



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



(Proud to be a part of a big story.)

Poslovni sistem Mercator, d.d.
Management Board

August 2008

KAZALO

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SUMMARY

Despite harsh business conditions, Mercator Group continues its successful pursuit of the 2008 business plan.

In the first half of 2008 Mercator Group generated EUR 1.3 billion of net revenues from sales, which is 14.3 percent more than in the same period last year. Group's net profit amounted to EUR 22.3 million which is 55.1 percent of the planned figure for the entire year 2008, and 4.8 percent more than in the first half of last year.

As at June 30th 2008, the Group had 21,333 employees, which is 440 more than at the beginning of the year.

Business conditions in all markets of Mercator's operations were harsh in the second quarter of 2008, mostly as a result of negative effects of inflation and the global financial crisis.

Slovenia: Lower profits due to negative effects of inflation

In the first half of 2008, the company Mercator, d.d., increased its net revenues by 5.5 percent compared to the same period last year; at the same time, net profit declined by 4 percent. This drop in business performance primarily results from the following negative inflationary effects:

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

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

- implementation of cost rationalization and productivity improvement project,
- optimization of logistics activities,
- opening of new retail units and refurbishment of the existing ones,
- category management activities and increasing the competitiveness of our offer,
- growth of the share of non-alimentary goods in total sales, particularly hardware, electronics, and sportswear.

Foreign markets: High revenue growth and better performance

Net revenues from sales abroad amounted to EUR 426 million in the first half of the year, which is a third of total Group revenues. Revenues abroad rose by approximately 40 percent compared to the same period last year; coupled with reaping of the economies of scale, this resulted in improved business performance abroad, and consequently at the level of the Group as a whole.

Foreign markets, too, saw high inflation and impacts of the global financial crisis in the first half of 2008; in addition, political situation in Serbia was rather unstable in this period as well. Yielding positive effects on operations abroad were aggressive development activities, opening of new retail units, appropriate marketing activities, and activities within the cost optimization program.

Implementation of investment plans unhindered despite the unfavorable conditions in financial markets

In the first half of 2008, the Group invested a total of EUR 124 million; at the annual level, over EUR 260 million of investment is planned. Unfavorable conditions in financial markets did not affect the implementation of investment plans, as the Group, in addition to a high level of solvency, has long-term partner relations with several bank groups; furthermore, the Group's own financial power and the capacity to generate cash flow has improved as well.

In the period at hand, the Group generated EUR 94.2 million of gross cash flow from operating activities before rent (earnings before interest, taxes, depreciation, amortization, and rent - EBITDAR), which is 14.4 percent more than in the relevant period in 2007, and 50.3 percent of the planned figure for the entire year 2008.

Anticipated business conditions in the second half of 2008

In the second half of 2008, operations in all markets are expected to remain exposed to harsh conditions. Negative effects of inflationary changes and global financial crisis will continue to adversely affect the scope and composition of consumption, while also causing inflationary pressures both on operating and financing costs. Hence, Mercator Group will be focused in the second half of 2008 on providing appropriately competitive offer for the consumers while carrying on the measures for cost rationalization and improved efficiency.

MAJOR EVENTS IN THE PERIOD I - VI 2008

DEVELOPMENT OF RETAIL NETWORK

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

- ✓ Mercator center Koper II, which includes a new Mercator hypermarket and a combined hardware and electronics store (January 23rd 2008);
- ✓ Refurbished Superette Soča in Celje (January 26th 2008);
- ✓ A modern hypermarket and an Intersport store in the Supernova shopping center in Rudnik; thereby, we extended our coverage of the Ljubljana area to its southern part, where we had hitherto not been present with such store format (March 20th 2008).
- ✓ Superette Škocjan (May 16th 2008).
- ✓ Supermarket Šmartno ob Paki, located in a shopping center (May 28th 2008).
- ✓ Refurbished Mercator Center Ptuj;, which is the second Mercator shopping center in the Ptuj area to have been refurbished and opened in the last six months (June 13th 2008).



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

- ✓ Mercator Center Niš, a major addition to our retail network in the southern part of Serbia; in this region, this facility may be the first shopping center of its kind (March 20th 2008);
- ✓ Intersport, Modiana, and Beautique drugstore in leased facilities in the Sremska Mitrovica shopping center (April 11th 2008), while the supermarket had already been opened on December 15th 2007.
- ✓ Superette Palić (May 30th 2008).
- ✓ The first Roda Cash & Carry in leased facilities in Belgrade (June 26th 2008).

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

- ✓ Expanded superette in Senj (April 4th 2008).
- ✓ Refurbished Mercator Center Osijek; as a part of the refurbishment, the hardware and electronics store area was shrunk and the resulting extra space was leased out to supplementary service providers (June 5th 2008).
- ✓ New Superettes in Umag and Pula (June 20th 2008).

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

- ✓ Supermarket Kalesija (March 29th 2008).
- ✓ Supermarket Sjenjak v Tuzli (April 25th 2008).

SUBSIDIARY FOUNDED IN BULGARIA

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

STRATEGIC ALLIANCES

- ✓ In December 2007, the company Mercator - BH, d.o.o., signed an agreement on strategic alliance with the companies Omega, d.o.o., Živinice, and Gadžo Comerc, d.o.o., Ilidža; thereby, Mercator acquired in January 2008 seven additional retail units.

CHANGES IN THE COMPOSITION OF THE MERCATOR GROUP

- ✓ On January 1st 2008, the company Presoflex, d.o.o., Croatia, was merged with the company Mercator - H, d.o.o.
- ✓ On January 1st 2008, the company Poslovni sistem Mercator, d.d., took over the operations of the company Pekarna Grosuplje, d.d., including all of its employees; the merger is planned for the year 2008.
- ✓ On April 3rd 2008, the company Poslovni sistem Mercator, d.d., acquired a 100 percent ownership share in the company Evolution, proizvodnja in trgovina (manufacturing and trade), d.d., Izola, thus acquiring landed property for development of a trade center in Izola.
- ✓ On May 13th 2008, the company Poslovni sistem Mercator, d.d., purchased from Society for Mental Health and Creative Leisure Time "Vezi", 100-percent ownership share of the company Naše Vezi, d.o.o., Štanjel, which was renamed on June 17th 2008 into Mercator IP, invalidsko podjetje (social enterprise), d.o.o., Ljubljana.
- ✓ In compliance with the Agreement on Strategic Alliance in the field of trade operations between Holding Rodić M&B, and Mercator, d.d., dated October 19th 2006, the company Poslovni sistem Mercator, d.d., purchased on June 4th 2008 an additional 12-percent ownership share in the company M-Rodić, d.o.o., Novi Sad. Before this transaction, the company Mercator, d.d., Ljubljana, held a 76 percent interest in the company M-Rodić,

d.o.o.; after the transaction, ownership share of the company Mercator, d.d., Ljubljana, in the company M-Rodić, d.o.o., amounts to 88 percent.

CORPORATE GOVERNANCE

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


MARKETING ACTIVITIES

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



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

- **Maxi Club's** humanitarian campaign titled **Sharing the Happiness with Others** was initiated by the club members who chose in December 2007 those humanitarian organizations to which **Maxi Club** would donate funds in January 2008. Hence, donations went to the **SOS Society** for aid to women and children victims of violence, **Paraplegic Society of the Ljubljana Region**, and the **Red Noses (Rdeči noski)**, a group that provides amusement for children in hospitals. Mercator's donation that totaled EUR 50 thousand, and cooperation of the **Maxi Club** members, will aid the listed societies in pursuing their noble missions.
- 
- On February 12th, ninth **Mercator Marketing Days** took place. The purpose of this event is to meet the business partners of the Mercator Group. This year, attendance totaled at 500, which included representatives of Mercator's major suppliers and business partners.

- As a response to the anticipated increase in the prices set by food producers, Mercator decided to additionally cut the margins and thus dropped the retail prices of some major household consumer products, or FMCG. Simultaneously, the private label project involves continuous search for new products that would offer the best price to quality ratio. Generic line, particularly, includes fast-moving consumer goods at the most favorable prices.
- Also in February, we announced on our website the **Mercator's comparative basket** that enables customers to compare product prices in Mercator stores and those of our competitors.
 
- On March 17th 2008, Mercator's **Call Center** commenced its operation. Our customers can dial a toll-free number 080 20 80 for information on Mercator Pika card transactions, retail units and working hours, products and campaigns, events taking place in retail units, as well as complaints and praises.
- At the end of April, we launched a major corporate campaign announcing the 60th anniversary of Mercator; this campaign shall continue in fall this year as well as in 2009. We took this occasion to thank everyone who has supported us through this period, as well as all who work with us and confide in us. Without them, this bit story that the campaign is focused on, would not have been possible.



Proud to be a part of a big story.

- In April, we introduced the activity **Discount on a Category**, which includes offering an at least 20 percent discount on an entire category on a particular day, each week.
- Also in April, we launched a new customer loyalty campaign called "**Collect and Select!**" which will last until August 2008. The customers are collecting sticker coupons to be eligible for purchasing appealing products and services at considerable discount.



- In January and May, we carried out two advertising campaigns for the **generic line** of Mercator's private label. The generic line is aimed at mitigating the effects of inflation on the customers; it also allows us to respond to the pressure of discount retailers.



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



KEY INFORMATION FOR THE SHAREHOLDERS

As at June 30th 2008, the average price per share of the company Poslovni sistem Mercator, d.d., as traded in the regular official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 245.69.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at June 30th 2008, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 213.71.

Basic net earnings per ordinary share, calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares, amounts to EUR 4.2.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the accounting period 1 - 6 2008, the following major events affected the operations of the Mercator Group:

- In July, we carried out an advertising campaign for the **generic line** of the Mercator private label; the campaign included a flyer and advertisements on TV and radio stations.
- On July 16th, we introduced a new sales promotion project called "**Locked Price**" which includes over 600 products whose prices are guaranteed not to be increased in the following six months.
- On July 17th 2008, we opened a new supermarket in Poreč, Croatia.
- On July 22nd 2008, we opened a supermarket Čapljina, Bosnia and Herzegovina, which includes several supplementary offer outlets.



FINANCIAL HIGHLIGHTS FOR THE PERIOD I - VI 2008

	Mercator Group				
	1-6 2007	Plan 2008	1-6 2008	Index 1-6 2008 / 1-6 2007	Index 1-6 2008 / Plan 2008
Net sales revenues (in EUR 000)	1,121,381	2,627,903	1,282,205	114.3	48.8
Operating profit (in EUR 000)	42,310	90,574	46,930	110.9	51.8
Profit before income tax (in EUR 000)	27,028	50,046	27,206	100.7	54.4
Profit for the financial period (in EUR 000)	21,306	40,556	22,337	104.8	55.1
Gross cash flow from operating activities (in EUR 000)	78,132	173,215	85,062	108.9	49.1
Gross cash flow from operating activities before rental expenses (in EUR 000)	82,365	187,165	94,205	114.4	50.3
Capital expenditure (in EUR 000)	50,812	263,529	116,312	228.9	44.1
Long-term financial investments (in EUR 000)	2,219	0	7,294	328.7	-
Return on equity *	6.6%	6.0%	5.9%	89.0	97.9
Return on sales	1.9%	1.5%	1.7%	91.7	112.9
Gross cash flow from operating activities / net sales revenues	7.0%	6.6%	6.6%	95.2	100.6
Gross cash flow from operating activities before rental expenses / net sales revenues	7.3%	7.1%	7.3%	100.0	103.2
Number of employees based on hours worked	18,436	20,770	20,383	110.6	98.1
Number of employees as at the end of the period	19,298	22,467	21,333	110.5	95.0

* The indicator is adjusted to the annual level.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry date	January 1 st 1990
Company share capital as at June 30 th 2008	EUR 157,128,514.53 EUR
Number of shares issued and paid-up as at June 30 th 2008	3,765,361
Share listing	Ljubljana Stock Exchange (Ljubljanska borza, d.d.) official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
Chairman of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

December 31 st 2007	June 30 th 2008
TRADE COMPANIES IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADE COMPANIES ABROAD	
M - H, d.o.o., Croatia (99.9 %)	M - H, d.o.o., Croatia (99.9 %)
Presoflex, d.o.o., Croatia (100.0%)	-
M - S, d.o.o., Serbia (100.0 %)	M - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (76.0 %)	M - Rodić, d.o.o., Serbia (88.0 %)
M - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	M - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - Mex, d.o.o., Montenegro (51.0 %)	Mercator - Mex, d.o.o., Montenegro (51.0 %)
Mercator Macedonia, d.o.o., Macedonia (100.0 %)	Mercator Macedonia, d.o.o., Macedonia (100,0 %)
Investment International, d.o.o., Macedonia (100.0 %)*	Investment International, d.o.o., Macedonia (100.0 %)*
-	Mercator - B, e.o.o.d., Bolgarija (100.0 %)*
NON-TRADE COMPANIES	
Pekarna Grosuplje, d.d. (98.4 %)	Pekarna Grosuplje, d.d. (98.8 %)
- Belpana, d.o.o., Croatia (100.0 %)	- Belpana, d.o.o., Croatia (100.0 %)
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
M - Emba, d.d. (100.0 %)	M - Emba, d.d. (100.0 %)
M - Optima, d.o.o. (100.0 %)	M - Optima, d.o.o. (100.0 %)
Interier, d.o.o. (97.6 %)	Interier, d.o.o. (97.6 %)
-	Evolution, d.d. (100.0 %)
-	Mercator IP, d.o.o. (100.0 %)

* The company has not yet commenced its business operations.

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

Vision

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

Mission

Our business is aimed at creating:

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

Corporate culture values

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

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

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

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

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

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

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

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

Strategic policies of the Mercator Group

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

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

Strategic goals

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

1. GROWTH OF NET SALES REVENUES FROM TRADE

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

2. TARGET MARKET SHARES

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

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

3. INVESTMENT AND SOURCES OF FINANCING

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

4. SUCCESSFUL BUSINESS PERFORMANCE AND EFFICIENCY

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

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1 - 6 2008

Harsh business conditions in all markets of Mercator Group's operations continued into the period 1 - 6 2008. Most notably, they included increase in fuel prices, which impaired the purchasing power of households, changing both the scope and the composition of their consumption (household consumption in the category of transport exceeded consumption in the category of food and non-alcoholic beverages).

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

The beginning of 2008 saw considerable swings in the interbank offered interest rate Euribor. The global financial crises also resulted in pressures on the interest rate margins.

Cost-push inflationary pressures were another aspect that has had a negative impact on our operations. In June 2008, annual growth of prices amounted to as much as 7.0 percent, which is the highest rate in the last five years. According to expert forecasts, the annual price growth is expected to slow down in the second half of 2008.

Slovenia

In 2007, economic growth in Slovenia was considerable, as high as 6.1 percent. For 2008, the growth is expected to slow down to 4.4 percent. Dynamic investment activity and growing exports are expected to remain the main propeller of economic growth.

Croatia

Economic growth in Croatia has been consistently high in the recent years - in 2007, it amounted to 5.6 percent, fueled primarily by high growth of household consumption and investment. The sector of industrial manufacturing made the biggest contribution to the GDP growth, while the share of construction which had strongly supported economic growth in the previous years due to infrastructural projects (construction of highways) declined somewhat. GDP growth is expected to remain high in 2008, as it is estimated to amount to 4.4 - 5.5 percent.

Serbia

Real GDP growth in 2007 amounted to 7.5 percent. It was fueled by high domestic demand which in turn relied on expansion of credit (debt) and high growth of labor compensation. Services are the fastest growing sector of the economy, particularly trade, financial services, transport, and communication. Economic growth is expected to drop to 5.5 percent in 2008, which is still considerably high. There are two main reasons for the drop in GDP growth: uncertainty of domestic political situation that drives away foreign investors, and more restrictive monetary policy employed by the central bank.

Bosnia and Herzegovina

Lower growth of debt and restricting growth of labor compensation in the public sector weakened the household consumption growth in 2007, although it remained at a reasonably high level. At the same time, domestic investment increased (major infrastructural projects), while foreign investment drove the growth of exports. Hence, economic growth in 2007 amounted to 5.5 percent. Aspects that are expected to slow down the GDP growth in 2008 are slower GDP growth in the Euro zone which is the target destination for most Bosnian exports; global financial crisis that could result in restriction of debt in Bosnia and Herzegovina as well; more restrictive central bank policy; and higher political risk. Towards the end of 2007, inflation rose quickly due to high prices of oil and food in the global markets; this trend was carried on into the beginning of 2008.

Montenegro

Montenegro's GDP, amounting to no more than USD 2.95 billion, has grown steadily in recent years. In 2007, growth reached 7 percent, while in 2008 it is estimated to amount to 6 percent. GDP growth is fueled mostly by household consumption and investment. Rapidly growing exports prevented an even higher GDP growth, as the growth rate of imports was several times higher than that of exports. On the production side, tourism saw a strong increase, as the number of tourists increased by over a third. The volume of manufacturing remained unchanged.

DEVELOPMENT AND INVESTMENT

- ✓ In the first half of 2008, Mercator Group's investment into property, plant, and equipment amounted to EUR 116,314 thousand, of which 33.9 percent was invested abroad. The most funds were allocated for construction of shopping centers and acquisition of landed property for shopping centers and hardware and electronics stores.

- ✓ New long-term financial investments in the period 1 - 6 2008 amounted to EUR 7,294 thousand, which is related to the acquisition of 100-percent ownership share in the company Evolution, d.d., Izola, the acquisition of 100-percent ownership share in the company Naše Vezi, d.o.o., Štanjel, and the acquisition of additional ownership share in the company Pekarna Grosuplje, d.d.

Investment breakdown

Country	Capital expenditure 1-6 2008 (in EUR 000)	Long-term financial investments 1-6 2008 (in EUR 000)	Total (in EUR 000)	Structure in %	Plan 2008 (in EUR 000)
Slovenia	76,916	4,219	81,136	65.6%	139,578
Serbia	10,447	3,072	13,519	10.9%	25,155
Croatia	24,622	0	24,622	19.9%	76,154
Bosnia and Herzegovina	3,691	0	3,691	3.0%	16,642
Montenegro	635	0	635	0.5%	6,000
Bolgaria	0	3	3	0.0%	0
TOTAL	116,312	7,294	123,606		263,529

MAJOR OPENINGS IN THE CURRENT PERIOD

SLOVENIA

- ✓ On January 23rd 2008, Mercator center Koper II was opened, with 5,150 square meters of total area and 203 parking spots. The new Mercator center is located in a former Emona Obala building which was refurbished to host a supermarket, hardware and electronics store with a gardening center, and café leased out to an external service provider.
- ✓ On March 19th 2008, we opened a hypermarket and Intersport in the NC Supernova in Rudnik, Ljubljana. The hypermarket extends over an area of 5,983 square meters, while the Intersport store has a total area of 1,704 square meters. To obtain the location for both stores, Mercator concluded a long-term lease contract; thus, Mercator's investment only amounted to final construction works in the interior and purchase of required equipment.
- ✓ On June 13th 2008, we opened the refurbished Mercator Center Ptuj, a facility with a total area of 5,861 square meters and 254 parking spots. The hardware and electronics store was relocated to Trade Center Ptuj, and the resulting vacant capacity was used to expand the hypermarket which now measures 3,020 square meters, or 1,389 more than before the refurbishment. Remaining available space was leased out to three supplementary service providers.

FOREIGN MARKETS

- ✓ On March 20th 2008, we opened Mercator Center Niš with a total area of 21,459 square meters and 502 parking spots; of these, 220 are roofed. The facility includes a hypermarket with an area of 5,767 m², Intersport, Fashion Avenue, Beautique, hardware and electronics store, restaurant, and 58 supplementary offer facilities extending over a total of 4,325 square meters; these are leased to other service providers. The company Mercator - S, d.o.o., signed a long-term lease agreement for the lease of the facility.
- ✓ On June 26th 2008, we opened the first Roda Cash & Carry center in Belgrade, in a leased facility. The center comprises 13,622 square meters of total area, and 8,300 square meters of sales area. There are twenty cashiers for individuals and 10 cashiers for businesses (legal entities). Special offer and packaging is intended for businesses which can now obtain all the supplies they need at one place at the most favorable prices.

MARKETING

Market share

Mercator Group market shares in the markets of its operations have not seen any considerable change in the period 1 - 6 2008, compared to the market shares in 2007.

Mercator Group Market shares by markets of operation

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

Source: market share in Slovenia - Mercator market share survey (a survey by Valicon - January 2008); market share abroad - various market research and Mercator estimates.

Marketing Strategy

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

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

Customer Relations Management

Mercator Pika card customer loyalty system

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

In the first half of 2008, there was a total of **1,184,949 Mercator Pika card holders in all markets combined**. In the period at hand, the number of Mercator Pika card holders increased by 106,113.

Mercator Pika card holders	Slovenia	Serbia	Croatia	BH	Total
as at December 31 st 2007	753,380	83,831	169,757	71,868	1,078,836
as at June 30 th 2008	789,584	111,918	198,667	84,780	1,184,949
new holders January - June 08	36,204	28,087	28,910	12,912	106,113

In Slovenia, the share of total retail revenues from purchases with the Mercator Pika card amounted to 50.4 percent (49.7 percent in 2007). The share of revenues with Mercator Pika card in the company M-Rodić, d.o.o., Serbia, is growing and currently amounts to 12.0 percent. In the last quarter of 2007, when the card was introduced in this company, this share was 3.4 percent. **The share of total retail revenues resulting from purchases with the Mercator Pika card in all markets of Mercator's operations amounted to 40.8 percent**, which is more than at the end of March 2008 (38.9 percent). Lower share of sales than in 2007 (43.8 percent) is mostly the result of including the Mercator Pika card purchases in the company M-Rodić, d.o.o., in 2008, as in this company, the activities related to the Mercator Pika card were only launched in October 2007.

In addition to the Pika Day held in all markets of Mercator Pika card operations at the end of the 18th bonus period, in January 2008, we organized various campaigns and events for the card holders, such as Pika special discounts, corporate double points once per month, and double points at opening anniversaries of individual stores. In all markets, the use of Mercator Pika card is communicated consistently with the new corporate visual identity, under the slogan **Collecting memorable beautiful moments**.

Mercator call center

As of the second half of March 2008, Mercator Pika card can contact Mercator through its call center. The advantages of a call center are the following: 24-hour availability, every day of the year; friendliness towards the customers - comprehensive help that is only one free phone call away; possibility to easily respond to any questions the Mercator Pika card holders may have with regard to the use of the card; centralization of customer interaction; high and fast response to calls; high level of services; friendly and efficient support to the Mercator Pika card holders and other customers; offering information on Mercator's offer and services; accepting proposals and opinions; individual approach and resolving the comments of each customer separately; all communication channels are supported (telephone, e-mail, fax, land mail, personal visits of customers); possibility to view the customer contact history and individual treatment of any requests and proposals of each customer individually; etc. On average, the call center receives over 400 calls per day; if only workdays are considered, number of calls averages at almost 600 calls per day.

Mercator web store

As a part of the Mercator web store revision, we conducted in the period 1 - 6 2008 a part of the activities of analyzing the current status, and commenced the preparations for the launching of hardware and electronics web store. Compared to the same period last year, Mercator web store operations have expanded, although not as much as in the period 2006/2007. Nominal value of sales rose by 13 percent, number of orders grew by 5 percent, while the value of an average shopping session (basket) rose by 7 percent and now amounts to EUR 103.

Maxi Club

In the period 1 - 6 2008, we upgraded the customer loyalty program. Members were sent monthly letters informing them of major events taking place in the store; furthermore, a range of attractive products were offered at discounted prices. As at June 30th 2008, Maxi Club had 6,720 Mercator Pika card holders. All members combined accounted for almost one half of total revenues resulting from purchases with the Mercator Pika card in the Maxi store.

Healthy lifestyle

In June 2008, we published the 9th issue of the Healthy Lifestyle ("Uživajmo zdravo") magazine which is intended for club members. They were also offered an event called "running activities", hosted by INTERSPORT running coach Urban Praprotnik. Sales promotion campaigns include several products each month which can be bought at a special discount by the club members. In May and June 2008, we carried out a prize competition

that included recruiting new members for the Healthy lifestyle by the current club members and Mercator employees. At the end of the second quarter of 2008, the Healthy Lifestyle club had 28,500 members. In the period 1 - 6 2008, over 11,000 new members signed up; the number of new members rose by 63 percent compared to the year 2007.

M mobil

In April 2008, we offered three M Mobil suites (including a phone) within the customer loyalty program called "Collect and Select". We also conducted a major promotional campaign in order to present to lowest rate on the pre-paid suite market in Slovenia. In June 2008, we launched a new phone that was seen off by a promotional campaign and convenient gifts. We have opened the sixth M mobil sales stand. At the end of June 2008, there were 11,387 M mobil suite users.

M Holidays

The M Holidays service includes marketing tourist arrangements in cooperation with the tourist agency Kompas. The customers can book their entire holiday in one of six M Holidays offices or at designated Kompas offices. In the period 1 - 6 2008, we issued two catalogues: ""May 1st 08 holidays and travels", and "Summer 08". Each month, attractive offers of travel arrangements are prepared and presented on a Mercator Hypermarket flyer and on the www.mholidays.si website. Each month, we also prepare affordable and interesting offers for Mercator Pika card holders. Three offers were also included in the customer loyalty program "Collect and Select".

Development of Private Label Lines

In the first half of 2008, Mercator Group carried on its activities to pursue the following goals:

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

In the period 1 - 6 2008, the following activities were carried out with regard to Mercator private label lines:

- **Mercator line:**
 - In the period 1 - 6 2008, we proactively carried on the redesign of **Mercator line** product packaging. At the end of June 2008, the line included 443 products, of which 365 products already featured the redesigned packaging with a blue stripe and appealing photos.
 - In April 2008, we started bundling selected products of the Mercator line into "multi-packs" and supported this move with efficient sales-promotion activities. Similar activities, including appropriate marketing support, will be carried out in the future.

- **Total Body Care:**
 - At the end of June 2008, the line included 55 products.

- **Generic line:**
 - This line of products continues to pursue a clearly defined goal: the lowest price in the market. At the end of June 2008, it included 27 products aimed at offering the best prices in the market. The products of the **generic line** are also present in the Hura! discount stores, and megamarkets and supermarkets Rodić in Serbia, since they are intended for the most price-sensitive customers.

- **Ambient line:**
 - The Ambient line is an upgrade to the **M-line** which includes products for home. The line has a new visual identity and it will be featured in the new store format called Home ("Dom"). As at end of June, the Ambient line included 6 products (the M-line included 87 products and the end of June).

- **Lumpi:**
 - The **Lumpi** product line is being developed for children aged up to 6. At the end of June 2008, the line included 230 products.

- **The Wishing Table:**
 - Select products of this line are intended for those that live their lives on the fast lane, and are looking to devote their leisure time to family, sports, and friends. The goal of communication with regard to this line of products is to reach specific target groups that include buyers of products of this type. As at the end of June 2008, the **Wishing Table** line included 117 products.

- **Healthy Living:**
 - The goal of this line of products is to stress the advantages of products that meet at least one of the criteria for wholesome, healthy food. Secondary message of communication is motivating a healthy lifestyle with plenty of

exercise, and raising awareness of the hazards of modern life. At the end of June, the line included 80 products.

- In May 2008, we carried out a major communication campaign to present the advantages of particular product categories (rich in fiber, less fat, less salt or sugar, etc.). Advertising included billboards, TV, printed ads, the internet, events in Mercator centers, organized in cooperation with the Society for Prevention of Cardiac and Vascular Disease, sampling, and a strong PR support that included writing blogs. As a part of the communication support, screensavers were sent out as an innovative communication tool.

Development of Mercator private label lines also includes the project **"Five per day - let some color into your lives"** which is aimed at promoting consumption of fruit and vegetables. In January, we carried out a major advertising campaign in order to boost sales in this category. In the period 1 - 6 2008, we prepared permanent special offers and category discounts for the selected type of fruit or vegetable.

As of January 1st 2008, the company **Pekarna Grosuplje, d.d.** (Grosuplje bakery) became Mercator's own bakery and a part of the Mercator Group. In the second quarter, we carried out the activities to communicate this development and to boost sales of our own bakery's products. In April, a special activity was launched to support new products of our in-house bakery, **Matevž, Gozdar** (the Lumberjack), and **Semenko**.

As of June 20th 2008, the core assortment of bread products of the Grosuplje bakery for the entire retail was added to the list of private label products (at the end of June, a total of 51 products from Grosuplje bakery were included in the Mercator private label).

On June 30th 2008, Mercator private label included **a total of 1,096 products** in Slovenian market (1,931 when all versions with regard to fragrance, flavor, type, color, and design are accounted for). In Slovenian market, Mercator private label products accounted for 13.78 percent of total sales in the period 1 - 6 2008.

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

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

	Number of products	Share of total sales
Serbia	269	0.58 %
Croatia	439	4.61 %
Bosnia and Herzegovina	603	1.75 %

Sales promotion projects

Short-term activities included **regular, hypermarket, and cash & carry campaigns**. We redesigned the regular and hypermarket campaign flyer. The campaigns "**Vitamin of the day**" and "**Weekend special offer**" were combined into a single campaign, called "**Special offer - five per day**", taking place each week from Thursday thru Monday. In April 2008, we launched the campaigns "**Category discount**" which include offering products of an entire category at a 20-percent or higher discount on a particular day (e.g. Thursday). In June 2008, the campaign "**Happy Hours**" was launched at the Rudnik Hypermarket; the happy hours are each day between 9 and 11 AM, and 2 and 5 PM. During these hours, products of a particular category are 30 percent cheaper.

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

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

We also carried on our long-term projects "**Every day low price**" and "**Slovenian basket**". In April 2008, we launched a new **customer loyalty program** called "**Collect and Select!**" ("Zberi in izberi!") which is to last from April 15th to August 12th; in May and June, a special **sales campaign focused on the European Football Championship** was carried out, additionally supported by season-related displays of products in hypermarkets, events in our centers, a "one on one" football tournament, and other prize competitions.

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

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

- **Hardware and electronics:** we carried out **regular campaigns** that included higher frequency of issuing flyers with a new visual identity, and **specialized campaigns**. We prepared various activities for particular products and categories, and took part in co-promotional activities in cooperation with our suppliers. We also revised the visual

identity of the Photo Corner ("Fotokotiček") project. We also took part in market format campaigns, by including attractive products and special offers. The first **tying** campaign in the hardware and electronics, and non-market program was also carried out.

- **Textile and beauty program:** in the field of textile products, we carried out a post-season clearance sale. In addition, our most loyal customers were sent a spring letter and offered the service of fashion consulting; we also organized the spring "Fashion Meeting". Sales were also promoted through various activities related to respective categories. We prepared fashion collections to present the offer in our stores, and worked with "styling sections" of printed media. As a part of the *Gloss Express* magazine, we issued a beauty guide and presented a wider offer in our stores. We also carried out two tying campaigns (market program, textile program and **Beautique**). Drugstore and perfume shops **Beautique** also engaged in regular campaigns, make-up days and customer loyalty activities which included collecting stamps to win special prizes. Special offers are prepared monthly for the members of the Maxi club and the Mercator Pika card holders.
- **Intersport:** We carried out the winter clearance sale, prepared regular and special offer sales promotion campaigns, issued four special-topic guides (roller skating, running, cycling, and hiking), carried out billboard advertising campaigns and the 2nd and 3rd stage of the Intersport's international campaign "Where Football Begins", as well as took part in various events. We have completed and extended and updated the contents of the Intersport.si portal. Each month, our products were also included in the projects of the Mercator Pika card, Healthy Living, M Holidays, and M Mobil projects.

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

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

STORE FORMATS

Development of new store formats

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

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

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

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

In the first half of 2008, a lot of effort was invested in the development of the "comfort store" format in Mercator; in September, this format will be implemented in the alimentary section of the Maxi shopping center. The **comfort store** concept in the **Maxi shopping center** will offer an attractive, pleasant, colorful, and diverse shopping environment with a dynamic layout and a free shopping route; each section will be carefully designed and organized, with emphasis on visual elements (lighting, visual identity of each section, labeling, equipment, additional features, etc.).

Maxi comfort store will be targeted at more demanding customers. This will be reflected in both the shopping environment and in the offer that will include numerous specialties from all over the globe. The versatility of the offer will be particularly notable in the fresh program sections, as well as in some categories of the dry program; offer of organic products will also be quite extensive. In addition to excellent offer, the store will also provide various services (e.g. recipe of the week) and new types of product promotion (e.g. offer of the week, cross merchandising, etc.) - all this to inform the customers, to present the product range in a more attractive way, and to promote sales.

Maximarket store is scheduled to reopen in beginning of September 2008.

Development of new technologies

In 2008, we continued to introduce new technologies into our stores. In the first half of the year, increasingly popular self-check-out cashiers were installed in twelve Mercator hypermarkets. Average share of purchases completed on this equipment ranges between 20 and 35 percent. We also started to implement this technology in hypermarkets in Croatia; thus far, it is available in Istria and Dalmatia.

We also carried on the introduction of info stands for the categories of wine, fresh and frozen meat, and fresh fruit and vegetables. The said info stands were introduced hypermarkets in Slovenia; furthermore, preparations are under way for

installing them in hypermarkets in Croatia as well.

In the first half of 2008, we also continued to expand our offer of photography services provided at audio equipment departments, in the so-called photo corner. In the period at hand, photo services were offered to customers at five additional hypermarkets (Koper, Celje, Maribor Pobrežje, Kamnik, Rudnik) and in the hardware and electronics center in Črnuče.

Composition of retail units

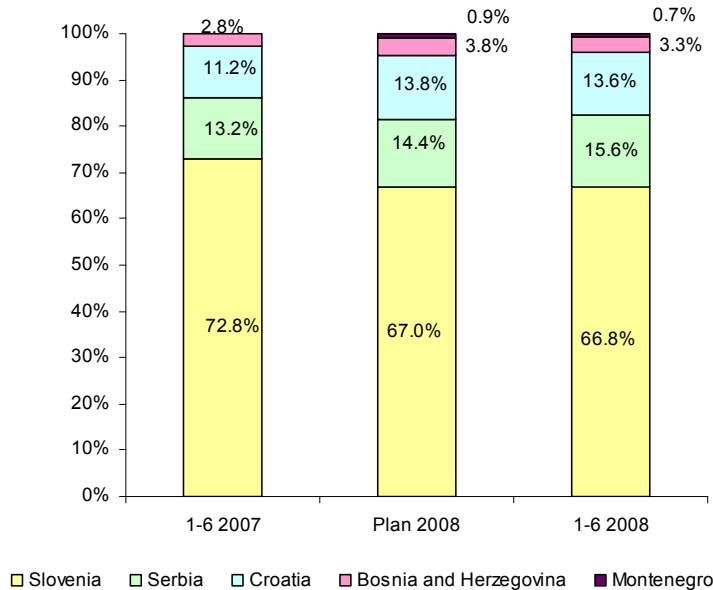
Breakdown of Mercator Group retail unit composition by types of stores, respective programs, and individual markets, as at June 30th 2008

ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	17	13	10	3	-	43	231,262	144,917
Supermarkets	129	23	21	10	3	186	213,666	137,847
Superettes	291	46	18	2	5	362	150,290	84,681
Neighbour stores	79	18	7	-	2	106	17,555	9,527
Cash & Carry	10	-	2	-	-	12	32,002	20,287
Hard discount stores	16	-	-	-	-	16	12,866	9,348
TOTAL FMCG programme	542	100	58	15	10	725	657,641	406,607
Technical programme	108	14	3	-	-	125	149,985	81,499
Technical programme	75	13	1	-	-	89	114,674	55,522
Furniture programme	33	1	2	-	-	36	35,310	25,978
Clothing programme and drugstores	102	28	14	5	-	149	66,606	54,674
Clothing programme	81	28	8	4	-	121	63,206	52,052
Drugstores and perfumeries	21	-	6	1	-	28	3,399	2,622
Intersport	29	19	6	4	-	58	32,131	24,648
Restaurants	25	15	7	9	-	56	16,865	10,134
TOTAL specialised programmes	264	76	30	18	-	388	265,586	170,955
TOTAL	806	176	88	33	10	1,113	923,227	577,562
Franchise stores	219	84	-	-	-	303	55,102	35,331
TOTAL with franchise stores	1,025	260	-	-	-	1,416	978,329	612,893

SALES

In the period 1 - 6 2008, Mercator Group revenues from sales amounted to EUR 1,282,205 thousand, which is 14.3 percent more than in the same period last year.

Mercator Group revenues from sales by geographical segments

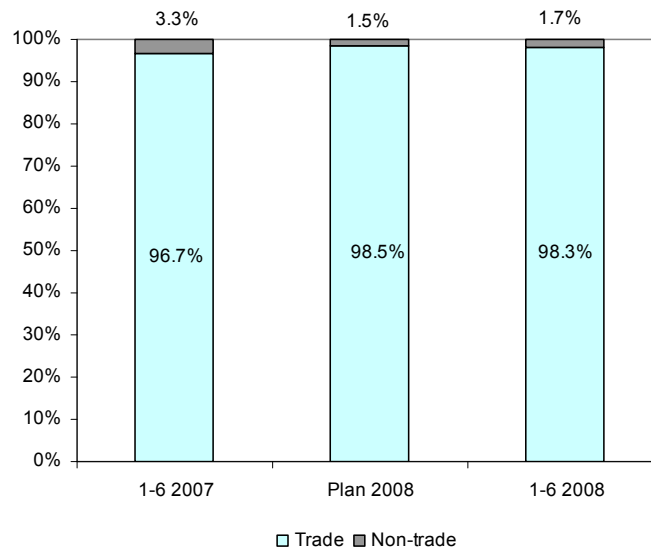


In Slovenia, revenues from sales of the Mercator Group amounted to EUR 856,482 thousand in the period 1 - 6 2008, which is 4.9 percent more than in the corresponding period last year. The increase is mostly the result of highly committed marketing activities and opening of new and refurbished retail units.

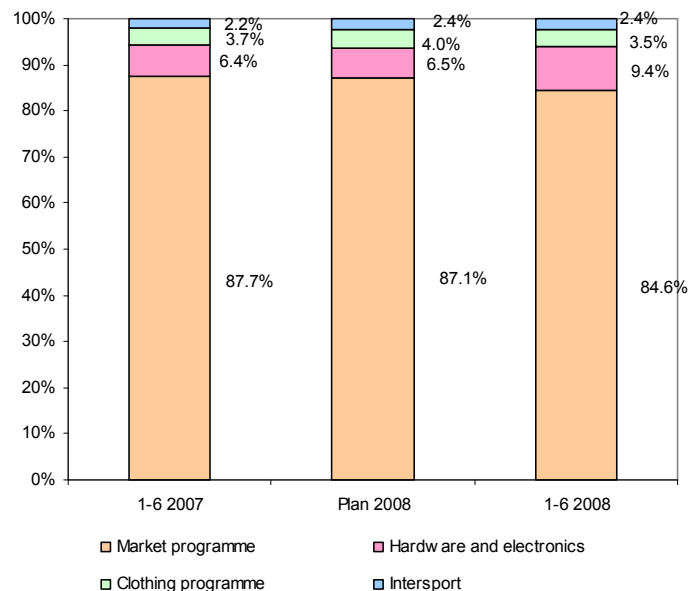
In foreign markets, revenues from sales amounted to EUR 425,723 thousand in the period 1 - 6 2008, which is 39.7 percent more than in the same period last year. The increase is primarily the result of highly committed marketing activities, opening of new and refurbished retail units, and the inclusion of the company Presoflex, d.o.o., Croatia, into the Group.

Mercator Group revenues from sales by business segments

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



In the period 1 - 6 2008, the majority of Mercator Group revenues from sales generated in trade activity resulted from sales of **market programme**, as this group of products accounted for 84.6 percent of trade activity revenues from sales; share of total revenues from sales generated in other **specialized trade programmes** amounted to 15.4 percent.



CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category management and supplier relations

Cooperation with the suppliers in the first half of the year was mostly based on extending and implementation of the category management principles (assortment, prices, promotions, positioning) into daily operations, both in the field of price assortment, promotion, and aisle positioning. This means that all agreements on annual contracts were made by considering these principles.

In the first half of the year 2008, we were strongly dedicated to improving the offer in our stores. Our most demanding customers can now enjoy our best product assortments in Mercator Center Ljubljana, Maximarket, and Mercator Center Rudnik which opened in the first quarter this year. We remained focused on the target categories. All retail facilities that failed to perform as planned prepared additional activities and offers.

With regard to pricing policy we continued to use all means available to mitigate the effects of the announced changes in prices of consumer products by some of our suppliers (as a result of rising raw material and energy costs). Upward pressure on supplier prices and thus on inflation was particularly strong in the first half of 2008. We constantly negotiated any price increases with our suppliers, postponing the confirmations of price lists and looking for the best solutions for our customers.

We continued to introduce appealing and competitive products through campaigns such as "Every Day Low Price" etc. We also cut prices at the expense of our sales margins. All activities were carried out to the benefit of our customers, with their satisfaction as our main target. We are also planning some new activities that will yield results in the second half of the year.

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

We actively carried on the project of cost rationalization in the distribution of fermented dairy program by employing the services of an external logistics service provider. We also reduced packaging units, introduced semi pallets, and worked to reduce inventories throughout the system.

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

We coordinated our activities with our suppliers to facilitate operations in foreign markets.

Category management

In the first half of 2008, we carried on our activities in the field of category management - by implementing planograms and assortments, we managed to cover 80 percent of market program by net sales value.

We listed all spaces and equipment for all supermarkets. Based on these data, we are combining similar supermarkets into groups with same typical planograms. We also prepared and launched the campaign of marginal product clearance sale.

LOGISTICS

In the first quarter of 2008, we continued to provide quality logistics services for all entities of the system that require them.

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

In Slovenia:

Warehouse integration and consolidation:

- redirecting the frozen program from Ptuj warehouse to the one in Naklo;
- emptying of the hardware and electronics warehouse Šmartno ob Paki,
- refurbishment of the Velenje warehouse for the requirements of hardware and electronics,
- setting up a leased tent for warehousing of sanitary ceramics in the Šempeter pri Novi Gorici warehouse;
- relocating the activities of the fruit-vegetables warehouse from location Tržaška 33, Maribor, to the refurbished warehouse Bohova.

Activities for construction of the Mercator Logistic Center:

- studies by two foreign providers were presented,
- a resolution was adopted to prepare extended blueprint studies based on extended data and starting points (the deadline for selecting the best solution is September 2008);
- data on physical flow of goods through warehouses was re-checked and extended; forecast of growth until 2013 was also prepared;

- we signed an agreement with the consulting company Total Logistics, for preparation of the tender and for review and evaluation of the new concepts.

In foreign markets:

Activities for unifying the logistics activities of the Mercator Group:

- negotiations on the lease of a central warehouse for Croatia have reached the final stage,
- a blueprint study on refurbishment / redesign was conducted for Mercator-S, d.o.o., including an estimate of investment cost of a central warehouse in Novi Sad,
- international logistics council was founded.

ORGANIZATION AND QUALITY OF OPERATIONS

With respect to organization and quality of operations, our efforts in the period 1 - 6 2008 were focused on the development of organizational structures, rationalization of business processes and standards of operation, and prevention of any incompliance.

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

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

Development and maintenance of quality systems, coordination of audits, and managing incompliance and corrective measures

Internal audit plan for 2008 was prepared and confirmed for the company Mercator, d.d.; furthermore, the spring and summer parts of the audit were carried out, and a new group of internal auditors has completed training in compliance with the ISO 9001 standards. Annual agreement was signed with SIQ for carrying out external audits and assessments, and a time schedule for performance of external audit by companies was defined (May 19th - 21st); based on the findings, appropriate measures were employed. Electronic issuing and keeping of records of preventive and corrective measures has been implemented. Feasibility study for revision of IT support for managing incompliance, recommendations, and praises in the process is also currently under way. An appropriate solution is being developed to set up a register of contracts and agreements. Within the environment protection project in compliance with the provisions of the ISO 14001 standard, a status assessment was prepared as the basis for further progress of the project. Documentation

is being provided in compliance with the Food Safety Management System following the ISO 22000 standard. In the company M-Rodić, d.o.o., training of managerial personnel and executive officers was carried out as a part of the project of acquiring the ISO 9001 certificate of quality; preparation of required documentation is currently under way.

Internal control and prevention of incompliance of goods and performance of incompliant business processes

We carried out regular and extraordinary internal controls; most notably, extraordinary controls were conducted in the Rudnik and Šiška hypermarkets, and three centers in Belgrade; furthermore, extraordinary controls of temperatures maintained by refrigeration equipment were also carried out.

In the field of safe aliment management system, the following was carried out:

- Rules and Regulations on Food Safety Management System was compiled in compliance with the requirements of the ISO 22000 standard,
- in the segment of butchery departments, we defined the standards with particular emphasis on traceability and labeling in the refrigerated showcases;
- a new version of product withdrawal instructions was compiled,
- guidelines on providing traceability in trade industry were compiled within Chamber of Commerce and Ministry of Economy.

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

Employees in charge of internal control in compliance with the principles of the HACCP system, store managers, and members of coaching networks in foreign completed their training in order to transfer the statutory requirements and Mercator's sound practices.

We carried out the activities of general optimization strategic project

In order to improve efficiency and to reduce operation costs of the Mercator Group, the following activities were carried out in the period 1 - 6 2008:

- We completed the upgrade and internationalization of tools for flexible working hours allocation planning in retail outlets. Thus, the tools were prepared for implementation in Croatia.
- We also developed the basic set of tools for inventory management in stores in Slovenia and Croatia, as well as tools for optimizing the delivery frequency in retail units in Slovenia.
- We have completed the group training of users of tools for flexible working hours allocation planning in retail outlets in Croatia, and training of users of efficient

- inventory management tools in stores in Slovenia and Croatia. We carried out the first stage and initiated the second stage of visits and individual lessons in stores in Croatia and Slovenia. For each store, we defined goals related to improved efficiency and decrease in costs to be attained each quarter and at the end of the year.
- In the companies M-Rodić, d.o.o., and Mercator-S, d.o.o., we completed the management of master data related to items and categories in compliance with the Group rules. As a part of the pilot project in progress in three selected stores, we provided conditions and commenced implementation of automatic goods ordering in stores.
 - In the centralized non-trade goods and services procurement system, we prepared and confirmed the standard for use of goods from the petty inventory department in retail units in Slovenia, and prepared a proposal on such standard for retail units in Croatia.

INFORMATION TECHNOLOGY

Consistently with the strategic project of IT system revision, we carried out activities in the following key areas in the period 1 - 6 2008:

- **IT system revision:**
 - As a part of the support function IT system revision project, we completed the upgrade of some modules of the SAP software solution and successfully commenced their regular application; we also prepared a business plan for expansion of the basic SAP modules in the companies Mercator-H, d.o.o., and Mercator-BH, d.o.o., and introduced the basic SAP modules to the social enterprise Mercator IP, d.o.o.
 - As a part of the material operation IT system revision project, we carried on the preparations for the implementation of the G.O.L.D. software solution, commenced the comparison of assortments and pricelists, and prepared the integration of trade POS with the G.O.L.D. software,
- **IT support to general operations optimization projects in the Mercator Group:** we introduced the inventory and automatic ordering reporting system in retail, and extended the flexible work hours allocation system in the retail outlets in Croatia;
- **IT support to management and decision-making:** we developed additional reports to support category management projects, and launched the project Integral Material Operation Data Warehouse;

- **IT support to warehouse operation and logistics:** we upgraded the IT support for transport route planning (RPS), automatic ordering system, and the system for compiling orders by distributors;
- **IT support to retail:** we carried on the unification of IT support to retail and introduction of TIK TAK self-check-out cashiers.

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

FINANCIAL MANAGEMENT

Financial liabilities

In the period 1 - 6 2008, financial liabilities in the Mercator Group rose by EUR 157,039 thousand or by 18.8 percent compared to the end of 2007; this is mostly the result of investment dynamics.

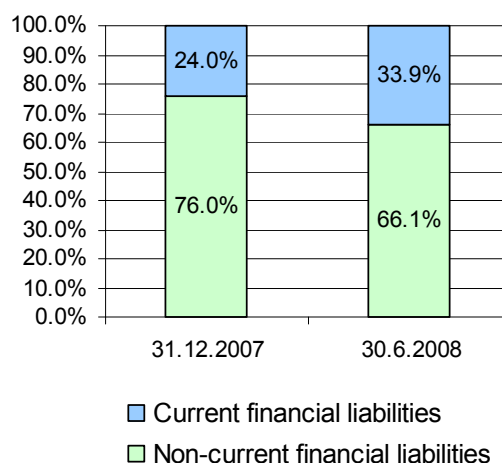
Capitalization ratio

As at June 30th 2008, the capitalization ratio of the Mercator Group amounted to 1 : 1.13 (at the end of 2007, the ratio was 1 : 1.16); this is the ratio between equity - comprising disclosed equity plus provisions for liabilities and charges - and debt capital comprising non-current and current financial liabilities and non-current financial lease liabilities.

Long term coverage of non-current assets

As at June 30th 2008, long-term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 89.5 percent.

Ratio between current and non-current financial liabilities



Obtaining sources of financing

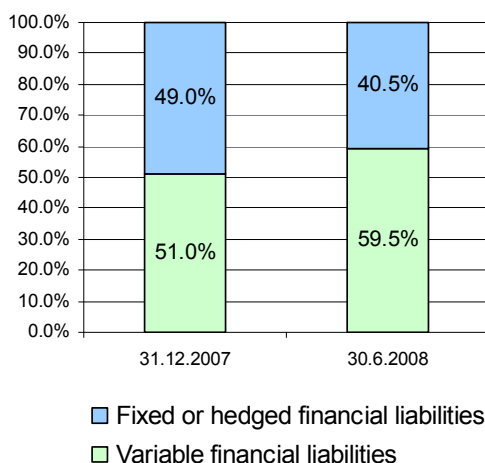
In the period 1 - 6 2008, Mercator took both long-term (non-current) and short-term (current) bilateral loans for financing new investment activities, as well as for refinancing the existing sources. During this period, the Group also signed two agreements on financial lease with total value of both combined amounting to EUR 33,766 thousand.

Due to stringent conditions in financial markets, additional reserve financial sources were drawn on as a precautionary measure in the first half of the year 2008; these funds had been allocated to short-term investments until they were required.

Until the conditions in financial markets stabilize, Mercator Group will hold liquidity reserves in the form of short-term financial investments amounting to approximately 25 percent of annual investment plan, or one quarter of investment activities; thus, we plan to provide unhindered implementation of our investment projects. The Group will manage liquidity reserves in a way that will provide appropriate degree of financial flexibility, and the best possible economic results.

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

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



MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

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

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

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

Key information for the shareholders

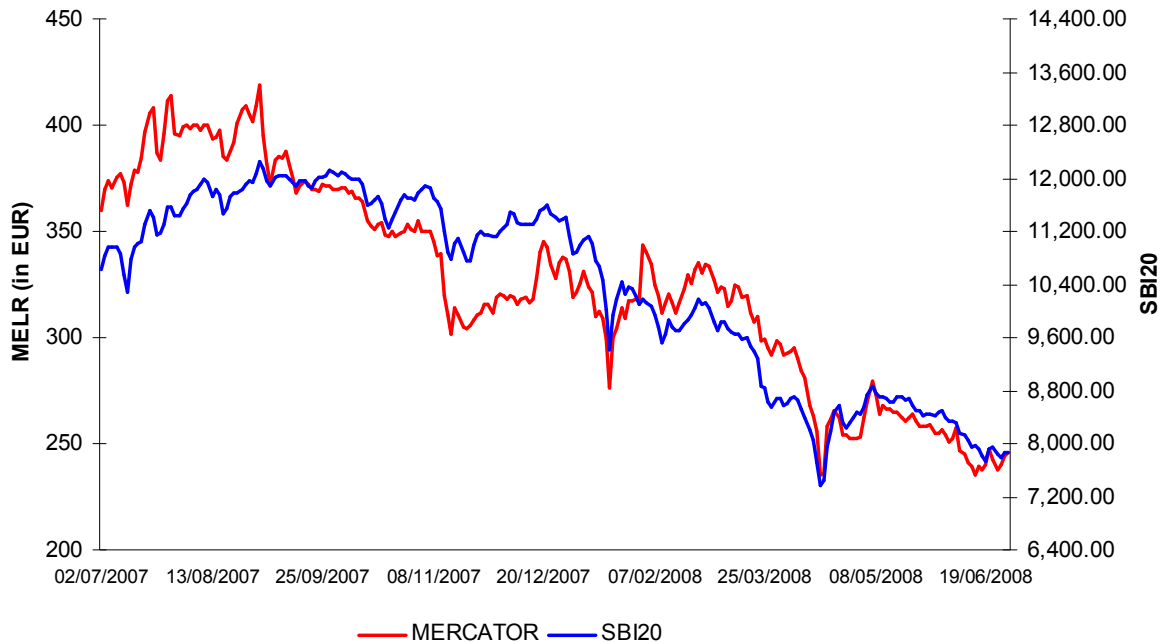
	30.6.2008
Number of shares registered in Court Register	3,765,361
Market capitalization (in EUR)	925,111,544
Market value of share (in EUR)	245.69
Book value per share (in EUR)	213.71
Annual low (in EUR)	235.57
Annual high (in EUR)	343.58
Weighted average market price, excluding block and cross trades (in EUR)	301.63
Earnings per share (in EUR)	4.2

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

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

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

Movement of average price per MELR share in 2007, compared to the movement of the SBI20 index



Dividend policy

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

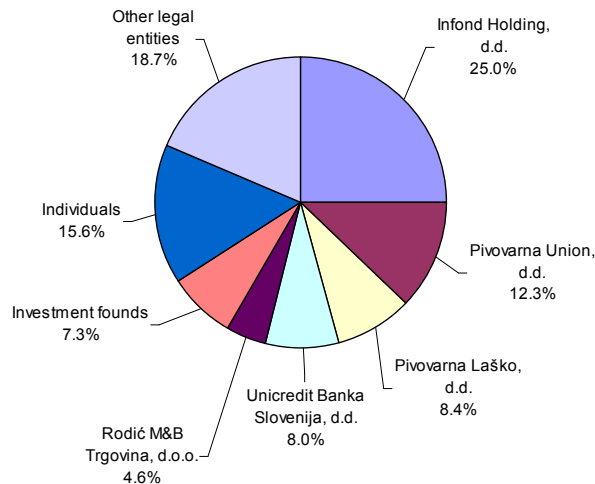
- EUR 4.00 per share in 2007,
- EUR 4.25 per share in 2008,
- EUR 4.50 per share in 2009,
- EUR 4.75 per share in 2010.

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

Company Ownership Structure

As at June 30th 2008, the **Share Register** of the company Poslovni sistem Mercator, d.d., indicated **17,521** shareholders or 26 more compared to the situation as at December 31st 2007.

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



Major shareholders

As at June 30th 2008, the following ten largest shareholders combined owned **70.14 percent** of the company.

Major shareholders	Country	Number of shares	Ownership share
1 Infond Holding, d.d.	Slovenia	941,301	25.00%
2 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 Unicredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 NFD 1 Delniški investicijski sklad, d.d.	Slovenia	133,201	3.54%
7 Radenska, d.d.	Slovenia	96,952	2.57%
8 Hypo bank, d.d.	Slovenia	78,287	2.08%
9 Smallcap World Fund	USA	69,933	1.86%
10 East Capital Balkan Fund	Sweden	63,410	1.68%
Total		2,640,926	70.14%

Foreign shareholders

As at June 30th 2008, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.42 percent**, which is 0.9 percentage points less than at the end of 2007.

Shares owned by Management Board members

As at June 30th 2008

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

Shares owned by Supervisory Board members

As at June 30th 2008

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

Changes in the number of treasury shares

In the period 1 - 6 2008, the company Poslovni sistem Mercator, d.d., neither acquired neither disposed of treasury shares.

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

Approved capital

Pursuant to the resolution adopted at the 13th Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., the Management Board may, subject to previous consent of the Supervisory Board, in five years after the entry of changes to the company Articles of Association and Bylaws into the court register, increase the share capital by up to 20 percent of the share capital entered on the day of adoption of this resolution at the 13th regular Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., by issuing new shares; preemptive right of the existing shareholders may be waived under the following conditions:

- the newly issued shares are used to acquire shares or shareholdings in other companies, or business assets within strategic alliances and combinations,
- waiver of preemptive right is approved by the company Supervisory Board, prior to the issuing of new shares, the company Management Board must inform the shareholders of the reasons for the emission and reasons for omission of the preemptive right; these explanations should be published on the stock market's information dissemination system,
- within individual strategic alliances, no individual recipient of newly issued shares, or a group of associated recipients of newly issued shares, shall acquire more than 10 percent of the company share capital,
- an independent financial advisor shall issue a positive opinion on the fairness of the issue of new shares from the aspect of shareholders and the company. The Management Board should inform the shareholders of such opinion by publishing it on the stock market's information dissemination system no later than 30 days after entering into a binding commitment or agreement on the issue of new shares.

Conditional increase in share capital

Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., may adopt a resolution on the conditional capital increase for reasons listed in Article 46 of the Articles of Association and Bylaws of the company Poslovni sistem Mercator, d.d.; such option has not yet been exercised.

RISK MANAGEMENT

In Mercator Group, systematic monitoring, analysis, and management of risks was carried on in the period 1 - 6 2008, consistently with the Rules of Procedure on Risk Management.

Exposure of the Mercator Group to key risks in the period 1 - 6 2008, compared to the end of 2007, **did not change considerably**.

SOCIALLY ACCOUNTABLE ACTION

Sponsorships, Donations, and Charity Campaigns

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

In the field of sports, we contribute funds to basketball, football, handball, and cycling clubs. We traditionally provide funds for our Olympic Team headed to Beijing this year. We also took part in the major Slovenian sporting event, the Planica ski jump competition, as well as the Franja cycling marathon. The project "Z glavo na zabavo" ("Party without losing your head") has also begun, in which we team up with the ZGNZ foundation to warn the young of the perils of excessive alcohol consumption.

We also contribute funds for various events, including the Golden Concert Series in Cankarjev Dom, the Week of Slovenian Drama in Kranj, the famous exhibition at the Municipal museum, International Graphic and Visual Arts Center, and the exhibition of impressionists in the National Gallery.

In Croatia, we are taking part in the humanitarian campaign "Petrova trudionica - što osjeća mama osjeća i beba" ("Peter's Maternity Hospital - The Baby Feels what the Mother Feels"); the campaign is aimed at improving the working conditions at the Zagreb maternity hospital. We also raised funds for the refurbishment of the Shelter Home for Homeless Children. We sponsored the international carnival in Rijeka, a football and a handball club, a young badminton player, we joined the project "Kuglom protiv pušenja" ("Bowling Against

Smoking"), took part in the Latinica TV show, and donated funds for the socially threatened families. We also donated funds for the construction of rehabilitation center in the Velika Gorica area.

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

In Bosnia and Herzegovina, we donated funds to the Social and Educational Community (Socijalna pedagoška životna zajednica) in Bihać, Association of Citizens of Slovenian Descent from Tuzla, the Osmjeh Nade (The Smile of Hope) Society from Kalesija, Ski Society Prijatelji prirode (Friends of Nature) ski club, sports-ecology society Zelena Glava (Green Head) from Mostar, Tušanj primary school in Tuzla, basketball club Bosna, and Bosnian visual artists.

Care for the Environment

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

- ✓ In January and February 2008, we drafted the initial estimate of impact on the environment in the company Mercator, d.d. The purpose of this estimate was to analyze the current status of systematic elements in the field of environment protection and to collect basic information on the impacts on the environment. based on the initial estimate of the environment management status in the company Mercator, d.d., we started to set up an environment management system in compliance with the ISO 14001 standard. Currently, we are preparing the required documentation (Rules and Regulations on Environment Management, Register of Environmental Aspects, Register of Environmental Legislation, etc.).
- ✓ The company Zeos, co-founded by Mercator, is one of the companies that we can team up with to organize a uniform and effective system of collecting waste batteries and car batteries in the company Mercator, d.d.
- ✓ We worked with the company Slopak to set up a dry-installation strain gauge scale at the location of Distribution Center Slovenčeva. This way, we will provide for adequate monitoring of the volume of generated waste packaging.

- ✓ A project paper titled Energy Policy for the Mercator Group was prepared as a part of the Mercator Business Academy.
- ✓ On May 31st 2008, the European project SARA (demonstration project within the Eco-Buildings - energy demonstration initiative of the European Commission) was completed after four years. All starting points for the construction of an energy-efficient facility within the SARA project were implemented during the refurbishment of the facility Mercator Center Ljubljana.
- ✓ We worked with the Slovenian Power Company Holding (Holding slovenskih elektrarn) in the development-oriented pan-Slovenian campaign called *Energija.si*. The philosophy behind the *Energija.si* brand is to establish links and motivate cooperation between various partners in order to promote efficient use of energy.
- ✓ In order to educate the employees, we carried out - as a part of the store manager training - lectures on efficient use of raw materials, processed materials, and energy in Mercator.
- ✓ We have carried on our activities for educating our employees by publishing a series of popular science articles on environment protection and economic use of energy in our internal magazine.

Care for the Employees

Number of employees

As at June 30th 2008, the Mercator Group employed **21,333** people of which **38.1 percent** were employed in foreign markets. The company Poslovni sistem Mercator, d.d., had **12,828** employees, or **60.1 percent** of all employees.

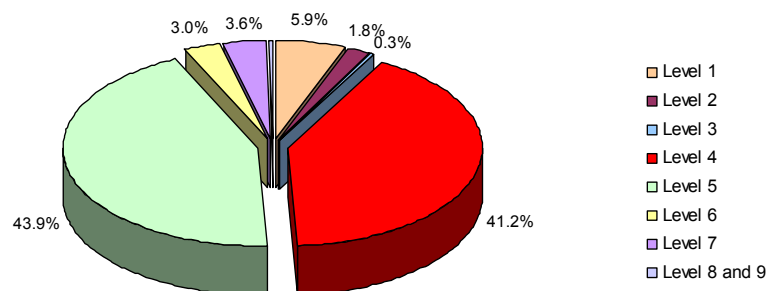
In the period from December 31st 2007 to June 30th 2008, the number of employees in the Mercator Group increased by 2.1 percent, mostly due to the opening of new retail units in Slovenia and Serbia, and the take over of employees from the company Omega, d.o.o., and Gadžo Comerc, d.o.o., in Bosnia and Herzegovina.

Number of employees

	No. of employees as at 31 th December 2007	No. of employees as at 30 th June 2008	Planned no. of employees as at 31 th December 2008	Index No. of employees as at 30 th June 2008 / Plan as at 31 th December 2008	No. of employees based on hours worked in 1-6 2008
Poslovni sistem Mercator, d.d.	12,607	12,828	13,296	96.5	12,077
Trade in Slovenia	12,607	12,828	13,296	96.5	12,077
Mercator - S, d.o.o.	730	972	1,148	84.7	965
M - Rodič, d.o.o.	2,590	2,522	2,660	94.8	2,673
Mercator - H, d.o.o.	2,887	3,310	3,422	96.7	3,057
Presoflex, d.o.o.	476	-	-	-	-
Mercator - BH, d.o.o.	702	1,053	1,380	76.3	941
Mercator Makedonija, d.o.o.	0	0	0	-	0
Mercator - Mex, d.o.o.	289	275	320	85.9	310
Trade abroad	7,674	8,132	8,930	91.1	7,946
Trade	20,281	20,960	22,226	94.3	20,023
Pekarna Grosuplje, d.d.	240	0	-	-	2
Belpana, d.o.o.	0	0	-	-	0
Eta, d.d.	214	213	218	97.7	198
Mercator Emba, d.d.	120	117	-	-	120
Mercator Optima, d.o.o.	20	20	23	87.0	19
Interier, d.o.o.	18	18	0	-	18
Mercator IP, d.o.o.	-	5	-	-	3
Non-trade	612	373	241	184.7	360
TOTAL MERCATOR GROUP	20,893	21,333	22,467	95.0	20,383

Breakdown by level of education

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



Employment of the disabled

Mercator Group employs 892 disabled persons, of which 855 are employed in the parent company, 31 in non-trading sector, and 6 persons in foreign markets.

Percentage of disabled persons in the parent company is 6.7%, which is 4.7 percentage point over more than the mandatory quota provided by the employment system for trading companies (2.0 %).

Absenteeism

Overall absence for sick leave in **Mercator Group** in the first half of 2008 amounted to 5.4 percent, of which 3.0 % was charged to the Group member companies, and 2.4 % to national health insurance companies. Employees on sick leave were absent from work a total 1,173,394 working hours.

In the company **Poslovni sistem Mercator, d.d.**, total absence due to sick leave amounted to 6.4 percent in the first half of 2008, of which 3.6 % was charged to the company, and 2.8 % was charged to the National Health Insurance Institute. Employees on sick leave recorded a total absence of 845,119 working hours.

Employee relations

Motivation and compensation

- ✓ As of January 1st 2008, the general part of the new **collective labor agreement** has become effective for the parent company, followed by its labor compensation-related part as of March 1st 2008. The latter brings a decrease in the number of management workplaces and the number of their deputies, introduces a variable part of the base salary for managers and their deputies, and stipulates some new approaches to calculating business performance. At this occasion, all employees of the parent company received **new employment contracts**.
- ✓ In response to high inflation and an incomplete agreement between trade unions, employers, and the government, the Management Board adopted a resolution to pay an **inflation allowance** to the employees of the company **Mercator, d.d.**, in the amount of 3 to 7 percent of the base salary, as of March 1st 2008. This measure has a welfare effect, as employees with lower salaries received a higher allowance, and those with higher salaries were granted a lower allowance. Based on the adopted **Collective Agreement on Extraordinary Compensation Adjustment for 2007** and the method of adjusting the compensation, reimbursing work-related expenses, and other personal income for 2008 and 2009, the base salaries were adjusted in **Mercator** on May 1st 2008, and the inflation allowance was restructured accordingly.
- ✓ In the first half of 2008, 1,961 employees were **promoted** in **Mercator Group**.
- ✓ 33 candidates were selected for the **2nd Mercator International Business Academy**.
- ✓ Following the experience from last year, we organized the **Motivational Camp** on Vogel; thus far, it has been attended by four groups of managers from foreign markets.

- ✓ In beginning of April, the section of women managers with the Manager Association awarded Mercator the "Bronze Horse" symbolizing a **female manager-friendly company**.

Key executive and promising associates career planning

- ✓ The **1st Council of Key Employees**, presided by the controlling company Management Board, was attended by 1,800 key employees. The Council was organized in five groups in Slovenia.
- ✓ As a part of the key associates career planning system, we started to evaluate the key **human resource competencies** by applying the 360 degrees method. The evaluation included 1,800 employees who subsequently discussed their scores with their direct superiors during annual talks.

Education and training

- ✓ The **first Mercator International Business Academy** was successfully completed. It included 31 promising young employees from Slovenia (24), Serbia (3), Croatia (3), and Bosnia and Herzegovina (1). The Academy took place from December 2007 to June 2008. It was completed by a presentation of project papers and a three-day excursion through foreign markets.
- ✓ 458 managers have completed the **Management Academy** in the controlling company. The program included 42 hours, taking part in three parts, outside the place of work and residence. This type of training was warmly welcomed by the managers.
- ✓ In order to improve the level of professional knowledge of our sales personnel, we established a **tutoring network**. The network comprises our best sales employees and managers who will **transfer their knowledge at the workplace**. In Mercator Group, 272 tutors were promoted: 195 in Slovenia, 19 in Serbia, 29 in Croatia, and 29 in Bosnia and Herzegovina.
- ✓ In the first half of 2008, we carried out a total of 136,632 hours of functional training and education for 22,839 participants.
- ✓ The strategic project **Customer Loyalty System Revision** included training of 4,400 cashier operators from all markets, for the transition to **Pika 2**.
- ✓ In May, we carried out the **8th Traditional Meeting of Internal Teachers / Tutors**.
- ✓ We took part in the **informative events** /days at 18 high schools across Slovenia and promoted the occupation of a salesman among the students.

Staffing and recruitment

- ✓ In addition to employment ads, we have used **new approaches to employee recruitment**, such as announcements on special human resource posters in stores, radio ads, articles in the Mesec magazine and in the Finance daily paper, promotional letters to recipients of the Zois grant and selected college graduates, lectures for the unemployed at the Employment Agency, searching for candidates through our employees within the "Employees Employ" project, etc. We announced a prize competition for graduation and master theses for students of humanities.
- ✓ The company **Mercator-BH, d.o.o.**, was ranked among the **25 most desirable employers** in Bosnia and Herzegovina.
- ✓ Our **internal staffing** received 257 applications, of which 41 were accommodated.

Internal communication

- ✓ In Mercator Group, we conducted annual talks in all markets, at all levels; for the first time, these talks were also held this year in the company Mercator - Mex, d.o.o.
- ✓ A new editing board of the internal magazine **Časomer** (The Time Keeper) was appointed, consisting of representatives of retail, marketing, controlling, public relations, and human resources. The purpose of appointing the editing board is to provide uniform coverage of all areas of Mercator's operations.
- ✓ In April, the **first issue** of the internal magazine for the employees of the company Mercator - Mex, d.o.o., was issued, called **M-info**.
- ✓ The management held regular meetings with representative **trade unions** and the **Workers' Council**.

Occupational health and safety

- ✓ As a part of the **Family-friendly company** project, we started in 2008 to present "**Lumpi Packages**" to newborn children of the employees of the controlling company. In the first half of 2008, 145 babies received the present.
- ✓ 95 applicants received financial aid in total amount of EUR 61,263.40 from the **Mercator Humanitarian Foundation**.
- ✓ **Mercator Hiking Society** already has over 300 members. In the first half of 2008, the Society organized 7 trips.

- ✓ On May 13th 2008, the company Poslovni sistem Mercator, d.d., purchased from Society for Mental Health and Creative Leisure Time "Vezi", 100-percent ownership share of the company Naše Vezi, d.o.o., Štanjel, which was renamed on June 17th 2008 into Mercator IP, invalidsko podjetje (social enterprise), d.o.o., Ljubljana.

Intercultural - organizational development

- ✓ On June 14th 2008, the Mercator's central festivity called **30th Mercator Day** took place at the Postojna Airport. Over 26,000 employees attended the event in the company of their families.
- ✓ In the first half of the year, 966 participants took part in the **Introductory Seminars**. Introductory Seminars for the newly employed with 6th and 7th-level education are a new feature. Management Board members and directors presented Mercator's operations to 197 new associates by the end of June 2008.

Communication with the Customers

- After eight years of issuing the Mesec ("Month, or Moon") magazine, we issued in June the first issue with redesigned appearance, with updated concept of contents, and additional pages. We were looking to bring the contents even closer to our customers, therefore, stories have been built on everyday situations. Thus, customers will be offered more possibilities to take part. Furthermore, the method of distributing the magazine has been changed. Now, the magazine is distributed with the Delo and Slovenske Novice daily papers; the customers can also order direct delivery to their household via our website.
- In the middle of February, we presented for the second consecutive year the prize **Best Salesman / Saleswoman** by the vote of our customers. We received over 15,000 votes from customers from Slovenia, Croatia, and Bosnia and Herzegovina; based on these votes, 14 saleswomen or salesmen were presented the awards.
- In February 2008, we published a new flyer intended to present the offer of Mercator Center Ljubljana; in April, we added the presentations of the assortment in the Rudnik hypermarket and Intersport.
- From February to April 2008, a series of TV cooking shows was launched on one of the commercial networks, called "Desetka" ("Ten"); the show is sponsored by Mercator. The concept of the show is to prepare a family lunch for four using ingredients with a total value of 10 euros. On average, the shows were seen by over 110,000 viewers.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1 - 6 2008, were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 17 subsidiaries, in which the controlling company holds directly or indirectly a majority interest. These subsidiaries are the following:

- **in Slovenia:** Eta, d.d., Pekarna Grosuplje, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Interier, d.o.o., Evolution, d.d., Mercator IP, d.o.o., M.COM, d.o.o.;
- **abroad:** Mercator - H, d.o.o., Croatia, Belpana, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, M - Rodić, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator Macedonia, d.o.o., Macedonia, Investment International, d.o.o., Macedonia in Mercator - B, e.o.o.d., Bolgarija.

Consolidated Income Statement

EUR thousand

1	Type of revenue / expense / cost	1-6 2007	Plan 2008	1-6 2008	Index	Index
	2	3	4	5	6=5/3	7=5/4
A.	Revenue	1,121,381	2,627,903	1,282,205	114.3	48.8
1.	Revenue from products sold	14,820	34,248	12,741	86.0	37.2
2.	Revenue from services sold	79,381	185,539	104,813	132.0	56.5
3.	Revenue from goods and material sold	1,028,577	2,411,796	1,167,267	113.5	48.4
4.	Expenses for given discounts	-1,397	-3,681	-2,616	187.3	71.1
B.	Cost of sales	-818,346	-1,935,426	-950,103	116.1	49.1
1.	Production costs	-22,841	-46,090	-16,874	73.9	36.6
2.	Purchase value of goods and material sold	-798,886	-1,896,696	-937,438	117.3	49.4
3.	Received discounts	3,814	8,594	5,268	138.1	61.3
4.	Other expenses	-433	-1,233	-1,059	244.7	85.9
C.	Gross profit	303,035	692,477	332,102	109.6	48.0
Ĉ.	Selling and marketing costs	-214,917	-491,169	-237,067	110.3	48.3
D.	Administrative expenses	-51,772	-120,595	-59,343	114.6	49.2
E.	Other income	5,964	9,860	11,238	188.4	114.0
F.	Results from operating activities	42,310	90,574	46,930	110.9	51.8
G.	Finance income	5,313	12,777	10,824	203.7	84.7
H.	Finance expenses	-20,595	-53,306	-30,548	148.3	57.3
I.	Profit before income tax	27,028	50,046	27,206	100.7	54.4
J.	Income tax expense	-4,981	-8,599	-4,252	85.4	49.5
K.	Deferred income tax	-741	-892	-617	83.2	69.2
L.	Profit for the financial period	21,306	40,556	22,337	104.8	55.1
M.	Attributable to equity holders of the Company	20,751	40,199	22,331	107.6	55.6
N.	Attributable to minority interest	555	357	6	1.1	1.7
O.	Number of employees based on hours worked	18,436	20,770	20,383	110.6	98.1
P.	Gross cash flow from operating activities	78,132	173,215	85,062	108.9	49.1
R.	Gross cash flow from operating activities before rental expenses	82,365	187,165	94,205	114.4	50.3

Consolidated Balance Sheet

EUR thousand

1	Type of assets / liabilities	31.12.2007	Plan 31.12.2008	30.6.2008	Structure 30.6.2008	Index
2	3	4	5	6	7=5/3	
	ASSETS					
A.	NON-CURRENT ASSETS	1,538,339	1,695,848	1,771,862	73.9%	115.2
I.	Property, plant and equipment	1,402,398	1,568,520	1,644,479	68.5%	117.3
II.	Investment property	16,476	14,989	9,710	0.4%	58.9
III.	Intangible assets	80,253	83,598	80,811	3.4%	100.7
IV.	Deferred tax assets	8,686	8,073	8,197	0.3%	94.4
V.	Derivative financial instruments	5,771	2,974	8,320	0.3%	144.2
VI.	Trade and other receivables	520	484	427	0.0%	82.1
VII.	Available-for-sale financial assets	24,235	17,210	19,918	0.8%	82.2
B.	CURRENT ASSETS	532,134	537,513	627,168	26.1%	117.9
I.	Inventories	247,836	275,435	259,027	10.8%	104.5
II.	Trade and other receivables	258,957	249,219	334,151	13.9%	129.0
	- trade and other receivables	244,339	230,027	265,024	11.0%	108.5
	- loans and deposits	14,618	19,192	69,127	2.9%	472.9
III.	Current tax assets	764	1,823	4,522	0.2%	591.9
IV.	Advance payments for current assets	1,488	1,432	818	0.0%	55.0
V.	Cash and cash equivalents	23,089	9,604	28,650	1.2%	124.1
	TOTAL ASSETS	2,070,473	2,233,361	2,399,030	100.0%	115.9
A.	EQUITY	688,196	701,724	845,080	35.2%	122.8
	Total equity attributable to equity holders of the Company	685,938	697,782	842,845	35.1%	122.9
I.	Ordinary shares	157,129	157,129	157,129	6.5%	100.0
II.	Share premium	198,848	198,848	198,848	8.3%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.1%	100.0
IV.	Revenue reserves	243,309	232,527	243,309	10.1%	100.0
V.	Fair value reserve	68,078	56,963	193,108	8.0%	283.7
VI.	Retained earnings	0	24,582	31,455	1.3%	-
VII.	Profit for the year	26,047	40,199	22,331	0.9%	85.7
VIII.	Currency translation reserve	-4,223	-9,216	-85	0.0%	2.0
	Minority interest	2,258	3,942	2,235	0.1%	99.0
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	689,235	779,661	740,555	30.9%	107.4
I.	Financial liabilities	635,457	732,545	656,934	27.4%	103.4
II.	Deferred tax liabilities	18,550	14,669	48,764	2.0%	262.9
III.	Provisions	35,228	32,446	34,857	1.5%	98.9
D.	Current liabilities	693,042	751,976	813,396	33.9%	117.4
I.	Trade and other payables	487,141	503,256	472,569	19.7%	97.0
II.	Current tax liabilities	4,782	11,035	4,146	0.2%	86.7
III.	Financial liabilities	201,119	237,686	336,681	14.0%	167.4
	TOTAL LIABILITIES	1,382,277	1,531,637	1,553,951	64.8%	112.4
	TOTAL EQUITY AND LIABILITIES	2,070,473	2,233,361	2,399,031	100.0%	115.9
	Number of employees as at the end of the period	20,893	22,467	21,333	-	102.1

Consolidated Cash Flow Statement

EUR thousand

Cash flows		1-6 2007	1-6 2008
A	Cash flows from operating activities		
	Gross cash flow from operating activities	78,132	85,062
1	Change in trade and other receivables	-19,510	-25,472
2	Change in inventories	-9,500	-11,191
3	Change in trade and other payables	57,727	-16,954
	Changes in working capital	28,717	-53,618
1	Interest paid	-20,027	-29,155
2	Income tax paid	-4,981	-4,252
I	Net cash from operating activities	81,842	-1,962
B	Cash flows from investing activities		
1	Acquisition of subsidiaries	-2,219	-7,294
2	Acquisition of property, plant and equipment	-50,276	-107,555
3	Acquisition of intangible assets	-536	-8,757
4	Loans made	3,748	-54,416
5	Proceeds from sale of property, plant and equipment	5,820	10,795
6	Proceeds from sale of intangible assets	82	1,786
7	Proceeds from sale of available-for-sale financial assets	155	7,221
8	Interest received	3,950	8,528
II	Net cash used in investing activities	-39,276	-149,691
C	Cash flows from financing activities		
1	Proceeds (repayments) of borrowings	-45,063	157,039
III	Net cash from financing activities	-45,063	157,039
1	Net increase in cash and cash equivalents	-2,497	5,385
2	Cash and cash equivalents at the beginning of the period	18,035	23,089
3	Currency translation differences	-119	175
D	Cash and cash equivalents at the end of the year	15,419	28,650

Consolidated Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total
Balance at 1 January, 2007	157,126	193,298	-4,900	148,701	50,343	56,106	0	6,301	606,975	40,905	647,880
Revaluation of property	0	0	0	0	-1,238	1,238	0	0	0	0	0
Change in fair value of cash flow hedges	0	0	0	0	0	5,700	0	0	5,700	0	5,700
Currency translation differences	0	0	0	0	0	0	0	-756	-756	0	-756
Total income (expense) recognized directly in equity	0	0	0	0	-1,238	6,938	0	-756	4,944	0	4,944
Profit for the year							20,751		20,751	555	21,306
Total recognized income (expense)	0	0	0	0	-1,238	6,938	20,751	-756	25,695	555	26,250
Dividends to equity holders	0	0	0	0	0	-14,805	0	0	-14,805	0	-14,805
Allocation of disposable income following the management / supervisory board resolution	3	0	0	48,236	0	-48,239	0	0	0	0	0
Purchase of minority interest	0	0	0	0	0	0	0	0	0	-2,538	-2,538
Balance at 30 June 2007	157,129	193,298	-4,900	196,937	49,105	0	20,751	5,545	617,864	38,922	656,786

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total
Balance at 1 January, 2008	157,129	198,848	-3,250	243,309	68,078	0	26,047	-4,223	685,938	2,258	688,196
Revaluation of property	0	0	0	0	157,507	0	0	0	157,507	25	157,532
Change in fair value of cash flow hedges	0	0	0	0	2,549	0	0	0	2,549	0	2,549
Other changes in equity	0	0	0	0	-35,026	5,408	0	0	-29,618	0	-29,618
Currency translation differences	0	0	0	0	0	0	0	4,138	4,138	3	4,141
Total income (expense) recognized directly in equity	0	0	0	0	125,030	5,408	0	4,138	134,575	28	134,604
Profit for the year	0	0	0	0	0	0	22,331	0	22,331	6	22,337
Total recognized income (expense)	0	0	0	0	125,030	5,408	22,331	4,138	156,907	34	156,941
Allocation of disposable income following the management / supervisory board resolution	0	0	0	0	0	26,047	-26,047	0	0	0	0
Purchase of minority interest	0	0	0	0	0	0	0	0	0	-57	-57
Balance at 30 June, 2008	157,129	198,848	-3,250	243,309	193,108	31,455	22,331	-85	842,845	2,235	845,080

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

- **Net sales revenues**

Net sales revenues for the period 1 - 6 2008 amounted to EUR 1,282,205 thousand and arrived at 48.8 % of planned net sales revenues for the year 2008; they exceed the figure from the comparable period last year by 14.3 %.

Revenues resulting from the sale of goods and materials take 90.8 % of total net sales revenues, while the remaining 9.2 % originates from sales of products and services.

- **Cost of goods sold**

Costs of goods sold including production costs, purchase value of sold goods and material, and other operating expenditures amounted in the relevant period to EUR 950,103 thousand, and exceeded the same category by 16.1 % compared to the same period last year.

- **Gross profit**

Gross profit for the period 1 - 6 2008 amounted to EUR 332,102 thousand, which is a 9.6 % increase compared to the period 1 - 6 2007 and represents 48.0 % of the 2008 plan.

The share of gross profit in revenues from sales in the period 1 - 6 2008 amounted to 25.9 percent, which is 1.1 percentage point less than in the same period last year (27.0 percent); this is mainly the consequence of geographical distribution of revenues and lower margins.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses amounted to EUR 296,410 thousand and exceed the figures for the comparable period last year by 11.1 %, representing 48.5 % of the 2008 plan.

Expenses by nature

EUR thousand

	Type of Cost	1-6 2007	Plan 2008	1-6 2008	Index	Index
1	2	3	4	5	6=5/3	7=5/4
1.	Costs of material	33,717	77,712	35,701	105.9	45.9
2.	Costs of services	75,819	180,868	84,273	111.2	46.6
3.	Depreciation and amortisation	39,073	86,155	44,516	113.9	51.7
4.	Provisions for other liabilities and charges	0	414	0	-	-
5.	Labour costs	132,791	296,385	141,050	106.2	47.6
6.	Other expenses	8,563	13,913	8,803	102.8	63.3
7.	Cost of goods sold	795,072	1,891,743	932,170	117.2	49.3
8.	TOTAL COSTS	1,085,035	2,547,189	1,246,513	114.9	48.9

Also included among the administrative expenses are the adjustments in current assets in the amount of EUR 1,350 thousand, and losses from the disposal of PPE in the amount of EUR 52 thousand.

- **Other revenues from operations**

Other revenues from operations amounted to EUR 11,238 thousand, of which EUR 6,571 thousand is related to proceeds from disposal of PPE, while the remaining other revenues from operations in the amount of EUR 4,667 thousand relate to revenues from indemnities and other revenues.

- **Operating profit**

Operating profit for the period 1 - 6 2008 amounted to EUR 46,930 thousand, which is EUR 4,620 thousand, or 10.9 % more than the same figure for the period 1 - 6 2007. Operating profit represents 51.8 % of the 2008 plan.

- **Finance income and expenses**

Finance income amounted to EUR 10,824 thousand, which is 103.7 percent more than in the period 1 - 6 2007. Financial revenues were mostly generated by regular interest from financing, revenues from default interest, and positive currency translation differences.

Finance expenses for the relevant period amount to EUR 30,548 thousand, of which a major portion relates to costs from interest paid to commercial banks, financial lease, and bonds. Compared to the same period last year, they represent a 48.3 % increase, mostly resulting from increases in interest rates.

- **Profit for the financial period**

In the period 1 - 6 2008, the Mercator Group realized EUR 22,337 thousand of net profit, which is 4.8 percent more than in the same period last year.

- **Gross cash flow from operating activities**

Gross cash flow from operating activities of the Mercator Group for the period 1 - 6 2008 amounted to EUR 85,062 thousand, which is 8.9 % more compared to the period 1 - 6 2007, arriving at 49.1 percent of the 2008 plan. Since Mercator Group is also expanding its retail network by leasing required facilities, calculation of gross cash from operating activities before rents (or EBITDAR) is also presented below.

EUR thousand

Cash flows	1-6 2007	Plan 2008	1-6 2008	Indeks	Indeks
Profit for the financial period	21,306	40,556	22,337	104.8	55.1
Income tax expense	4,981	8,599	4,252	85.4	49.5
Deferred income tax	741	892	617	83.2	69.2
Depreciation and amortisation	39,073	86,155	44,516	113.9	51.7
Negative goodwill recognized directly in the income statement	0	0	-217	-	-
Gain on sale of property, plant and equipment	-2,229	-3,985	-6,519	292.5	163.6
Change in provisions, accruals and deferrals	-1,411	-726	-564	39.9	77.6
Change in retirement benefit obligations	0	965	0	-	-
Gain on sale of available-for-sale financial assets	-406	-4,574	12	-	-
Interest received	-3,950	-7,174	-8,528	215.9	118.9
Interest paid	20,027	52,508	29,155	145.6	55.5
Gross cash flow from operating activities	78,132	173,215	85,062	108.9	49.1
Rental	4,232	13,950	9,143	216.0	65.5
Gross cash flow from operating activities before rental expenses	82,365	187,165	94,205	114.4	50.3

NOTES TO THE CONSOLIDATED BALANCE SHEET

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

As at June 30th 2008, the value of PPE, investment property, and intangible assets amounts to EUR 1,735,000 thousand, which is EUR 235,873 thousand more than at the beginning of the year; these assets represent 72.3 % of total assets.

Consistently with the accounting policies, Mercator Group obtained on January 1st 2008 the appraisals of fair value for real estate at which potential deviations of fair values from their book values was assumed. Based on the appraisals, the PPE was revalued to a new fair value; as a result, increase in the value of property, plant, and equipment was recognized on January 1st 2008 in the amount of EUR 157,507 thousand.

Other changes in the period 1 - 6 2008 relate to investments, depreciation and amortization, disposal of commercially unviable assets, and currency translation differences.

- **Derivative financial instruments**

As at June 30th 2008, the positive fair value of derivative financial instruments intended for the hedging the risks related to cash flow, amounts to EUR 8,320 thousand, which is EUR 2,549 thousand more than at the end of 2007. In the period 1 - 6 2008, no new agreements on derivative financial instruments were signed.

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

Non - current trade and other receivables as at June 30th 2008 amounted to EUR 427 thousand; they include long-term loans granted and deposits.

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

Available-for-sale financial assets as at June 30th 2008 amount to EUR 19,918 thousand, which is EUR 4,317 thousand less than as at December 31st 2007.

- **Inventories**

Inventories of raw materials, material, and trade goods as at June 30th 2008 amount to EUR 259,027 thousand, and represent 41.3 % of the total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 11,191 thousand, or 4.5 percent.

- **Current trade and other receivables**

Current trade receivables

As at June 30th 2008, current trade and other receivables amounted to EUR 265,024 thousand, which is EUR 20,685 thousand less than at the beginning of the year.

Short-term granted loans, deposits, and short-term financial investments as at June 30th 2008 amounted to EUR 69,127 thousand, which is EUR 54,509 thousand more than at the beginning of the year. The increase is mostly the result of active financial risk management, as Mercator Group - given the current circumstances in financial markets - established a financial reserve that is to be used for financing requirements during the year. Thus, the Group provided adequate financial flexibility for implementation of its development plans in 2008.

- **Equity**

In the period 1 - 6 2008, the equity of the Group rose by EUR 156,884 thousand. The changes are primarily related to the following:

- increase by net profit of the majority interest holder attained in the period 1 - 6 2008, in the amount of EUR 22,331 thousand;
-
- increase in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,549 thousand;
- increase due to the increase in the value of real estate in the amount of EUR 157,507 thousand;
- increase in equity due to currency translation differences in the translation of financial statements of foreign companies into the representation currency, in the amount of EUR 4,138 thousand;
- decrease in minority capital in the amount of EUR 23 thousand;
- other net decreases in equity in the amount of EUR 29,618 thousand; these are mostly related to deferred taxes due to revaluation of property, plant, and equipment.

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 5.9 %.

- **Financial liabilities**

Non-current financial liabilities as at June 30th 2008 amount to EUR 656,934 thousand, and have increased by EUR 21,477 thousand compared to the beginning of the year.

Current financial liabilities as at June 30th 2008 amount to EUR 336,681 thousand, and have decreased by EUR 135,562 thousand compared to the beginning of the year.

Total financial liabilities as at June 30th 2008 amount to EUR 993,615 thousand, which is EUR 157,039 thousand more than at the end of 2007. Taking into account the financial reserves, net financial liabilities amount to EUR 856,389 thousand, which is EUR 106,430 thousand more than at the end of 2007.

Compared to the beginning of the year 2008, the maturity of financial liabilities has changed. Non-current financial liabilities now represent 66.1 % of the total financial liabilities, and current financial liabilities represent the remaining 33.9 % (as at December 31st 2007, the ratio between non-current and current financial liabilities was 76 to 24).

- **Provisions for liabilities and charges**

As at June 30th 2008, the provisions amounted to EUR 34,857 thousand. Compared to the beginning of the year, these provisions have decreased by EUR 371 thousand.

- **Deferred income taxes**

As at June 30th 2008, the net deferred income tax liabilities totaled EUR 40,567 thousand.

- **Trade and other payables**

Trade and other payables as at June 30th 2008 amounted to EUR 472,569 thousand, which is EUR 14,572 thousand less than at the end of 2007.

Financial Indicators

	Mercator Group		
	1-6 2007	Plan 2008	1-6 2008
Indicators of profitability			
Return on equity*	6.6%	6.0%	5.9%
Return on sales	1.9%	1.5%	1.7%
Gross profit / revenue	27.0%	26.4%	25.9%
Indicators of financial structure			
Financial liabilities / equity	1.2	1.4	1.2
Equity and provisions to total equity and liabilities	36.6%	32.9%	36.7%
Financial liabilities to total equity and liabilities	40.1%	43.4%	41.4%
Trade and other payables to total equity and liabilities	22.2%	22.5%	19.7%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (in 000 EUR)*	14.4	14.3	13.8
Revenue / labour costs	8.4	8.9	9.1
Revenue per employee per hours worked (in 000 EUR)*	121.7	126.5	125.8
Value added per employee per hours worked (in 000 EUR)*	22.9	22.6	22.2
Business costs / sales	23.7%	23.0%	22.7%
Gross cash flows from operating activities / revenue	7.0%	6.6%	6.6%
Gross cash flows from operating activities before rental expenses / revenue	7.3%	7.1%	7.3%
Invested capital (in EUR)	1,504,371	1,580,145	1,740,839
Gross cash flows from operating activities / invested capital*	10.4%	11.0%	9.8%

* The indicator is adjusted to the annual level.

Note: Value added is calculated as the sum of gross cash flow from operating activities and labor costs.

Invested capital represents the differences between total liabilities and current trade and other payables at the beginning of the financial period.

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

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

Income Statement

EUR thousand

	Type of revenue / expense / cost	1-6 2007	Plan 2008	1-6 2008	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Net sales revenues	810,578	1,772,861	855,399	105.5	48.2
1.	Revenue from products sold	1,622	26,510	708	43.7	2.7
2.	Revenue from services sold	63,884	144,448	72,147	112.9	49.9
3.	Revenue from goods and material sold	746,196	1,605,157	784,626	105.2	48.9
4.	Expenses for given discounts	-1,123	-3,254	-2,082	185.4	64.0
B.	Cost of goods sold	-587,017	-1,284,581	-621,380	105.9	48.4
1.	Production costs	-1,325	-16,937	-599	45.2	3.5
2.	Purchase value of goods and material sold	-587,574	-1,271,885	-622,802	106.0	49.0
3.	Received discounts	1,958	4,790	2,213	113.0	46.2
4.	Other expenses	-76	-550	-192	252.0	35.0
C.	Gross profit	223,561	488,280	234,019	104.7	47.9
D.	Selling and marketing costs	-151,646	-337,171	-158,346	104.4	47.0
E.	Administrative expenses	-41,477	-93,330	-43,670	105.3	46.8
F.	Other income	2,914	6,361	5,284	181.4	83.1
G.	Operating profit	33,352	64,140	37,287	111.8	58.1
H.	Finance income	1,891	10,415	4,003	211.6	38.4
I.	Finance expenses	-13,464	-35,517	-21,260	157.9	59.9
J.	Profit before income tax	21,780	39,038	20,030	92.0	51.3
K.	Income tax expense	-4,887	-7,977	-3,905	79.9	49.0
L.	Deferred income tax	-738	-647	-617	83.5	95.3
M.	Profit for the financial period	16,154	30,413	15,508	96.0	51.0
N.	Number of employees based on hours worked	12,080	12,510	12,077	100.0	96.5

Balance Sheet

EUR thousand

	Type of assets / liabilities	31.12.2007	Plan 31.12.2008	30.6.2008	Structure 30.6.2008	Index
1	2	3	4	5	6	7=5/3
	ASSETS					
A.	NON-CURRENT ASSETS	1,318,592	1,385,196	1,514,812	77.1%	114.9
I.	Property, plant and equipment	750,899	861,239	919,425	46.8%	122.4
II.	Investment property	16,476	12,121	9,676	0.5%	58.7
III.	Intangible assets	9,374	3,811	13,844	0.7%	147.7
IV.	Deferred income tax assets	8,543	8,055	8,054	0.4%	94.3
V.	Derivative financial instruments	5,771	2,974	8,320	0.4%	144.2
VI.	Trade and other receivables	389	327	353	0.0%	90.7
VII.	Investment into equity of subsidiaries	505,187	496,669	537,539	27.4%	106.4
VIII.	Available-for-sale financial assets	21,951	0	17,601	0.9%	80.2
B.	CURRENT ASSETS	360,291	362,337	449,045	22.9%	124.6
I.	Inventories	167,823	180,817	173,961	8.9%	103.7
II.	Trade and other receivables	191,723	180,613	258,723	13.2%	134.9
	- trade and other receivables	191,302	179,030	196,969	10.0%	103.0
	- loans and deposits	421	1,583	61,754	3.1%	14,669.4
III.	Advance payments for current assets	457	0	413	0.0%	90.4
IV.	Cash and cash equivalents	288	906	15,949	0.8%	5,537.1
	TOTAL ASSETS	1,678,882	1,747,533	1,963,857	100.0%	117.0
A.	EQUITY	683,035	687,957	795,655	40.5%	116.5
I.	Ordinary shares	157,129	157,129	157,129	8.0%	100.0
II.	Share premium	198,848	198,848	198,848	10.1%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-0.2%	100.0
IV.	Revenue reserves	214,979	199,077	214,979	10.9%	100.0
V.	Fair value reserve	94,915	80,759	183,390	9.3%	193.2
VI.	Retained earnings	2,705	24,982	29,052	1.5%	1,073.9
VII.	Profit for the year	17,708	30,413	15,508	0.8%	87.6
	LIABILITIES					
B.	NON-CURRENT LIABILITIES	471,652	504,739	526,716	26.8%	111.7
I.	Financial liabilities	425,465	464,907	455,215	23.2%	107.0
II.	Deferred tax liabilities	15,953	12,557	41,353	2.1%	259.2
III.	Provisions	30,233	27,274	30,148	1.5%	99.7
D.	Current liabilities	524,195	554,837	641,486	32.7%	122.4
I.	Trade and other payables	349,993	345,546	330,096	16.8%	94.3
II.	Current tax liabilities	4,201	10,046	3,905	0.2%	93.0
III.	Financial liabilities	170,001	199,246	307,484	15.7%	180.9
	TOTAL LIABILITIES	995,847	1,059,576	1,168,202	59.5%	117.3
	TOTAL EQUITY AND LIABILITIES	1,678,882	1,747,533	1,963,857	100.0%	117.0
	Number of employees as at the end of the period	12,607	13,296	12,828	-	101.8

Cash Flow Statement

EUR thousand

	Cash flows	1-6 2007	1-6 2008
A	Cash flows from operating activities		
	Gross cash flow from operating activities	53,365	59,120
1	Change in trade and other receivables	-15,757	-5,133
2	Change in inventories	-5,906	-6,138
3	Change in trade and other payables	54,121	-21,436
	Changes in working capital	32,458	-32,708
1	Interest paid	-13,393	-21,027
2	Income tax paid	-4,887	-3,905
I	Net cash from operating activities	67,543	1,480
B	Cash flows from investing activities		
1	Acquisition of subsidiaries	-2,219	-32,351
2	Acquisition of property, plant and equipment	-23,387	-70,293
3	Acquisition of intangible assets	-972	-5,834
4	Acquisition of available-for-sale financial assets	0	0
5	Loans made	0	-61,369
6	Proceeds from sale of subsidiaries	0	0
7	Proceeds from sale of property, plant and equipment	2,799	6,407
8	Proceeds from sale of intangible assets	0	0
9	Proceeds from sale of available-for-sale financial assets	-155	7,221
10	Interest received	1,410	3,168
11	Dividends received	0	0
12	Loan repayments received	254	0
II	Net cash used in investing activities	-22,270	-153,052
C	Cash flows from financing activities		
1	Proceeds from issue of share capital	0	0
2	Proceeds (repayments) of borrowings	-44,735	167,233
3	Dividends paid to company shareholders	0	0
III	Net cash from financing activities	-44,735	167,233
1	Net increase in cash and cash equivalents	538	15,661
2	Cash and cash equivalents at the beginning of the period	2,493	288
D	Cash and cash equivalents at the end of the year	3,031	15,949

Statement of Changes in Equity

EUR thousand								
	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Total
Balance at 1 January, 2007	157,126	193,298	-4,900	74,767	76,794	110,623	9,691	617,398
Revaluation of property	0	0	0	0	-1,238	1,238	0	0
Change in fair value of cash flow hedges	0	0	0	0	5,700	0	0	5,700
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	0	0
Other changes in equity	0	0	0	-1,806	1,806	9,691	-9,691	0
Total income (expense) recognized directly in equity	0	0	0	-1,806	6,268	10,929	-9,691	5,700
Profit for the year	0	0	0	0	0	0	16,154	16,154
Total recognized income (expense)	0	0	0	-1,806	6,268	10,929	6,464	21,855
Dividends to equity holders	0	0	0	0	0	-14,806	0	-14,806
Allocation of disposable income following the management / supervisory board resolution	3	0	0	107,311	-1,806	-105,508	0	0
Balance at 30 June 2007	157,129	193,298	-4,900	180,272	81,256	1,238	16,154	624,447

EUR thousand								
	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the year	Total
Balance at 1 January, 2008	157,129	198,848	-3,250	214,979	94,915	20,414	0	683,035
Revaluation of property	0	0	0	0	115,284	0	0	115,284
Change in fair value of cash flow hedges	0	0	0	0	2,549	0	0	2,549
Other changes in equity	0	0	0	0	-29,359	8,638	0	-20,721
Total income (expense) recognized directly in equity	0	0	0	0	88,474	8,638	0	97,113
Profit for the year	0	0	0	0	0	0	15,508	15,508
Total recognized income (expense)	0	0	0	0	88,474	8,638	15,508	112,620
Balance at 30 June 2008	157,129	198,848	-3,250	214,979	183,390	29,052	15,508	795,655

Notes to the Financial Statements

NOTES TO THE INCOME STATEMENT

- Net sales revenues**

Net sales revenues for the period 1 - 6 2008 amounted to EUR 885,399 thousand, which is an increase by 5.5 % over the comparable period last year, and represents 48.2 percent of planned net sales revenues for the year 2008.

Revenues resulting from the sales of goods and materials amounted to EUR 784,626 thousand, which is 5.2 % more compared to the same period last year.

Revenues from sales of products and services amounted to EUR 72,855 thousand, which is an 11.2 percent increase compared to the same period last year.

- **Cost of goods sold**

Cost of goods sold including production costs, purchase value of goods and materials, and other operating expenditures in the relevant period, amounted to EUR 621,380 thousand, and exceed the last year figures for the same category by 5.9 percent.

- **Gross profit**

Gross profit for the period 1 - 6 2008 amounted to EUR 234,019 thousand, which is 4.7 percent more than in the period 1 - 6 2007, and represents 47.9 percent of the 2008 plan.

The share of gross profit in revenues from sales amounted to 27.4 percent, which is 0.2 percentage point less than in the same period last year.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses amount to EUR 202,016 thousand, which is 4.6 percent more than in the same period last year; the figure represents 46.9 percent of the planned value for 2008.

The share of costs without amortization and depreciation amounts to 20.8 percent, which is 0.4 percentage point less than in the same period last year. The increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, optimization of logistics infrastructure, and category management.

Also included among the administrative expenses are the losses from the disposal of PPE in the amount of EUR 24 thousand.

- **Other revenues from operations**

Other revenues from operations in the period 1 - 6 2008 amounted to EUR 5,284 thousand, which is EUR 2,371 thousand more than in the same period last year. The increase relates mostly to higher proceeds from disposal of property, plant, and equipment, which amounted to EUR 2,371 in the period 1 - 6 2008 (in the period 1 - 6 2007, the proceeds from disposal of property, plant, and equipment amounted to EUR 1,078 thousand). The remaining other revenues from operations relate to proceeds from indemnities, and other revenues.

- **Operating profit**

Operating profit for the period 1 - 6 2008 amounted to EUR 37,287 thousand which is 11.8 percent more than in the period 1 - 6 2007, representing 58.1 percent of the planned figure for 2008.

- **Finance income and expenses**

In the period 1 - 6 2008, finance income amounted to EUR 4,003 thousand, of which EUR 3,168 thousand relates to revenues from interest.

Finance expenses in the period 1 - 6 2008 amounted to EUR 21,260 thousand, of which the better part of EUR 14,693 thousand relates to finance expenses for current interest.

- **Profit for the financial period**

Company net profit for the period 1 - 6 2008 amounted to EUR 15,508 thousand, which is 4.0 percent less than in the same period of the last year, and represents 51.0 percent of the 2008 plan.

NOTES TO BALANCE SHEET

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

As at June 30th 2008, the value of PPE, investment property, and intangible assets amounts to EUR 942,944 thousand, which is EUR 166,195 thousand more than at the beginning of the year. These assets represent 48.0 % of total assets. The change in value is a result of increase in the value of assets as recognized on January 1st 2008, investment, amortization and depreciation, and disposal of commercially unviable assets.

- **Derivative financial instruments**

As at June 30th 2008, the derivative financial instruments intended for hedging the risks to cash flow, at positive fair value, amounted to EUR 8,320 thousand, which is EUR 2,549 thousand more than at the end of 2007. The difference is indicated as an increase in equity.

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

Non-current trade and other receivables as at June 30th 2008 amount to EUR 353 thousand, which is approximately the same as at the beginning of 2008.

- **Investment into interest of Group subsidiaries**

Investment into the interest, or equity, of Mercator Group subsidiaries increased by 32,353 thousand in the period 1 - 6 2008; the better part of the increase relates to the capital increase in the company Mercator - H, d.o.o.

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

Available-for-sale financial assets as at June 30th 2008 amount to EUR 17,601 thousand. Compared to the beginning of the year, available-for-sale financial assets fell by EUR 4,350 thousand.

- **Inventories**

Inventories of raw materials, material, and trade goods as at June 30th 2008 amount to EUR 173,961 thousand, and represent 38.7 % of total current assets. Compared to the beginning of the year, the value of inventories rose by EUR 6,138 thousand, or 3.7 percent.

- **Current trade and other receivables**

Current trade receivables

As at June 30th 2008, current trade and other receivables amounted to EUR 196,969 thousand, which is EUR 5,667 thousand more than at the beginning of the year.

Short-term loans granted, deposits, and short-term financial investments as at June 30th amounted to EUR 61,754 thousand, which is EUR 61,333 thousand more compared to the beginning of the year. The increase is a result of active financial risk management; given the current circumstances in financial markets, these activities included establishing liquidity reserves to enable unhindered implementation of our investment plans.

- **Equity**

In the period 1 - 6 2008, company equity increased by EUR 112,620 thousand. The major changes are related to the following:

- increase by net profit attained in the period 1 - 6 2008, in the amount of EUR 15,508 thousand;
- increase in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,549 thousand;
- increase due to the increase in the value of property, plant, and equipment in the amount of EUR 115,284 thousand;
- other net decreases in equity in the amount of EUR 20,721 thousand. These relate mostly to deferred taxes incurred upon the revaluation of property, plant, and equipment.

Net return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 4.2 %.

- **Financial liabilities**

As at June 30th 2008, financial liabilities amounted to EUR 762,700 thousand, which is EUR 167,233 thousand more than at the end of 2007.

Compared to the beginning of the year, the maturity of financial liabilities has changed: non-current financial liabilities now represent 59.7 percent of total financial liabilities, and current liabilities represent the remaining 40.3 percent (as at December 31st 2007, the ratio between non-current and current financial liabilities was 71.5 to 28.5).

- **Provisions for liabilities and charges**

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

- **Deferred taxes**

As at June 30th 2008, net deferred income tax liabilities totaled at EUR 33,299 thousand.

- **Trade and other payables**

Trade and other payables as at June 30th 2008 amounted to EUR 330,096 thousand, which is EUR 19,897 thousand less than at the end of 2007.

Financial Indicators

	Company Poslovni sistem Mercator, d.d.		
	1-6 2007	Plan 2008	1-6 2008
Indicators of profitability			
Return on equity*	5.3%	4.6%	4.2%
Return on sales	2.0%	1.7%	1.8%
Indicators of financial structure			
Financial liabilities / equity	0.9	1.0	1.0
Equity and provisions for liabilities and charges to total equity and liabilities	42.1%	40.9%	42.1%
Financial liabilities to total equity and liabilities	36.2%	38.0%	38.8%
Trade and other payables to total equity and liabilities	20.4%	19.8%	16.8%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (in 000 EUR)*	17.2	18.0	17.3
Sales / labour costs	7.8	7.9	8.2
Revenues per employee per hours worked (in 000 EUR)*	134.2	141.7	141.7
Business costs / sales	23.6%	24.1%	23.3%

* The indicator is adjusted to the annual level.