanding tasks and positions. 76 employees from operational and administrative departments took part in the program.
 - In Slovenia, we developed the web version of occupational safety and fire safety training. 973 administrative workers have already taken part in this training program and passed the test.
 - 19 internal instructors were presented medals for successful work at the minor festive event.
 - In Slovenia, we launched the revision of the e-library titled Mercator Growing Book.
 - We held the 5th Key Employee Conference at Cankarjev Dom in Ljubljana; it was attended by over 1,200 key employees.
 - We signed annual agreements for practical training with 19 Slovenian high schools. Working with these schools, we were awarded a grant of EUR 100 thousand through a Slovene Human Resources, Development and Scholarship Fund tender, for practical training and work pursuant to relevant education programs and curricula.
- Dialogue with employees and social partners.
- Occupational health and safety.
- We held the 33rd Mercatoriada at which 130 teams, or 810 athletes competed in eight disciplines.
 - We completed the annual interviews with all employees.
 - We helped organize and conduct the election for the Works Council in Slovenia; the Council includes 31 members.
 - Company newsletter was issued in Slovenia, Serbia, Bosnia and Herzegovina, Croatia, and Montenegro; we also published a special edition on corporate values.
 - We adopted the measures to improve the organizational/corporate climate and employee satisfaction in Slovenia. We also devised a biannual plan of work for the Health Promotion project.
 - Mercator Humanitarian Foundation provided aid to 99 employees; total value of the aid provided was EUR 69 thousand.
 - All Mercator Group employees received the Dice of values with six corporate values.

- 1,574 current and 133 retired Mercator employees and their families spent their holidays at 105 Mercator holiday facilities in Slovenia and in Croatia.
- The Family-Friendly Company project included allowing extraordinary paid leave to 260 parents of first-grade elementary school students on the first day of school. Since September 1st 2011, additional day of paid leave is also awarded to parents taking their children to kindergartens. In September, 155 employees exercised this option.
- E-mail addresses for collecting statements, questions, and proposals by employees were established at all companies of the Mercator Group.
- At the 4th session of the Works Council of the Poslovni sistem Mercator, d.d., Mercator Management Board and Works Council signed an agreement of worker participation in management. The signed agreement regulates in more detail the way in which worker rights to participation in management are exercised.

WE CARE ABOUT NATURE



We are systematically establishing a relation to our natural environment through energy-efficient construction or refurbishment of stores and office buildings, efficient use of energy, and careful waste management, as well as by considering other environmental aspects. Providing sustainable logistics and proactively conveying the right information to our customers, presenting our environmentally friendly offer.

Strategic GOALS

Reducing consumption of power and fuels for heating by implementing savings measures, by current maintenance, and by investments.

"Eco house" project implementation.

Cutting the use of natural resources and waste generation.

Activities accomplished in the period 1-9 2011

- We replaced the lighting in the garage, outdoor parking lot, and the entire corporate visual identity equipment on Mercator facilities.
- We signed an agreement to take part in a public tender for co-financing projects to improve the efficiency of use of electric energy in the economy, for the period 2011-2013.
- With regard to alternative sources of energy and cutting energy costs, we prepared the final report on test co-production at Mercator center Celje and, based on positive results, adopted the decision to establish co-production in all major shopping centers.
- We gradually made the transition to heating systems using non-fossil fuels.
- Project plans, preliminary investment evaluation, and immediate commencement of work on the project were confirmed. In recent months the floor plan and technology for the store were prepared with high commitment. This will lay down the basis for all further activities on the project. Also in progress are the preparation of the visual identity of the store and development of new environmentally friendly technological solutions that will be installed in the Eco house.
- Pursuing the concept of waste separation, additional locations for waste collection were provided at various retail facilities.
- We carried out activities to manage the environmental risk of inefficient use of electric energy.
- We efficiently reduced noise emissions.

	<ul style="list-style-type: none"> • We prepared the technological procedure of waste battery management, complete with photo and graphic material that allows the users a better understanding of the problems at hand. • We also regulated the use of water from the water course and obtained the water course permit for the Maxi department store. • We defined the criteria for environmental aspects as a part of the project "The Best Store" in the field of sustainable development.
<p>Rising use of environmentally friendly freight vehicles.</p>	<ul style="list-style-type: none"> • We increased the use of environmentally friendly freight vehicles.
<p>Relocation of logistics service to energy-efficient and people- and environmentally friendlier, suitably located facilities outside urban settlements.</p>	<ul style="list-style-type: none"> • External audit of the environmental management system according to the ISO 14001 standard was carried out; no non-compliance was found. • We successfully complied with our commitments laid down in the Retail Environmental Sustainability Code within the review of the international organization Retailers' Environmental Action Programme. • We carried out activities of the project SAP PM Module Set-up, which will allow efficient management of technologies, equipment, and buildings that are the source of environmental impact.

WE CARE ABOUT SOCIAL ENVIRONMENT



Mercator vision of sustainable development and corporate social responsibility dictates specific activities that contribute to the development of both local and regional environment and which improve the quality of people's lives. Sponsorships and donations and inclusion in the socially beneficial campaigns are an important part of Mercator Group strategy of comprehensive corporate responsibility. We support and make possible humanitarian, sports, cultural, scientific, educational, and other projects.

Strategic GOALS

Sponsorships and donations.

Activities accomplished in the period 1-9 2011

Slovenia:

- Central humanitarian campaign Together Against Cancer involved contributing funds to the Ljubljana Institute of Oncology for the purchase of a new ultrasound equipment for brachytherapy of prostate cancer; supporting the activity of the Society of Oncology Patients of Slovenia; and taking part in the organization of the cycling race The Wheel of Life.
- We sponsored many cultural and sports events. Major events among these were: Kurentovanje carnival in Ptuj; Slovenian Drama Week; Istria carnival; Idrija Lace Festival; Senior Citizen's Festival; competition in sales techniques; Golden subscription at the Cankarjev Dom; Ljubljana Festival; concerts at the Slovenian Philharmonics; stand-up comedy; exhibition at the City Museum of Ljubljana; City of Women Festival; International Graphics Biennial; Finals of the Ski Jumping World Cup in Planica; international alpine ski competition; table tennis international open championship of Slovenia; hike along the wire; bicycle race across Slovenia; basketball team of the Slovenian Association of Paraplegics; Maja Pintar, a para (wheelchair) table tennis player; Running for Hope, organized

by Europa Donna; Rowing World Championship; and humanitarian football spectacle in Bilje. We donated funds to Foundation for Promoting Child Development; Humanitarian Society Materina Dušica for the Children's House; we provided a year's worth of aid to twelve families in social and economic hardship; we donated funds to Friends of Youth Association of Slovenia for the project Wink at the Sun; to the Okrešelj fund for children of fatally injured rescue team members; we donated funds to Paediatric Clinic for sports equipment for rehabilitation and recovery of children.

Southeastern European markets:

- In Serbia, we donated funds to the residents of Kraljevo in the aftermath of the earthquake, to the general hospital of Vrbas and Subotica, and to the largest children's festival in Serbia; we were also the golden sponsor of the Serbian Olympic Committee.
- In Croatia, we donated funds to the Center of Education and Upbringing in Zagreb; four shelter homes for children in Osijek, Split, Zagreb, and Rijeka; paediatric hospital in Osijek; and Neven and Neriodla kindergarten in Rovinj. We also supported the Statehood Day, and co-financed the erection of the pavilion of cultural and artistic events in Zagreb.
- In Bosnia and Herzegovina, we donated funds to the Clinical Center in Banja Luka; and sponsored the second international "Salon of Taste" in cooperation with the Slovenian Embassy; and the Children's Festival.
- In Montenegro, we donated funds to the Food Bank and the Institute of Education and Rehabilitation of Children and Youngsters from Podgorica.
- In Albania, we donated alimentary products to families of police officers who died on assignment.

Transparent communication.

- The fifth international press conference of the Mercator Group was held. Mercator's Management Board presented business results for the year 2010 and major projects for the future. Press conference was attended by nearly 100 journalists.
- Constant and open communication with our stakeholders expresses our responsibility towards the society. At the level of individual Mercator companies and at the corporate level, we shared relevant information on a continuous basis and in a deliberate and planned manner, as well as responded to questions by reporters and customers.

WE CARE ABOUT PARTNERSHIP WITH OUR SUPPLIERS



Partnership with suppliers is a key element in expressing sustainable responsibility in business. We work with the suppliers to build solid partnerships based on transparent and straightforward transactions, while making every effort to establish an environmentally friendly supply chain.

Strategic GOALS

Working with proven suppliers.

Activities accomplished in the period 1-9 2011

- Our aisles include products by 351 small Slovenian producers and growers.
- In Bosnia and Herzegovina, the project Our Garden ("Naša Bašta"), in cooperation with the Association of Cooperatives of the Federation of Bosnia and Herzegovina, successfully linked fruit and vegetable growers with Mercator. Thus, we are offering fresh fruit and vegetables grown by numerous growers from across the country. The goal of the project is sustainable economic development through the offer of competitive agricultural products and products of domestic food industry, as well as extended organic farming and processing and sale of agricultural products of a higher processing level. In June, we took part actively in the Organic Growing Fair.

WE CARE ABOUT QUALITY



In order to provide all-around quality, our activities include implementation of international management systems, preventive action of internal control, efficient documentation and non-compliance management, implementation of corrective/preventive measures, and monitoring key quality indicators.

Strategic GOALS

Maintenance, implementation, and certification of international quality management systems at Mercator Group companies by independent certified bodies.

Management of documentation, records, non-compliance, and corrective and preventive measures at the Mercator Group.

Systemic monitoring of quality management processes at the Mercator Group.

Establishing IT support for managing the quality management system requirements at the Mercator Group.

Activities accomplished in the period 1-9 2011

- Mercator Group currently holds 13 active certificates. We carried out seven independent reviews/audits of quality systems, of which 6 were regular audits at the companies Poslovni sistem Mercator, d.d., and Mercator - H, d.o.o.; and one was an extension audit at Mercator - Emba, d.d.
- Mercator Standards collection currently includes 2,492 valid documents. 742 new or updated documents were published in the period 1-9 2011. We archived the documents of the company Eta, d.d., and updated the administration of the documents in the Mercator Standards Collection. We are operatively managing any non-compliance and carrying out corrective and preventive measures.
- We carried out activities to harmonize and unify the process of monitoring environmental indicators for particular environmental aspects at all companies of the Mercator Group. Electric energy is the most important environmental aspect in terms of cost. In the period 1-9 2011, we succeeded in cutting power consumption by 4.7 percent relative to the corresponding period of 2010, and in decreasing the specific carbon dioxide emissions of fuels by 5.2 percent.
- We extended and improved the applications for council meeting and Mercator Standard management. We set up the Projects portal that allows simple management of records of projects. Application for management of non-compliance has been developed; it is currently in the test production stage. We presented the application to key users and commenced the tests. SAP-BI-OK application was extended to allow the analysis of environmental indicators of particular companies of the Mercator Group.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group for the period 1-9 2011 have been prepared in compliance with International Financial Reporting Standards and they are unaudited.

CONDENSED CONSOLIDATED INTERIM 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 1-9 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. (until 1.6.2011), Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., M - nepremičnine, d.o.o., and M - Energija, d.o.o. (since 1.8.2011);
- **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., Republic of Kosovo, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., 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	30/9/2011	31/12/2010	30/9/2010
ASSETS			
Non-current assets			
Property, plant and equipment	1,903,375	1,870,428	1,856,873
Investment property	3,615	3,894	3,833
Intangible assets	49,282	52,626	48,960
Deferred tax assets	9,347	8,700	8,071
Loans and deposits	65,815	77,113	58,342
Available-for-sale financial assets	3,851	3,959	4,368
	2,035,285	2,016,720	1,980,446
Current assets			
Inventories	315,248	322,081	284,173
Trade and other receivables	270,785	231,871	280,082
Current tax assets	1,608	-	7,599
Loans and deposits	1,981	17,346	19,523
Derivative financial instruments	225	70	110
Cash and cash equivalents	15,283	20,766	15,542
	605,130	592,134	607,030
Total assets	2,640,415	2,608,854	2,587,476
EQUITY			
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	270,194
Fair value reserve	194,194	200,187	198,774
Retained earnings	9,566	6,671	6,315
Profit for the period	27,062	30,396	27,951
Currency translation reserve	(59,577)	(62,295)	(54,954)
Equity attributable to owners of the Company	794,205	797,919	801,046
Non-controlling interest	229	246	250
Total equity	794,434	798,165	801,296
LIABILITIES			
Non-current liabilities			
Trade and other payables	2,513	2,447	2,872
Financial liabilities	855,660	674,375	565,930
Deferred tax liabilities	50,478	51,269	51,776
Provisions	32,686	35,709	33,230
	941,337	763,800	653,808
Current liabilities			
Trade and other payables	579,826	642,666	584,867
Current tax liabilities	-	5,892	9,914
Financial liabilities	320,594	395,853	534,362
Derivative financial instruments	4,224	2,478	3,229
	904,644	1,046,889	1,132,373
Total liabilities	1,845,981	1,810,689	1,786,180
Total equity and liabilities	2,640,415	2,608,854	2,587,476

Condensed consolidated income statement

EUR thousand	1-9 2011	1-9 2010
Revenue	2,175,723	2,038,796
Cost of sales	(2,040,382)	(1,897,882)
Gross profit	135,341	140,914
Administrative expenses	(77,630)	(75,325)
Other income	14,431	12,488
Results from operating activities	72,142	78,077
Finance income	5,777	7,958
Finance expense	(41,734)	(49,453)
Net finance expense	(35,957)	(41,495)
Profit before income tax	36,185	36,582
Income tax expense	(9,136)	(8,637)
Profit for the period	27,049	27,945
Profit for the period, attributable to:		
Owners of the Company	27,062	27,951
Non-controlling interest	(13)	(6)

Condensed consolidated statement of comprehensive income

EUR thousand	1-9 2011	1-9 2010
Profit for the period	27,049	27,945
Other comprehensive income		
Foreign currency translation differences for foreign operations	2,714	(21,170)
Change in fair value of available-for-sale financial assets	-	(1,105)
Effective portion of changes in fair value of cash flow hedges	(2,376)	1,088
Revaluation of property	-	19,864
Deferred tax	636	(3,910)
Other comprehensive income for the period	974	(5,233)
Total comprehensive income for the period	28,023	22,712
Total comprehensive income for the period, attributable to:		
Owners of the Company	28,040	22,716
Non-controlling interest	(17)	(4)

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	Equity attributable to owners of the Company	Non-controlling interest	Total equity
Balance at 1 January 2010	157,129	198,872	(3,235)	270,194	186,029	8,697	21,232	(33,782)	805,136	254	805,390
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	27,951	-	27,951	(6)	27,945
Other comprehensive income	-	-	-	-	12,745	3,193	-	(21,172)	(5,234)	2	(5,232)
Total comprehensive income for the period	-	-	-	-	12,745	3,193	27,951	(21,172)	22,717	(4)	22,713
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividends to owners	-	-	-	-	-	(26,807)	-	-	(26,807)	-	(26,807)
Transfer of profit for the period to retained earnings	-	-	-	-	-	21,232	(21,232)	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	(5,575)	(21,232)	-	(26,807)	-	(26,807)
Total transactions with owners	-	-	-	-	-	(5,575)	(21,232)	-	(26,807)	-	(26,807)
Balance at 30 September 2010	157,129	198,872	(3,235)	270,194	198,774	6,315	27,951	(54,954)	801,046	250	801,296

EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Equity attributable to owners of the Company	Non-controlling interest	Total equity
Balance at 1 January 2011	157,129	198,872	(3,235)	270,194	200,187	6,671	30,396	(62,295)	797,919	246	798,165
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	27,062	-	27,062	(13)	27,049
Other comprehensive income	-	-	-	-	(4,024)	2,284	-	2,718	978	(4)	974
Total comprehensive income for the period	-	-	-	-	(4,024)	2,284	27,062	2,718	28,040	(17)	28,023
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividends to owners	-	-	-	-	-	(29,785)	-	-	(29,785)	-	(29,785)
Transfer of profit for the period to retained earnings	-	-	-	-	-	30,396	(30,396)	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	611	(30,396)	-	(29,785)	-	(29,785)
Changes in ownership interests in subsidiaries											
Sale of subsidiary	-	-	-	-	(1,969)	-	-	-	(1,969)	-	(1,969)
Total transactions with owners	-	-	-	-	(1,969)	611	(30,396)	-	(31,754)	-	(31,754)
Balance at 30 September 2011	157,129	198,872	(3,235)	270,194	194,194	9,566	27,062	(59,577)	794,205	229	794,434

Condensed consolidated statement of cash flows

EUR thousand	1-9 2011	1-9 2010
Cash flows from operating activities		
Gross cash flow from operating activities	130,602	129,886
Change in inventories	1,945	7,877
Change in trade and other receivables	(43,092)	(91,522)
Change in trade and other payables	(72,028)	66,323
	17,427	112,564
Interest paid	(39,347)	(32,930)
Income tax paid	(8,656)	(9,019)
Net cash from operating activities	(30,576)	70,615
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	(2,201)	-
Acquisition of property, plant and equipment and investment property	(82,338)	(57,984)
Acquisition of intangible assets	(3,126)	(6,823)
Loans and deposits made	-	(43,472)
Proceeds from sale of property, plant and equipment and investment property	6,773	7,295
Proceeds from sale of intangible assets	1	675
Disposal from subsidiary, net of cash disposed of	9,985	-
Interest received	2,957	2,424
Dividends received	54	-
Loans and deposits received	27,166	3,018
Net cash used in investing activities	(40,729)	(94,866)
Cash flows from financing activities		
Proceeds (repayments) from borrowings	95,261	50,746
Dividends paid	(30,022)	(26,807)
Net cash from financing activities	65,239	23,939
Net (decrease) increase in cash and cash equivalents	(6,066)	(313)
Cash and cash equivalents at the beginning of the year	20,766	16,844
Effect of exchange rate fluctuations on cash and cash equivalents	583	(990)
Cash and cash equivalents at the end of the period	15,283	15,542

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-9 2011, Mercator Group generated EUR 2,175,723 thousand of revenue, which is 6.7 percent more relative to the period 1-9 2010. Majority of Group revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. Revenue rose by 0.8 percent in Slovenia; in foreign markets, the growth amounted to 16.2%.

Cost of sales

Mercator Group cost of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 2,040,382 thousand in the period 1-9 2011. Depreciation and amortisation in the period 1-9 2011 amounted to EUR 60,883 thousand (EUR 58,597 thousand in the corresponding period of 2010).

Gross profit

Gross profit for the period 1-9 2011 amounted to EUR 135,341 thousand. The share of gross profit in revenue is 6.2%. In order to maintain the purchasing power of the consumers, Mercator Group allocated significant amounts for investments in prices in the period at hand. Given the cost of sales that remained on par with the last year's figures, this resulted in relatively lower gross profit in the period 1-9 2011 compared to the equivalent period of the year before.

Administrative expenses

Mercator Group's administrative expenses in the period 1-9 2011 amounted to EUR 77,630 thousand, which is 3.1 percent more relative to the period 1-9 2010. Lower growth in administrative expenses is a result of rationalization of business operations in challenging economic times.

Results from operating activities

In the period 1-9 2011, Mercator Group's results from operating activities reached EUR 72,142 thousand, which is 7.6 percent less relative to the period 1-9 2010.

Finance income and expenses

Finance income amounts to EUR 5,777 thousand. It mostly pertains to income from regular interest on financing.

Finance expenses amount to EUR 41,734 thousand in the period at hand. They mostly pertain to expenses for regular interest on borrowings from commercial banks.

Profit before income tax

In the period 1-9 2011, Mercator Group's Profit before income tax stood at EUR 36,185 thousand, which represents a decrease of 1.1 percent relative to the period 1-9 2010.

Profit for the financial period

In the period 1-9 2011, Mercator Group's profit for the financial period amounted to EUR 27,049 thousand, which is 3.2 percent less relative to the period 1-9 2010.

Gross cash flow from operating activities

Mercator Group's gross cash flow from operating activities in the period 1-9 2011 amounted to EUR 130,602 thousand, which is 0.6 percent more relative to the period 1-9 2010.

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 162,928 thousand in the period 1-9 2011, or 4.7 percent more relative to the period 1-9 2010.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at September 30th 2011 amounted to EUR 2,640,415 thousand, which is EUR 31,561 thousand more than as at the end of 2010.

As at September 30th 2011, the value of Mercator Group non-current assets amounted to EUR 2,035,285 thousand, which is EUR 18,565 thousand more than as at December 31st 2010. The biggest share of non-current assets is represented by property, plant and equipment, accounting for 96.1% (EUR 1,956,272 thousand) of the total figure. Their value rose by EUR 29,324 thousand relative to the end of 2010. The change in value in the period 1-9 2011 is related to investments, depreciation and amortization, and disposal of unnecessary (non-core) and non-viable property, plant, and equipment.

As at September 30th 2011, the value of Mercator Group current assets amounts to EUR 605,130 thousand, which is EUR 12,996 thousand more than as at the end of 2010. The largest share thereof includes inventories (52.1%) and trade and other receivables (44.7%).

Equity and liabilities

Mercator Group equity as at September 30th 2011 amounts to EUR 794,434 thousand, which is EUR 3,731 thousand or 0.5% less than as at the end of 2010. The decrease mostly pertains to payment of dividends.

As at September 30th 2011, total financial liabilities amount to EUR 1,176,254 thousand, which is EUR 106,026 thousand more than as at the end of 2010. Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 1,093,323 thousand as at September 30th 2011 (December 31st 2010: EUR 949,081 thousand). The increase in financial liabilities is a result of year-on-year dynamics in the trade industry.

As at September 30th 2011, provisions amounted to EUR 32,686 thousand. Compared to the end of 2010, provisions have decreased by EUR 3,023 thousand.

Trade and other payables as at September 30th 2011 amounted to EUR 582,339 thousand, which is EUR 62,774 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.

As at September 30th 2011, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 85.3%, which is 7.8 percentage points more than as at the end of 2010.

FINANCIAL REPORT 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 related companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, Albania, Republic of Kosovo, and Macedonia.

The company has a double role: it is predominantly engaged in fast-moving consumer goods retail and wholesale; 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	30/9/2011	31/12/2010	30/9/2010
ASSETS			
Non-current assets			
Property, plant and equipment	1,002,580	1,014,704	1,018,843
Investment property	3,615	3,894	3,942
Intangible assets	9,317	9,652	9,526
Deferred tax assets	8,503	8,216	8,133
Loans and deposits	952	286	237
Investment into equity of subsidiaries	618,659	618,813	613,580
Available-for-sale financial assets	3,557	3,547	3,960
	1,647,182	1,659,112	1,658,222
Current assets			
Inventories	146,963	153,926	138,688
Trade and other receivables	181,385	158,906	179,835
Current tax assets	7,198	5	-
Loans and deposits	40,983	48,849	11,007
Derivative financial instruments	225	70	110
Cash and cash equivalents	4,211	3,829	1,282
	380,965	365,585	330,922
Total assets	2,028,147	2,024,697	1,989,144
EQUITY			
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	238,015	238,015	238,013
Fair value reserve	187,864	194,435	179,751
Retained earnings	12,620	3,612	3,093
Profit for the period	34,279	36,806	34,424
	825,544	825,634	808,046
LIABILITIES			
Non-current liabilities			
Trade and other payables	2,447	2,447	2,872
Financial liabilities	647,477	456,547	340,144
Deferred tax liabilities	40,051	40,814	40,569
Provisions	27,102	29,459	28,265
	717,077	529,267	411,849
Current liabilities			
Trade and other payables	301,235	341,239	302,993
Current tax liabilities	7,341	5,759	5,736
Financial liabilities	172,726	320,320	457,290
Derivative financial instruments	4,224	2,478	3,229
	485,526	669,796	769,248
Total liabilities	1,202,603	1,199,063	1,181,098
Total equity and liabilities	2,028,147	2,024,697	1,989,144

Condensed income statement

EUR thousand	1-9 2011	1-9 2010
Revenue	1,210,405	1,239,647
Cost of sales	(1,108,220)	(1,123,076)
Gross profit	102,185	116,571
Administrative expenses	(41,408)	(47,724)
Other income	9,346	9,178
Results from operating activities	70,123	78,025
Finance income	8,461	2,425
Finance expense	(36,660)	(37,488)
Net finance expense	(28,199)	(35,063)
Profit before income tax	41,924	42,963
Income tax expenses	(7,645)	(8,539)
Profit for the period	34,279	34,424

Condensed statement of comprehensive income

EUR thousand	1-9 2011	1-9 2010
Profit for the period	34,279	34,424
Other comprehensive income		
Change in fair value of available-for-sale financial assets	-	(1,012)
Effective portion of changes in fair value of cash flow hedges	(2,376)	1,088
Revaluation of property	-	17,850
Deferred tax	773	(3,585)
Other changes	(2,981)	-
Other comprehensive income for the period	(4,584)	14,341
Total comprehensive income for the period	29,695	48,764

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 equity
Balance at 1 January 2010	157,129	198,872	(3,235)	238,013	168,156	7,872	19,281	786,088
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	34,424	34,424
Other comprehensive income	-	-	-	-	11,594	2,746	-	14,341
Total comprehensive income for the period	-	-	-	-	11,594	2,746	34,424	48,764
Transactions with owners, recognised directly in equity								
Dividends paid	-	-	-	-	-	(26,807)	-	(26,807)
Transfer of profit for the period to retained earnings	-	-	-	-	-	19,281	(19,281)	-
Balance at 30 September 2010	157,129	198,872	(3,235)	238,013	179,751	3,093	34,424	808,046
EUR thousand	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total equity
Balance at 1 January 2011	157,129	198,872	(3,235)	238,015	194,435	3,612	36,806	825,634
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	34,279	34,279
Other comprehensive income	-	-	-	-	(6,571)	1,987	-	(4,584)
Total comprehensive income for the period	-	-	-	-	(6,571)	1,987	34,279	29,695
Transactions with owners, recognised directly in equity								
Dividends paid	-	-	-	-	-	(29,785)	-	(29,785)
Transfer of profit for the period to retained earnings	-	-	-	-	-	36,806	(36,806)	-
Balance at 30 September 2011	157,129	198,872	(3,235)	238,015	187,864	12,620	34,279	825,544

Condensed statement of cash flows

EUR thousand	1-9 2011	1-9 2010
Cash flows from operating activities		
Gross cash flow from operating activities	97,584	102,058
Change in inventories	6,963	39,402
Change in trade and other receivables	(39,186)	(46,144)
Change in trade and other payables	(30,959)	(42,962)
Interest paid	(35,801)	(34,676)
Income tax paid	(7,341)	(8,768)
Net cash from operating activities	(8,740)	8,911
Cash flows from investing activities		
Acquisition of subsidiaries	(8,889)	(26,403)
Acquisition of property, plant and equipment and investment property	(18,736)	(24,210)
Acquisition of intangible assets	(2,408)	(1,242)
Loans and deposits made	7,199	(77,503)
Proceeds from sale of subsidiary	10,000	-
Proceeds from sale of property, plant and equipment and investment property	4,552	9,555
Proceeds from sale of intangible assets	-	4
Interest received	4,035	2,121
Dividends received	54	-
Deposits received	-	67,517
Net cash used in investing activities	(4,193)	(50,160)
Cash flows from financing activities		
Proceeds from borrowings	43,337	70,061
Dividends paid	(30,022)	(29,987)
Net cash from (used in) financing activities	13,315	40,074
Net increase (decrease) in cash and cash equivalents	382	(1,175)
Cash and cash equivalents at the beginning of the year	3,829	2,457
Cash and cash equivalents at the end of the year	4,211	1,282

Notes to condensed interim financial statements

Notes to condensed income statement

Revenue

In the period 1-9 2011, company Poslovni sistem Mercator, d.d., generated EUR 1,210,405 thousand of revenue. Majority of company revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods.

Cost of sales

Cost of sales at the company, which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,108,220 thousand in the period 1-9 2011.

Gross profit

Gross profit for the period 1-9 2011 amounts to EUR 102,185 thousand. The share of gross profit in revenue is 8.4%.

Administrative expenses

Administrative expenses at the company in the period 1-9 2011 amount to EUR 41,408 thousand.

Results from operating activities

In the period 1-9 2011, company result from operating activities amounted to EUR 70,123 thousand.

Finance income and expenses

Finance income amounts to EUR 8,461 thousand. It mostly pertains to income from regular interest on financing.

Finance expenses for the relevant period amount to EUR 36,660 thousand, of which a major portion relates to expenses from interest paid to commercial banks.

Profit before income tax and profit for the financial period

In the period 1-9 2011, profit before income tax of the company amounted to EUR 41,924 thousand, while profit for the financial period amounted to EUR 34,279 thousand.

Notes to condensed statement of financial position

Assets

Company Mercator, d.d., assets as at September 30th 2011 amounted to EUR 2,028,147 thousand, which is EUR 3, 450 thousand more than at the end of 2010.

As at September 30th 2011, the value of company's non-current assets amounted to EUR 1,647,182 thousand, which is EUR 11,930 thousand less than as at December 31st 2010. The biggest share of non-current assets is represented by property, plant and equipment, accounting for 61.7% (EUR 1,015,511 thousand) of the total figure. Their value dropped by EUR 12,739 thousand relative to the end of 2010. The change in value in the period 1-9 2011 is related to investments, depreciation and amortization, and disposal of unnecessary (non-core) and non-viable property, plant, and equipment.

As at September 30th 2011, the value of company's current assets amounts to EUR 380,965 thousand, which is EUR 15,380 thousand more than as at the end of 2010. The largest share thereof includes inventories (38.6%) and trade and other receivables (47.6%).

Equity and liabilities

As at September 30th 2011, company's equity amounted to EUR 825,544 thousand.

As at September 30th 2010, total financial liabilities amounted to EUR 820,203 thousand, which is EUR 43,336 thousand more than as at the end of 2010.

As at September 30th 2011, provisions amounted to EUR 27,102 thousand. Compared to the end of 2010, provisions have decreased by EUR 2,357 thousand.

Trade and other payables as at September 30th 2011 amounted to EUR 303,682 thousand, which is EUR 40,004 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.

Related party transactions

There are two groups of related 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).

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, November 3rd 2011