



POSLOVNI SISTEM MERCATOR, D.D.

www.mercator.si

Sector:
Retail

Ticker:
MELR SV

PRICE (15.09.2006)	EUR 174.04
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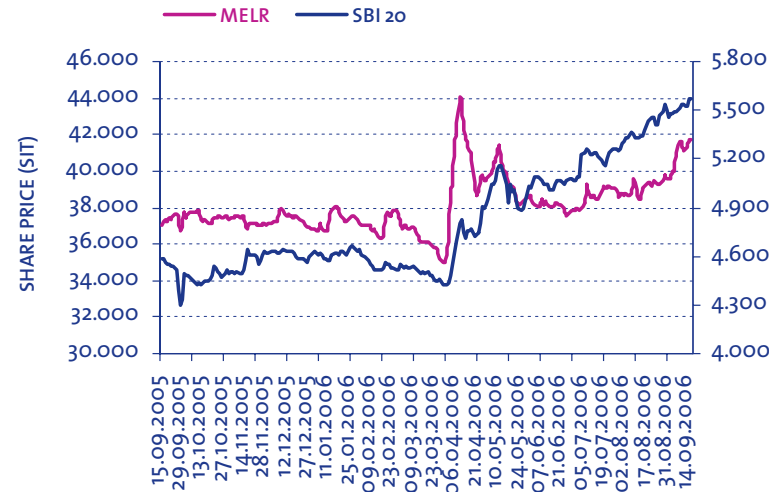
MELR	
NO OF SHARES	3,590,844
MIN (52 WEEK)	EUR 146.07
MAX (52 WEEK)	EUR 183.69
MARKET CAP.	EUR 624.95 MN

BV (31.12.2005)	EUR 142.71
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RATIOS*	
P/E	30.12
P/B	1.11
EV/EBITDA	10.31
EPS	EUR 5.78

* values based on H1 2006 annualized results and current prices

Mercator is the largest Slovenian retail company. It is the absolute largest Slovenian company in general considering their revenues and number of employees. Mercator's goal is to become the leading retailing chain in the South Eastern European region. Its market share in Slovenia was attained by numerous takeovers and by purchasing 23 smaller retail companies. As one, they now stand to represent Mercator's trade mark.



In Slovenia, Mercator has around 45% of the market share. After the takeovers of Slovenian companies came to an end, Mercator directed its expansion plans to the ex-Yugoslavian region. The company already has affiliate companies in Croatia, Bosnia and Herzegovina and Serbia and Montenegro.

Future plans of Mercator Group include guarding their market share and consolidation of the business. Plans for 2007 include expansion towards the Macedonian market, where Mercator already bought a site to build a hypermarket. The new management board is planning to strengthen the position on the present markets and to wait with the larger expansion in region. One of the first steps were takeover of Serbian retail company Rodić M&B Group, which has around 10% market share in Serbia.

In the first half of 2006 Mercator Group's total sales amounted to EUR 938 mn, which is a 16% increase comparing to the same period 2005. Operating profit amounted to EUR 32 mn and was 18% higher than in the same period last year. Net profit in the amount of EUR 16.6 mn was 10% lower than in the same 2005. It is to expect that Mercator Group will increase its performance in the second part of 2006. It is also to mention, that the company made substantial ride offs in late 2005. It is to expect that total sales of Mercator Group will amount to around EUR 2 bn in 2006 and net profit should increase to EUR 30 mn.

COMPANY PROFILE:

The predecessor of the company Poslovni sistemi Mercator was established in 1949 under the name Živila Ljubljana. Mercator became a private joint-stock company in 1995. In 1997, a new management board was appointed and its president and CEO Zoran Janković adopted a new vision, strategy and ambitious goals to create the best retailer in Slovenia.



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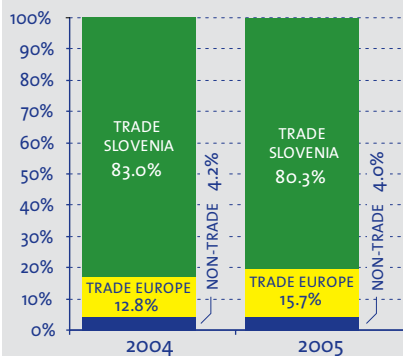
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MARKET SHARE	SLO	CRO	BIH	SCG
2000	36,8%	0,4%	0,0%	0,0%
2001	37,2%	2,0%	0,7%	0,0%
2002	39,8%	2,9%	1,0%	1,0%
2003	42,2%	2,1%	2,0%	1,0%
2004	41,0%	2,1%	2,0%	1,0%
2005	45,5%	1,6%	1,6%	0,4%

Poslovni sistemi Mercator is consolidating its operating activities. In 2004, the company took over the retail and wholesale operations of Živila Kranj d.d. and in 2005, it merged the companies Mercator - Goriška d.d. and Mercator - Dolenjska d.d. to the controlling company. Agreements on the acquisition of Era trade network in Croatia, Era retail and wholesale in Slovenia and Skopski sejem complex were signed in 2005. In 2006, Mercator will continue to expand their retail network in Slovenia by opening a Mercator center in Maribor and trade centers in Cerknica, Lesce, Krško and Bohinjska Bistrica. Mercator is also planning to expand the web store delivery area for market program in Slovenia by adding products from technical range and to enable the applicability of charge cards Mercator Pika for other services as telecommunications.

At the end of 2005 Poslovni sistemi Mercator group included several subsidiaries in Slovenia and in South Eastern European region:

AFFILIATE COMPANY		OWNERSHIP STAKE
TRADE- SLOVENIA	Mercator - SVS d.d.	100%
	Alpkomerc Tolmin d.d.	97.4%
	Emona Maximarket d.d.	98.9%
	Mercator - Modna hiša d.o.o.	100%
	Savski otok d.o.o.	100%
TRADE - EUROPE	Mercator - H d.o.o.	100%
	RM Trgohit d.o.o.	100%
	Era Tornado d.o.o.	100%
	Mercator - BH d.o.o.	100%
	Mercator - S d.o.o.	100%



	Mercator Makedonija d.o.o.	90%
NON - TRADE	Pekarna Grosuplje d.d.	75.1%
	Belpana d.o.o.	100%
	Eta d.d.	97.3%
	Mercator - Emba d.d.	69.2%
	Mercator - Optima d.o.o.	100%
	M Hotel d.o.o.	100%

At the end of 2005, there were 16,372 employees in Mercator group, 9,458 of them worked in the parent company. Considering the balance at the end of 2004, the number of employees increased by 5.2%.

The retail units of Mercator Group at the end of June 2006:

RETAIL UNITS	NO OF UNITS	RETAIL UNITS	NO OF UNITS
hypermarkets	31	technical programe	95
supermarkets	136	furniture programe	43
superettes	349	clothing programe	127
self-service stores	137	Intersport	40
cash&carry	9	drugstores & erfumeries	22
department store	1	restaurants	62
Hura! discounts	12	other	2
franchies stores	180	TOTAL	1,245



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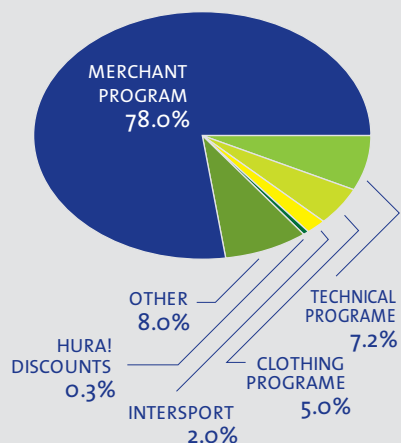
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PERFORMANCE:

TRADING PROGRAME, 2005



Net sales revenues of Mercator group amounted to EUR 1.7 bn in 2005, which were 11.2% higher than in the previous year and 9.3% more than planned. Merchant program had a 96% stake in total sales (15.7% was realised outside Slovenia). Non-trade programs realised 4% of total sales. Slovenia reached a 7.4% increase in sales and trading departments outside Slovenia set a 36% increase in net sales as a consequence of opening of Mercator centres in Zadar, Čačak, Dobrinja. The Mercator company created EUR 1.2 bn net sale revenues or 28.4% more than in 2004 and 11.2% more than planned. Retail sales accounted EUR 878.9 mn (72.9%), wholesale revenues EUR 234.7 mn (19.5%) and other programs 7.7%.

In 2005, Mercator group created EUR 13.6 mn net profit, which presented 34.8% less than in 2004. The decrease in profit was mainly due to effects of impairment of tangible assets and Era companies in Croatia. In 2005, Mercator company had EUR 31.1 mn profit and in comparison to the previous year, it has increased its profit by 65.2%. Net profit of majority owners amounted to EUR 13.3 mn, the profit of minority owners amounted to EUR 325 thousand.

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SHAREHOLDERS:

On 15 September 2006, ten largest shareholders owned 67.12% stake of the company:

	SHAREHOLDER	NO OF SHARES	% STAKE	CUMULATIVE % STAKE
1	BANKA KOPER D.D.	472,915	13.17	13.17
2	INFOND HOLDING, D.D.	460,498	12.82	25.99
3	PIVOVARNA UNION D.D.	367,437	10.23	36.23
4	PIVOVARNA LAŠKO, D.D.	317,498	8.84	45.07
5	ISTRABENZ D.D.	275,414	7.67	52.74
6	ZVON ENA HOLDING, D.D.	218,193	6.08	58.82
7	KD GROUP D.D.	106,950	2.98	61.79
8	POM-INVEST D.D.	65,973	1.84	63.63
9	MERCATOR, D.D.	63,915	1.78	65.41
10	KLM NALOŽBE, D.D.	61,490	1.71	67.12

On May 4th 2006, the Competition Protection Office of Republic of Slovenia adopted the decision that it does not oppose to the concentration of Poslovni sistem Mercator d.d. and Era, alimentary and non-alimentary product trade, d.d. On May 3rd 2006, Mercator received a decision by the Central Securities Clearing Corporation (KDD d.d.) that 382,340 shares (SIT 3.8 bn SIT or EUR 15.9 mn) have been added to the code MELR. The number of shares traded on Ljubljana Stock Exchange has increased from 3,208,504 to 3,590,844.

On April 4th 2006, Altima Global Special Situations Master Fund, managed by Altima Partners LLP, announced its intention to buy up to 24.99% of MELR. The invitation for the offer was made at the amount of SIT 41,000 (around EUR 170). Altima was represented by Ilirika brokerage house Plc. On 19th April Altima took back its offer, gaining something more than 2% of Mercator's shares. During the

offer period the market price was higher, reaching the top at SIT 45,299 (around EUR 188).

On April 14th 2006, Mercator and the company TUP Rodić M&B CO d.o.o., Novi Sad, one of the largest Serbian retailers, signed a letter of intent of strategic alliance in the field of consumer goods retail in Serbia and Montenegro. It was foreseen that Mercator would become an important owner of the company performing retail activity in the Rodić M&B Group and vice versa. The purpose of Mercator is to strengthen the position in the South Eastern Europe.

On 20th October 2006, Mercator announced the price for the 76% share of the company M-Rodić, d.o.o., which amounts to EUR 116 mn. EUR 30 mn of the purchase price will be paid in Mercator's shares, while the remaining part will be paid for by assuming the liabilities of the seller, and/or in cash. The company Mercator will issue new shares based on approved capital; the shares value will be determined according to the average price at the Ljubljana Stock Exchange in the last full calendar month before the transaction is closed. Emission price per share for the 174,517 new shares will thus amount to SIT 41,194.77 (EUR 171.90), which is the average market price per share in September 2006.

BALANCE
SHEET

ooo EUR	GROUP				COMPANY			
	31.12.2005	31.12.2004	30.06.2006	05 / 04	31.12.2005	31.12.2004	30.06.2006	05 / 04
NON-CURRENT ASSETS	1,168,783	830,655	1,212,075	40.7%	976,975	714,484	1,018,617	36.7%
Intangible assets	10,12	5,699	9,499	77.6%	3,983	1,476	3,385	169.8%
Property, plant and equipment	1,149,857	811,83	1,192,449	41.6%	593,811	366,891	603,480	61.8%
Long-term financial investments	8,806	13,126	10,127	-32.9%	379,181	346,117	411,752	9.6%
CURRENT ASSETS	363,372	308,615	370,081	17.7%	263,612	214,319	270,601	23.0%
Inventories	179,893	163,246	195,778	10.2%	106,291	84,391	125,161	26.0%
Trade and other receivables	158,734	129,879	161,951	22.2%	138,42	108,814	139,601	27.2%
Short-term financial investments	8,217	4,374	1,438	87.8%	11,309	17,473	1,496	-35.3%
Cash and cash equivalents	16,528	11,117	10,915	48.7%	7,591	3,64	4,344	108.5%
DEFERRED EXPENSES AND ACCRUED REVENUES	6,111	959	0	537.2%	5,433	670		711.4%
TOTAL ASSETS	1,538,265	1,140,229	1,582,157	34.9%	1,246,020	929,473	1,289,218	34.1%
EQUITY	528,73	378,274	555,147	39.8%	478,959	391,381	539,434	22.4%
Share capital	140,05	133,888	192,241	4.6%	140,05	133,888	192,383	4.6%
Capital reserves	19,975	2,723		633.6%	19,979	2,727		632.6%
Revenue reserves	133,945	107,346	57,043	24.8%	127,833	107,346	89,563	19.1%
Retained earnings	13,247	13,236	305,863	0.1%	0	98	257,488	-100.0%
Net profit / loss for the financial year	8,952	16,746		-46.5%	8,879	10,634		-16.5%
Equity revaluation adjustment	237,298	123,101		92.8%	182,218	136,774		33.2%
Currency translation differences	4,476	1,939		130.9%				
Minority interest	6,233	9,643	6,226	-35.4%				
PROVISIONS	42,285	49,17	13,756	-14.0%	45,839	18,049	10,158	154.0%
FINANCIAL AND OPERATING LIABILITIES	958,177	705,607	1,007,028	35.8%	716,096	516,6	739,626	38.6%

ooo EUR	GROUP				COMPANY			
	31.12.2005	31.12.2004	30.06.2006	05 / 04	31.12.2005	31.12.2004	30.06.2006	05 / 04
Long-term financial liabilities	354,529	262,555	456,444	35.0%	278,795	197,818	310,722	40.9%
Long-term operating liabilities	87,616	33,152	18,040	164.3%	33,586	33,127	12,438	1.4%
Short-term financial liabilities	269,036	198,266	282,139	35.7%	195,68	116,603	239,972	67.8%
Short-term operating liabilities	246,995	211,635	250,405	16.7%	208,034	169,052	176,494	23.1%
ACCRUED EXPENSES AND DEFERRED PAYMENTS	9,074	7,179		26.4%	5,126	3,444		48.9%
TOTAL LIABILITIES	1,538,265	1,140,229	1,582,157	34.9%	1,246,020	929,473	1,289,218	34.1%
Off balance sheet items	76,108	76,981		-1.1%	281,11	221,062		27.2%

INCOME
STATEMENT:

ooo EUR	GROUP			COMPANY		
	2005	2004	05 / 04	2005	2004	05 / 04
Sales	1,748,736	1,573,064	11.2%	1,207,889	940,763	28.4%
Costs of goods sold	1,263,534	1,132,289	11.6%	-876,022	-672,630	30.2%
Gross profit / loss from sales	485,202	440,775	10.1%	331,867	268,133	23.8%
Selling costs	363,825	319,879	13.7%	-232,018	-177,753	30.5%
Overhead/administrative costs	104,755	88,146	18.8%	-56,964	-55,682	2.3%
Other operating revenues	22,800	24,796	-8.1%	10,437	5,970	74.8%
Operating profit / loss	39,422	57,546	-31.5%	53,322	40,668	31.1%
Financial revenue from stakes	6,563	2,034	222.7%	15,569	1,840	746.0%
Financial revenue from long-term receivables	2,487	551	351.4%	788	510	54.4%
Financial revenue from short-term receivables	6,199	3,432	80.6%	2,781	2,193	26.8%
Financial costs of long-term and short-term financial investment write-off	658	947	-30.5%	-30,533	-3,008	915.1%
Interest expenses and expenses from other liabilities	24,398	31,799	-23.3%	-15,032	-19,133	-21.4%
Profit/loss from ordinary activities	29,615	30,816	-3.9%	26,895	23,071	16.6%
Extraordinary revenues	1,315	1,433	-8.3%	605	378	60.2%
Extraordinary expenses	745	631	18.2%	-268	-365	-26.7%
Profit from ordinary activities	569	803	-29.1%	337	12	2,650.2%
Income tax	9,355	3,812	145.4%	-6,186	-1,814	240.9%
Deferred tax	2,395	0		1,932	0	
Net profit / loss from financial period	23,224	27,807	-16.5%	22,978	21,269	8.0%
Equity holders of the Company	23,051	27,381	-15.8%			
Minority interest	173	426	-59.4%			

ooo EUR	GROUP			COMPANY		
	30.6.2006	30.6.2005	06 / 05	30.6.2006	30.6.2005	06 / 05
SALES	938,907	806,627	16.40%	673,027	568,398	18.41%
Revenue from products sold	13,130	12,855	2.14%	1,218	793	53.69%
Revenue from services sold	56,466	45,228	24.85%	48,818	40,859	19.48%
Revenue from goods and material sold	869,311	748,544	16.13%	622,990	526,745	18.27%
COST OF GOODS SOLD	-675,139	-583,315	15.74%	-489,702	-411,718	18.94%
Production costs	-20,958	-21,323	-1.71%	-314	-310	1.32%
Purchase value of goods and material sold	-662,936	-570,608	16.18%	-489,260	-411,111	19.01%
Received cassasconts	10,346	9,137	13.23%			
Other expenses	-1,590	-522	204.70%	-128	-297	-57.11%
GROSS PROFIT/LOSS	263,768	223,312	18.12%	183,325	156,680	17.01%
Selling and marketing costs	-190,030	-165,443	14.86%	-123,666	-109,565	12.87%
Administrative expenses	-47,588	-41,688	14.15%	-36,703	-31,078	18.10%
Other gains - net	5,861	7,488	-21.72%	1,643	4,741	-65.34%
OPERATING PROFIT/LOSS	32,012	23,669	35.25%	24,600	20,778	18.39%
Financial revenue	6,635	10,507	-36.85%	3,628	8,322	-56.41%
Financial costs	-15,596	-11,295	38.08%	-10,198	-7,795	30.84%
PROFIT/LOSS BEFORE INCOME TAX	23,051	22,881	0.75%	18,029	21,306	-15.38%
Income tax expense	-6,621	-4,144	59.77%	-4,402	-2,847	54.62%
Deferred tax	0	0		0	0	
PROFIT/LOSS FOR THE FINANCIAL PERIOD	16,910	18,736	-9.75%	14,044	18,458	-23.91%
Profit/loss attributable to equity holders of the Company	16,687	18,550	-10.04%			
Profit/loss attributable to minority interest	223	186	19.64%			



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COMPARATIVE ANALYSIS

FIRM	COUNTRY	MARKET CAPITALIZATION (MN EUR)	ROE	ROA	P/E	EST P/E	P/B	P/S
Carrefour	France	27,900.05	18.60	3.24	22.38	17.44	4.03	0.44
Tesco	UK	17,757.67	17.08	7.31	18.24	16.77	3.09	0.73
Metro	Germany	13,367.69	10.84	1.86	30.50	16.17	2.88	0.26
Ahold	Netherlands	9,845.13	3.12	0.64	78.41	16.25	2.57	0.27
J Sainsbury	UK	3,790.62	1.55	0.53	97.11	27.87	1.62	0.39
Delhaize Group	Belgium	5,194.84	11.34	3.85	14.62	14.52	1.70	0.30
Douglas Holding	Germany	1,237.72	11.97	5.11	20.20	19.39	2.29	0.53

Mercator	Slovenia	520.59	4.40	1.50	24.22	20.81	1.22	0.32
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Average - adjusted		9,991.19	10.87	2.94	33.95	17.20	2.51	0.39
Min		1,237.72	1.55	0.53	14.62	14.52	1.62	0.26
Max		27,900.05	18.60	7.31	97.11	27.87	4.03	0.73

Comparative price					241.80	142.61	354.37	208.10
Weight					0.10	0.30	0.20	0.40

PEER VALUE PER SHARE	221.08
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Source:
Bloomberg and Ilirika's estimates



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