

**MERKUR**

**MERKUR - trgovina in storitve, d. d., Cesta na Okroglo 7, 4202 Naklo**

**SUMMARY  
OF UNAUDITED REPORT ON OPERATIONS  
OF MERKUR, D. D. AND MERKUR GROUP  
FOR THE PERIOD FROM JANUARY TO SEPTEMBER 2006**

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# 1 INTRODUCTION

In compliance with *Pravila Ljubljanske borze vrednostnih papirjev, d. d.* (Rules and Regulations of the Ljubljana Stock Exchange), Merkur, d. d. (plc), with the registered office in Naklo, at Cesta na Okroglo 7, herewith releases the summary of unaudited financial statements of Merkur, d. d., and the Merkur Group for the period from January to September 2006. At their 23<sup>rd</sup> regular session of 16 November 2006, the Supervisory Board of Merkur gave its unqualified opinion of the financial statements of Merkur, d. d. and the Merkur Group for the period from January to September 2006. Any important changes to data in the company's prospectus are promptly released in public announcements on SEOnet of the Ljubljana Stock Exchange. The unabbreviated unaudited financial report for the period from January to September 2006 is available on sight at the registered office of Merkur, d. d. in Cesta na Okroglo 7, Naklo, in the e-information system of the Ljubljana Stock Exchange - SEOnet, and at [www.merkur.eu](http://www.merkur.eu).

## 1.1 Reporting Standards

Merkur, d. d., Cesta na Okroglo 7, Naklo has drawn and published its financial statements for the period from January to September 2006 and the consolidated financial statements of the Merkur Group for the period from January to September 2006 pursuant to the Companies Act, the EU adopted International Financial Reporting Standards (hereinafter referred to as IFRS), and Notes adopted by the International Accounting Standards Board (IASB).

This is the first-time adoption of IFRS in financial statements of Merkur, d. d. At their 15<sup>th</sup> meeting of 22 December 2005, the General Meeting of Shareholders passed a resolution according to which Merkur – trgovina in storitve, d. d. shall be preparing its financial statements and reports determined in Paragraph 1, Article 56 of the Companies Act in observance of IFRS for the period of the next five years starting with 1 January 2006. The transition to IFRS was carried out in compliance with IFRS – 1, the standard concerning the first-time adoption of IFRS. The date of transition to IFRS, or date of the opening balance sheet of Merkur, d. d. prepared in compliance with IFRS is 1 January 2005. An explanation of how the transition from previous standards to IFRS has affected the reported financial position, financial performance, cash flows, and total equity capital of the company is set out in point number 11 herein.

The Merkur Group prepares and releases its consolidated financial statements in compliance with IFRS for all accounting periods after 1 January 2005. Unaudited consolidated financial statements of the Merkur Group for the period from January to September 2006 include the same accounting principles as the consolidated financial statements for the year 2005.

All comparable financial statements of Merkur, d. d. and consolidated accounting statements of the Merkur Group for the period from January to September 2005, and at 30 September 2005, 31 December 2005, and 1 January 2006, are presented pursuant to the IFRS for comparability reasons.

## 1.2 Companies Included in the Consolidation

Subsidiary	Country	Ownership share since	Ownership share in %	Ownership share in %
			at 30 September 2006	at 30 September 2005
- Kovinotehna, d. o. o., Celje	Slovenia	1999	100	100
- Bofex, d. o. o., Ljubljana	Slovenia	1999	100	100
- Sava Trade, d. d.	Slovenia	2006	98.34	-
- Merkur International Zagreb, d. o. o.	Croatia	1994	100	100
- Merkur Nekretnine Zagreb, d. o. o.	Croatia	2000	100	100
- Bofex Zagreb, d. o. o.	Croatia	2004	49	49
- Merkur International Beograd, d. o. o.	Serbia and Montenegro	1994	100	100
- Bofex Beograd, d. o. o.	Serbia and Montenegro	2005	100	-
- Merkur Makedonija, doo, Skopje	Macedonia	1994	90.35	90.35
- Intermerkur, d. o. o., Sarajevo	Bosnia and Herzegovina	1998	99.99	99.63
- Merkur International Praha spol. S.r.o.	Czech Republic	1994	100	100
- Merkur - MI Handels GmbH.	Germany	1994	100	100
- Perles Merkur Italia, s.r.l.,	Italy	1994	100	100
- Big Bang Handels, GmbH	Austria	2004	80	80

In 2006, Bofex Beograd, d. o. o., and a company from Ljubljana, Sava Trade, d. d., were included into the Merkur Group. On 24 April 2006, Merkur concluded a sales contract on purchase of Sava Trade, d. d. According to that contract, Merkur became the owner and gained control over Sava Trade already on 1 January 2006. Sava Trade's financial statements have already been included into the consolidated financial statements of the Merkur Group. Thanks to the inclusion, the comparison of the opening balance of the Merkur Group as at 1 January 2006, and the consolidated financial statements as at 30 September 2006 to the data from the interim reports of the previous year, i.e. of 30 September 2005, is not fully possible.

## 2 HIGHLIGHTS ON OPERATIONS

### MERKUR, d. d.

Item	January - September			Index	
	2006	Plan 2006	2005	Plan=100	2005=100
Net sales revenues (in SIT thousand)	133,746,888	126,188,305	112,474,195	106.0	118.9
Net operating profit or loss from regular operations (in SIT thousand)	2,942,779	2,408,387	2,410,009	122.2	122.1
EBITDA (earnings before interest, tax, depreciation and amortization in SIT thousand)	4,383,536	3,979,077	3,893,243	110.2	112.6
Profit before taxation (in SIT thousand)	2,740,213	1,933,145	2,610,151	141.7	105.0
Net profit (in SIT thousand)	2,137,366	1,611,421	2,087,689	132.6	102.4
Added value (in SIT thousand)	14,090,530	12,886,056	12,285,082	109.3	114.7
Assets (as at 30 September - in SIT thousand)	166,630,825		137,259,352		121.4
Equity capital (as at 30 September - in SIT thousand)	49,903,549		43,510,303		114.7
Number of employees from hours worked	2,552	2,599	2,456	98.2	103.9
Net sales revenue per employee (in SIT thousand)	52,409	48,553	45,796	107.9	114.4
Added value per employee (in SIT thousand)	5,521	4,958	5,002	111.4	110.4
Net profit per employee (in SIT thousand)	838	620	850	135.1	98.5
Net return on equity - ROE - % p.a.	6.07		6.64		91.4
Total revenue net profitability rate - in %	1.57	1.26	1.82	125.3	86.4
Book value of share (as at 30 Sept. - in SIT)	38,019		35,823		106.1
Market price per share (as at 30 September - in SIT)	42,106		34,174		123.2
Market price per share in comparison to its book value (as at 30 September - in %)	111		95		116.1
Price-earnings ratio (P/E) (in SIT)	1,670	1,259	1,719	132.6	97.2

### MERKUR GROUP

Item	January - September			Index	
	2006	Plan 2006	2005	Plan=100	2005=100
Net sales revenues (in SIT thousand)	168,407,890	160,917,020	135,267,682	104.7	124.5
Net operating profit or loss from regular operations (in SIT thousand)	3,145,174	2,579,634	2,379,393	121.9	132.2
EBITDA (earnings before interest, tax, depreciation and amortization in SIT thousand)	5,282,400	4,877,606	4,321,085	108.3	122.2
Profit before taxation (in SIT thousand)	2,765,812	1,741,670	2,611,282	158.8	105.9
Net profit (in SIT thousand)	2,099,552	1,313,169	2,013,040	159.9	104.3
Added value (in SIT thousand)	18,690,119	17,371,524	15,339,178	107.6	121.8
Assets (as at 30 September - in SIT thousand)	181,849,625		148,173,650		122.7
Equity capital (as at 30 September - in SIT thousand)	48,282,556		40,913,262		118.0
Number of employees from hours worked	3,818	3,929	3,371	97.2	113.3
Net sales revenue per employee (in SIT thousand)	44,108	40,956	40,127	107.7	109.9
Added value per employee (in SIT thousand)	4,895	4,421	4,550	110.7	107.6
Net profit per employee (in SIT thousand)	550	334	597	164.5	92.1
Net return on equity - ROE - % p.a.	6.20		6.81		91.0
Total revenue net profitability rate - in %	1.23	0.80	1.45	152.72	84.4
Book value of share (as at 30 Sept. - in SIT)	36,661		33,663		108.9
Market price per share (as at 30 September - in SIT)	42,106		34,174		123.2
Market price per share in comparison to its book value (as at 30 September - in %)	115		102		113.1
Price-earnings ratio (P/E) (in SIT)	1,640	1,026	1,657	159.9	99.0

### **3 IMPORTANT EVENTS IN THE PERIOD FROM JANUARY TO SEPTEMBER 2006**

#### **Contract of Members on Establishment of a Company**

On 31 January 2006, Chairmen of Management Boards of SCT, d. d., and Merkur, d. d. signed a contract of members on establishment of a company for processing and distribution of concrete reinforcing steel and grids Železokrivnica SCT-Merkur, d. o. o., Cesta na Brod 2, Ljubljana. Share capital of the company totals SIT 72 million. The company is managed by a six-member Management Board: three from Merkur, and three from SCT. The Management Board runs the business and passes all business decisions independently. Merkur holds a 45% stake in the company.

#### **The Acquisition of Sava Trade**

At their 20<sup>th</sup> regular meeting of 16 February 2006, the Supervisory Board passed the Management Board's proposal to acquire Sava Trade exclusive of its subsidiary MG Market and Obi franchise outlets. The acquisition will allow Merkur to further improve and supplement its offer of technical products for domestic and industrial applications, especially paints and varnishes, industrial chemicals, plastics, flooring and panelling, facades, and protective coatings. Merkur plans to use the experience, sources, and know-how of the employees in Sava Trade. Merkur intends to develop in Slovenia and abroad, and this will allow for fast advance of those programmes as well.

#### **Increase in Share Capital**

At their 20<sup>th</sup> regular meeting of 16 February 2006, the Supervisory Board passed the Management Board's proposal to increase share capital by issuance of 98,000 new shares to finance the acquisition of Sava Trade. The Management Board obtained the authorisation to increase share capital of the company from the General Meeting of Shareholders in 2003, when issuance of 400,000 shares was allowed, of which only 302,000 shares have been issued so far. On 15 March 2006, Sava, d. d. bought the entire lot of 98,000 shares at SIT 36,200 per share, and paid Merkur a total of SIT 3,547,600,000.00. Merkur invested that money into the acquisition of Sava Trade. In observance of the Supervisory Board's resolution passed at the correspondence meeting of 24 March 2006, the share capital of the company has been increased and totals SIT 13,125,850,000.00.

#### **Change in Ownership Structure**

In March 2006, the companies of the KD Group sold a total of 146,807 MER shares to Sava, d. d. and Gorenjska banka, d. d., or their entire stake in Merkur. KD Galileo sold 60,438 MER shares, Rastko 37,032 MER shares, KD ID 34,337 MER shares, and KD Holding 15,000 MER shares. On 14 March 2006 Sava, d. d. bought 33,085 Merkur shares, and one day later another 126,334 Merkur shares. Sava now owns 257,419 Merkur shares as it had bought 98,000 newly issued shares in addition to the above mentioned purchases. On 17 March 2006, Gorenjska banka, d. d., Kranj acquired 37,500 Merkur shares.

The ownership structure of the company has changed thanks to the increase in share capital, acquisition of MER shares by Sava, d. d., and the sale of MER shares by the KD Group. Sava, d. d. is now the largest owner of Merkur, and the issuance of new shares decreased the holdings of other shareholders accordingly.

#### **Change in Business Plan**

At their meeting of 16 February 2006, the Supervisory Board approved the changes to the business plan because of the new issuance of shares and acquisition of the company Sava Trade, d. o. o. In 2006, the initially planned sales revenue of Merkur Group is expected to increase by 5%, or SIT 10.5 billion, whilst net profit per share is expected to grow by 10%, or SIT 350 million. According to the projections, profit per share is expected to remain approximately the same as before the latest issuance of new shares, but the return on capital is expected to increase from 8.0% to 8.3%.

## **New Sales and Business Premises**

**9 February 2006:** a new **MERKUR** sales centre opened in Ptuj

**13 April 2006:** a renovated **Big Bang Giga** sales centre (former Big Bang Mega) opened in Ljubljana

**17 May 2006:** a new modern **steel centre** opened in **Rijeka**

**29 June 2006:** a new franchise outlet **MERKURVENDER** opened in Žalec

**8 July 2006:** a renovated sales centre **MERKUR** (previously **MERKURDOM**) opened in Rudnik

**24 August 2006:** a new sales centre **MERKUR** opened in Velenje

**1 September 2006:** a renovated sales centre **MERKUR** opened in Jesenice

**7 September 2006:** a new modern **steel centre** opened in **Sarajevo**

**26 September 2006:** a new sales centre **MERKUR** opened in Lesce

## **Entry of Capital Increase in the Court Register of Companies**

On 18 April 2006, the capital increase was entered into the court register of companies.

### **Conclusion of a Contract on Purchase of Sava Trade, d. d.**

On 24 April 2006, Merkur concluded a purchasing contract with Sava, d. d. to buy off its 96.87% holding, or 210,735 shares, in Sava Trade, d. d. exclusive of the company MG Market, d. o. o. As of 30 June 2006, Merkur's holding in Sava Trade is 97.99%.

### **Increase in Capital in Subsidiaries Merkur International Beograd, d. o. o., and Intermerkur, d. o. o., Sarajevo**

In the second quarter of 2006, the capital was increased in Merkur International Beograd, d. o. o. in total of EUR 5,043,310, and in Intermerkur, d. o. o. in the amount of EUR 6,565,808.

## **Fairs**

In February 2006, Merkur, d. d. presented its programme at Moebel, a fair in Macedonia. In May, Merkur appeared at fairs as follows: Energetika (power distribution), Terotech – Vzdrževanje (maintenance), fair of ferrous and non-ferrous metal products in Bosnia and Herzegovina, and Tehnika (technical) in Beograd, Serbia.

## **Merkur Days**

In March 2006, Merkur organised the meeting of tool manufacturers and tender sale clients dealing in power production and distribution. Clients from trading companies met in June.

### **The 16<sup>th</sup> Annual General Meeting of Shareholders of Merkur, d. d.**

On 3 July 2006, the 16<sup>th</sup> annual general meeting of shareholders was held. The owners passed the resolution on distribution of accumulated profit for the year 2005, and discharged Management and Supervisory Boards of their duties. The owners also appointed the certified auditor and new members to the Supervisory Board, and passed the alteration to the Articles of Association related to the transition from the Slovenian currency to euro. The following members were appointed to the Supervisory Board as the shareholders' representatives: Janez Bohorič, Zlatko Kavčič, Zvonka Novak Habot, Jakob Piskernik, Miha Resman and Marta Bertonec. The workers' council of Merkur will appoint three workers' representatives to the Supervisory Board in autumn. The term of office of the newly appointed members of the Supervisory Board commences on 20 December 2006.

## **Meeting of the Merkur Group employees**

On 2 September 2006, approximately 2,700 employees of the Merkur Group gathered at Gospodarsko raztavišče in Ljubljana to officially celebrate the 110<sup>th</sup> anniversary of the foundation of Merkur. The festive morning started with sport events, and in the afternoon the athletes were joined by other employees from all parts of the Group. The best workers from various departments of the company and the best worker of the complete Merkur Group were announced.

## **4 RISK MANAGEMENT**

The exposure to business risks has not changed essentially for the Merkur Group. The company pays special attention to financial risks.

### **Financial risks**

#### **CREDIT RISK**

The company and the Group have applied a policy of active credit risk management. This includes current monitoring of outstanding receivables, absolute exposure and their structure. The system applies to all clients of the parent company and buyers in the Group. In the first half of 2006, the company and the Group recorded no write-offs of receivables arising from unsettled payments which could affect the performance.

#### **INTEREST RISK**

The EURIBOR variable interest rate applies for three quarters of Merkur's loans, so operations are exposed to interest risk. Thanks to the adjustment of interest rates applied to assets and liabilities and internal protection, the exposure to interest risk is low.

#### **CURRENCY RISK**

In the first half of 2006, the Merkur Group identified two basic currencies because of unbalanced currency positions: EUR/SIT. Other significant currency pairs were determined by the geographical location of the subsidiaries abroad and were as follows: EUR/HRK, EUR/CSD, and EUR/CZK. The basic currency pair EUR/SIT did not present any significant discrepancies from the par exchange rate, and the exposure to currency risk was considered to be immaterial. However, the exposure to currency risk in Croatia, Serbia, Montenegro and the Czech Republic was slightly higher due to higher volatility of EURO in comparison to the domestic currency on those markets. Although moderate, the exposure to currency risk was still low, if the entire business share in the Merkur Group is considered. Merkur has curtailed the exposure by integration of the exchange rate into the difference in price, by natural protection, i.e. balance between sales and purchases, optimum settlement of inflows and outflows, and by obtaining loans in local currencies. The management of the Merkur Group believes that because of the aforesaid measures the exposure to the currency risk is moderate.

### **Insurance of property, liability and employees**

In 2006, Merkur paid special attention to the insurable risks. The company provided for optimum safety at minimum costs, and obtained insurance for all those risks which met the safety and economic criteria.

The insurance has been taken out against damages to property, business interruption, and damage claims placed by third parties.

Property insurance has been arranged for buildings, equipment, machinery, inventories and vehicles exposed to natural dangers and other damages. It includes fire insurance, earthquake insurance, burglary insurance, machine breakdown insurance, transportation insurance, and full coverage collision insurance.

The company has insured its buildings for the value of new objects, which means that indemnities are not reduced by depreciation. The equipment, machinery and inventories have been insured for their actual value. The insurance against machine breakdowns has been obtained for the initial value of machines.

Merkur has been insured against damages caused to third persons and employees. The insurance has been taken out against injuries sustained in car accidents involving cars from Merkur car pool.

Among damages or losses, car damages and damages to goods in transport and in warehouses are the most common. The number of burglaries has been growing since the beginning of 2006.

## **5 ASSESSMENT OF MERKUR OPERATIONS FROM JANUARY TO SEPTEMBER 2006**

The Merkur Group recorded further positive sales trends in the third quarter of 2006. The Group increased its sales approximately by 25%, and its total sales amounted to SIT 168.4 billion in comparison to the same period of 2005, and exceeded the plan by 5%. The sales increase was not only recorded in all parts of the Group, but in all sales programmes as well. Such substantial increase may at least partly be ascribed to the acquisition of Sava Trade. Even exclusive of the acquisition, the sales in Merkur Group grew by more than 19% in comparison to the same period of 2005. Merkur sales saw similar growth in Slovenia, where the advance reached 16%, and the company increased its sales abroad by 40%.

As far as the departments are concerned, the sales in ferrous and non-ferrous metal products increased the most. In comparison to 2005, the sales in terms of value increased by 28%, and by more than 30% in terms of quantities. Other sales programmes (construction materials and wood, installation materials, technical products for domestic and industrial applications, consumer goods, chemical and paper products) increased their sales by 23% in comparison to the first nine months of 2006.

The increase in gross profit - or in difference in price - was not so notable, even though it reached a substantial 22.5%. The difference in price in sales to end-customers equalled the 2005 figure. The difference in price from sales to companies fell due to market pressure, and sales volume had to be increased. Consequently, the costs advanced, but they nevertheless grew slower than the difference in price. Labour costs presented half of total costs. All employees of the Group received a special jubilee bonus on the occasion of the 110<sup>th</sup> anniversary of Merkur, so in the third quarter labour costs went up slightly. Total bonus, however, was included in the results for the first nine months. The advance in all other costs lagged behind the difference in price by three percentage points.

The gross profit presented higher growth than the costs, so in the first nine months of 2006 operating profit grew by 33% and reached SIT 3.15 billion. In comparison to 2005, earnings before interest, tax, depreciation and amortization (EBITDA) grew by 22% and reached SIT 5.3 billion. If the financial effects and income tax are considered, net profit of the Merkur Group in the period from January to September amounted to SIT 2.1 billion, which was 4% higher than in the same period of 2005, and more than planned.

In the first nine months of 2006, the collection of receivables improved slightly, and the sales to companies exceeded the receivables by three percentage points. In inventories, the stocks of ferrous and non-ferrous metal products increased slightly, whilst in other programmes inventories grew slower than sales. By September, total financial liabilities increased approximately by 15%, and reached almost SIT 9 billion. The growth of assets was financed by increase in capital and by liabilities to suppliers. In 2006, Merkur issued new shares and acquired Sava Trade.

The Merkur Group did not only record positive sales trends and good performance, but it also met its investment plans. The company opened three sales centres in Slovenia: in Ptuj, Velenje and Lesce. The new facilities support substantially larger sales than the old ones. The company invested abroad as well: it completed two warehousing facilities for ferrous and non-ferrous metal products. In spring, a new 7,000-square-metre warehouse opened in Rijeka, Croatia, and in autumn a similar facility in Sarajevo, Bosnia and Herzegovina.

The Merkur Group performed well in the first nine months of 2006. The decision to expand the sales network and pursue the selected sales concept proved correct. Merkur further strengthened its position of the largest and best-known dealer in non-food items in Slovenia, and the company also gained more importance on the markets of Croatia and Serbia. Merkur intends to look for new locations and strengthen the existing network on its target markets. If the company also increases its productivity in addition to all this, Merkur may expect to fulfil the plans in the future as well.

mag. Bine Kordež  
Chairman of the Management Board and CEO

## 6 THE MANAGEMENT BOARD'S NOTES AND ANALYSES

### 6.1 Changes to the Management and Supervisory Boards, and Business Object

**In the period from January to September 2006, the structure of the Management Board of Merkur remained unchanged.** On 1 January 2006, the Management Board consisted of:

Bine Kordež, mag., Chairman of the Management Board – CEO

Goran Čelesnik, mag., Member of the Management Board – Director of Commerce

Milan Jelovčan, mag., Member of the Management Board – Director of IT and Organisation

Marijana Kajzer, Director of Labour Relations

**In the period from January to September 2006, the structure of the Supervisory Board of Merkur remained unchanged.** The Supervisory Board consists of:

*Shareholders' Representatives:*

Jakob Piskernik – Chairman of the Supervisory Board

Dr. Tomaž Subotič – Deputy Chairman

Zlatko Kavčič

Igor Kušar

Gregor Tratnik

Matjaž Gantar

*Workers' Representatives:*

Marta Bertoncej

Igor Hudobivnik

Marjan Smrekar

On 3 July 2006, the 16<sup>th</sup> General Meeting of Shareholders was held, and new members were elected to the Supervisory Board of Merkur. The term of office for the new shareholders' representatives commences on 20 December 2006.

In 2006, **the principal object of the company remains wholesale and retail trade in ferrous and non-ferrous metal products, construction and installation materials.**

### 6.2 Ownership Structure and MER Shares

#### Ownership Structure of Merkur, d. d. as at 30 September 2006

Merkur has issued new shares. KD has sold its holding in Merkur to Sava, d. d. In addition to that, Sava, d. d. has also bought all the 98,000 newly issued shares. The ownership structure of Merkur has therefore changed in comparison to that of 31 December 2005. On 30 September 2006, the ownership structure in Merkur was as follows:

No.	Name	30 September 2006			31 December 2005		
		Number of shareholders	Total shares Number	%	Number of shareholders	Total shares Number	%
1.	Sava, d. d.	1	262,841	20.02	-	-	-
2.	Kapitalska družba, d. d.	1	218,491	16.65	1	218,491	17.99
3.	NFD 1 investicijski sklad, d. d.	1	116,279	8.86	1	170,432	14.03
4.	Slovenska odškodninska družba, d. d.	1	93,194	7.10	1	93,194	7.67
5.	Banka Koper d. d.	1	86,403	6.58	-	-	-
6.	Gorenjska banka, d. d.	1	84,955	6.47	1	47,455	3.91
7.	Euro jamstvenik d. o. o.	1	48,000	3.66	-	-	-
8.	Salonit Anhovo, d. d.	1	29,342	2.24	1	32,810	2.70
9.	Zlata moneta I d. d.	1	27,608	2.10	1	27,608	2.27
10.	Zavarovalnica Triglav	1	17,729	1.35	1	17,729	1.46
11.	SOP Ljubljana	1	15,761	1.20	1	15,761	1.30
12.	Employees	693	97,126	7.40	724	87,524	7.21
13.	Other legal entities	134	73,718	5.62	176	358,734	29.54
14.	Other shareholders	3,677	141,138	10.75	3,974	144,847	11.93
<b>TOTAL</b>		<b>4,515</b>	<b>1,312,585</b>	<b>100.00</b>	<b>4,882</b>	<b>1,214,585</b>	<b>100.00</b>

**Capital Stakes Held by Members of the Management and Supervisory Boards of Merkur, d. d. as of 30 September 2006**

<b>Management and Supervisory Boards</b>	<b>Number of shares</b>	<b>Holding in % of total shares</b>
<b>Management Board</b>	<b>7,736</b>	<b>0.589</b>
Kordež Bine	3,316	0.253
Čelesnik Goran	1,822	0.139
Jelovčan Milan	1,509	0.115
Kajzer Marijanca	1,089	0.083
<b>Supervisory Board</b>	<b>4,199</b>	<b>0.320</b>
Bertoncelj Marta	1,676	0.128
Piskernik Jakob	1,209	0.092
Dr. Tomaž Subotič	590	0.045
Tratnik Gregor	340	0.026
Hudobivnik Igor	144	0.011
Smrekar Marjan	240	0.018
Kušar Igor	-	-
Kavčič Zlatko	-	-
Gantar Matjaž	-	-

**Own Shares**

Merkur, d. d. does not hold any own shares.

**Net Earnings per Share and the Applicable Calculation Method**

Net earnings per share of Merkur, d. d. in the period from January to September 2006: SIT 1,670

Net earnings per share of Merkur, d. d. in the period from January to September 2005: SIT 1,719

The calculation of net earnings per share was based on net profit for the period divided by the average number of shares (in the period from January to September 2006:  $1,279,918 = (1,214,585 \cdot 3 + 1,312,585 \cdot 6) / 9$ , in the period from January to September 2005: 1,214,585) exclusive of own shares. The company did not hold any own shares in the first half of 2005 and 2006.

**Book Value of MER Share and the Applicable Calculation Method**

Book value of Merkur share as at 30 September 2006: SIT 38,019

Book value of Merkur share as at 30 September 2005: SIT 35,823

The calculation of book value of the MER share was based on total equity capital as of end of September. This was divided by the number of shares, which was 1,312,585 at 30 September 2006, and 1,214,585 at 30 September 2005.

**Authorised Capital and Conditional Increase in Share Capital**

Merkur, d. d. has not adopted any resolutions on authorised capital.

Articles of Association of Merkur, d. d. do not include any stipulations on conditional increase in share capital.

### **6.3 Notes on Operations in View of Plan**

In the period from January to September 2006, net sales exceeded the plan by 6.0% in Merkur, and by 4.7% in Merkur Group respectively. In the first nine months of 2006, net profit of Merkur amounted to SIT 2.14 billion, and exceeded the plan by 32.6%, whilst net profit of Merkur Group reached SIT 2.10 billion, which was 59.9% more than planned.

### **6.4 Explanation Concerning Seasonal Character of Sales**

In comparison to 2005, Merkur, d. d. and the Group recorded high growth in net sales in the first half of 2006, and the trend continued in the third quarter as well. In comparison to the same periods of 2005, Merkur net sales presented a 15% growth at the end of the half- year, and escalated to 26% in the third quarter of 2006. The Merkur Group recorded the same trend.

This year the sales in the third quarter were the best as well, as is usual for this period of the year.

### **6.5 Important events after the end of the accounting period**

On 13 October 2006, Kapitalska družba, d.d. (KAD) and Slovenska odškodninska družba (SOD) jointly released their public offering of shares held in 84 Slovene companies, among them Merkur. KAD holds 16.65% of all shares in Merkur, and SOD 7.10% respectively. This public offering continues the planned gradual withdrawal of the state from the companies in line with the adopted policy and strategy of the Republic of Slovenia.

## 7 UNAUDITE FINANCIAL STATEMENTS OF MERKUR, D. D.

### Balance Sheet of Merkur, d. d. as at 30 September 2006

#### Assets

Item	In SIT thousand				
		1 Jan. 2006 or		Index	
	30 Sept. 2006	31 Dec. 2005	30 Sept.2005	4=1/2	5=1/3
	1	2	3		
Property, plant and equipment	35,248,140	34,998,560	37,389,432	100.7	94.3
Intangible assets	118,778	145,375	63,981	81.7	185.6
Investment property	3,303,412	4,681,853	4,460,046	70.6	74.1
Investments in associates accounted for using the equity method (investments in associated companies)	84,028	0	0	-	-
Non-current financial assets	36,863,654	25,885,643	22,813,403	142.4	161.6
Non-current trade and other receivables	255,731	319,598	288,249	80.0	88.7
Deferred tax assets	897,572	974,411	675,182	92.1	132.9
<b>Total non-current assets</b>	<b>76,771,315</b>	<b>67,005,440</b>	<b>65,690,293</b>	<b>114.6</b>	<b>116.9</b>
Inventories	30,908,459	21,692,604	22,481,762	142.5	137.5
Current financial assets	3,291,926	5,132,276	3,477,336	64.1	94.7
Income tax receivable	31,475	0	0	-	-
Current trade and other receivables	55,300,806	44,783,466	45,448,874	123.5	121.7
Cash and cash equivalents	326,844	640,687	161,087	51.0	202.9
<b>Total current assets</b>	<b>89,859,510</b>	<b>72,249,033</b>	<b>71,569,059</b>	<b>124.4</b>	<b>125.6</b>
<b>TOTAL ASSETS</b>	<b>166,630,825</b>	<b>139,254,473</b>	<b>137,259,352</b>	<b>119.7</b>	<b>121.4</b>

#### Equity and Liabilities

Items	In SIT thousand				
		1 Jan. 2006 or		Index	
	30 Sept.2006	31 Dec. 2005	30 Sept.2005	4=1/2	5=1/3
	1	2	3		
Issued capital	13,125,850	12,145,850	12,145,850	108.1	108.1
Capital reserves	18,380,718	15,813,118	15,813,118	116.2	116.2
Reserves	3,569,428	3,569,428	2,260,428	100.0	157.9
Retained earnings	10,495,621	9,443,707	10,059,433	111.1	104.3
Fair value reserves	4,331,932	3,857,296	3,231,474	112.3	134.1
<b>Total equity</b>	<b>49,903,549</b>	<b>44,829,399</b>	<b>43,510,303</b>	<b>111.3</b>	<b>114.7</b>
Non-current financial liabilities	11,193,467	15,628,983	17,444,033	71.6	64.2
Non-current trade and other payables	774,613	774,877	837,095	100.0	92.5
Deferred tax liabilities	1,970,437	1,812,225	1,603,476	108.7	122.9
Long-term provisions	1,820,761	1,862,166	1,733,071	97.8	105.1
<b>Total non-current liabilities</b>	<b>15,759,278</b>	<b>20,078,251</b>	<b>21,617,675</b>	<b>78.5</b>	<b>72.9</b>
Current financial liabilities	48,514,153	33,558,357	36,351,307	144.6	133.5
Current trade and other payables	52,346,190	40,307,094	35,547,947	129.9	147.3
Income tax payable	0	373,717	142,010	0.0	0.0
Short-term provisions	107,655	107,655	90,110	100.0	119.5
<b>Total current liabilities</b>	<b>100,967,998</b>	<b>74,346,823</b>	<b>72,131,374</b>	<b>135.8</b>	<b>140.0</b>
<b>Total liabilities</b>	<b>116,727,276</b>	<b>94,425,074</b>	<b>93,749,049</b>	<b>123.6</b>	<b>124.5</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>166,630,825</b>	<b>139,254,473</b>	<b>137,259,352</b>	<b>119.7</b>	<b>121.4</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>68,309,880</b>	<b>59,295,751</b>	<b>57,429,930</b>	<b>115.2</b>	<b>118.9</b>

**Income Statement of Merkur, d. d., for the Period from 1 January 2006 to 30 September 2006**

Item	In SIT thousand		Index
	Jan. - Sept. 2006	Jan. - Sept. 2005	
<b>REVENUE</b>	<b>133,746,888</b>	<b>112,474,195</b>	<b>118.9</b>
Cost of sales	112,314,230	93,769,702	119.8
<b>GROSS PROFIT FROM SALES</b>	<b>21,432,658</b>	<b>18,704,493</b>	<b>114.6</b>
Other operating income	649,482	422,465	153.7
Distribution expenses	14,193,683	12,712,600	111.7
Administrative expenses	4,361,555	3,561,868	122.5
Other operating expenses	584,123	442,481	132.0
<b>OPERATING PROFIT OR LOSS</b>	<b>2,942,779</b>	<b>2,410,009</b>	<b>122.1</b>
Financial income	1,544,003	1,837,822	84.0
Financial expenses	1,746,569	1,637,680	106.6
<b>NET FINANCING COSTS</b>	<b>-202,566</b>	<b>200,142</b>	<b>-101.2</b>
<b>PROFIT BEFORE TAX</b>	<b>2,740,213</b>	<b>2,610,151</b>	<b>105.0</b>
Income tax expense	602,847	522,462	115.4
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>2,137,366</b>	<b>2,087,689</b>	<b>102.4</b>
<b>Net earnings per share (in SIT)</b>	<b>1,670</b>	<b>1,719</b>	<b>97.2</b>

**Costs by Nature**

Item	In SIT thousand		Index
	Jan. - Sept. 2006	Jan. - Sept. 2005	
<b>Distribution and general administrative expenses</b>	<b>18,555,238</b>	<b>16,274,468</b>	<b>114.0</b>
Costs of materials	1,049,529	948,874	110.6
Costs of services	6,664,615	5,633,814	118.3
Labour costs	9,122,871	7,949,358	114.8
Amortisation and depreciation expense	1,440,757	1,483,234	97.1
Other costs	277,466	259,188	107.1

**Cash Flow Statement of Merkur, d. d., for the Period from 1 January 2006 to 30 September 2006**

In SIT thousand

Item	Jan. - Sept. 2006	Jan. - Sept. 2005	Index
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit or loss for the period</b>	<b>2,137,366</b>	<b>2,087,689</b>	<b>102.4</b>
<b>Adjustments for:</b>	<b>2,194,266</b>	<b>1,874,315</b>	<b>117.1</b>
Depreciation of property, plant and equipment	1,398,959	1,390,808	100.6
Amortisation of intangible assets	41,798	92,426	45.2
Impairment of assets	523,215	332,206	157.5
Gain on disposal of property, plant and equipment	-575,112	-263,438	218.3
Investment income	-1,392,831	-1,701,253	81.9
Foreign exchange profit or loss	-65,507	3,183	-
Interest expense	1,660,904	1,497,928	110.9
Increase in long-term provisions	-7	-7	100.0
Income taxes paid	602,847	522,462	115.4
<b>Change in net operating current assets and provisions</b>	<b>-9,183,571</b>	<b>660,797</b>	<b>-</b>
Increase in trade and other receivables	-10,816,165	-4,581,990	236.1
Increase in inventories	-9,261,463	2,269,685	-
Increase in trade and other payables	10,935,455	2,973,169	367.8
Increase in accruals and deferrals, and provisions	-41,398	-67	-
<b>Net cash from operating activities</b>	<b>-4,851,939</b>	<b>4,622,801</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	1,179,368	1,106,322	106.6
Foreign exchange gains	144,308	17,578	821.0
Dividends received	14,613	380,464	3.8
Proceeds from sale of property, plant and equipment	2,600,745	3,944,639	65.9
Proceeds from sale of investment property	3,602,449	1,133,899	317.7
Proceeds from sale of investments	8,583,281	3,577,726	239.9
Acquisition of property, plant and equipment	-4,217,072	-4,729,386	89.2
Acquisition of intangible assets	-15,200	-124,482	12.2
Acquisition of investment property	-1,681,137	0	-
Acquisition of investments	-17,042,765	-7,834,623	217.5
<b>Net cash used in investing activities</b>	<b>-6,831,410</b>	<b>-2,527,863</b>	<b>270.2</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash receipts from paid-in capital	3,547,600	0	-
Proceeds from / Repayment of borrowings	10,520,279	162,918	-
Foreign exchange loss	-69,507	-4,820	-
Dividends paid	-967,962	-779,787	124.1
Interest paid	-1,660,904	-1,497,928	110.9
<b>Net cash used in financing activities</b>	<b>11,369,506</b>	<b>-2,119,617</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>			
	<b>-313,843</b>	<b>-24,679</b>	<b>-</b>
Cash and cash equivalents at beginning of period	640,687	185,766	344.9
Cash and cash equivalents at end of period	326,844	161,087	202.9

## Statement of Changes in Equity of Merkur, d. d. for the Period from 1 January 2006 to 30 September 2006

In SIT thousand

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Translation reserve	Reserve for own shares	TOTAL EQUITY
<b>Balance at 1 January 2006</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,330,273</b>	<b>2,239,155</b>	<b>9,443,707</b>	<b>381,513</b>	<b>3,475,783</b>	<b>0</b>	<b>0</b>	<b>44,829,399</b>
Entry of additional payments of equity capital	980,000	2,567,600	-	-	-	-	-	-	-	3,547,600
Net profit for the period from Jan. to Sept. 2006	-	-	-	-	2,137,366	-	-	-	-	2,137,366
Changes in fair value of available-for-sale financial Assets	-	-	-	-	-	-	680,424	-	-	680,424
Dividends for shareholders	-	-	-	-	-1,008,613	-	-	-	-	-1,008,613
Fair value of property and available-for-sale financial assets transferred to income	-	-	-	-	-	-	-47,576	-	-	-47,576
Increase/Decrease in deferred taxes	-	-	-	-	-76,839	-	-158,212	-	-	-235,051
<b>Balance at 30 September 2006</b>	<b>13,125,850</b>	<b>18,380,718</b>	<b>1,330,273</b>	<b>2,239,155</b>	<b>10,495,621</b>	<b>381,513</b>	<b>3,950,419</b>	<b>0</b>	<b>0</b>	<b>49,903,549</b>

## Statement of Changes in Equity of Merkur, d. d. for the Period from 1 January 2005 to 30 September 2005

In SIT thousand

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Translation reserve	Reserve for own shares	TOTAL EQUITY
<b>Balance at 1 January 2005</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,330,273</b>	<b>930,155</b>	<b>8,756,901</b>	<b>54,268</b>	<b>3,728,373</b>	<b>0</b>	<b>0</b>	<b>42,758,938</b>
Entry of additional payments of equity capital	-	-	-	-	-	-	-	-	-	-
Net profit for the period from Jan. to Sept. 2005	-	-	-	-	2,087,689	-	-	-	-	2,087,689
Changes in fair value of available-for-sale financial Assets	-	-	-	-	-	-	-734,890	-	-	-734,890
Dividends for shareholders	-	-	-	-	-785,157	-	-	-	-	-785,157
Increase/Decrease in deferred taxes	-	-	-	-	-	-	183,723	-	-	183,723
<b>Balance at 30 September 2005</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,330,273</b>	<b>930,155</b>	<b>10,059,433</b>	<b>54,268</b>	<b>3,177,206</b>	<b>0</b>	<b>0</b>	<b>43,510,303</b>

**8 PRIMARY SEGMENT REPORTING FORMAT – INFORMATION OF MERKUR, D. D. ON THE BASIS OF GEOGRAPHICAL SEGMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2006**

Item	In SIT thousand					
	Slovenia – domestic market		Foreign market		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue from sale of goods and services and other operating income</b>	<b>114,569,144</b>	<b>98,784,393</b>	<b>19,827,226</b>	<b>14,112,267</b>	<b>134,396,370</b>	<b>112,896,660</b>
Revenue from sale of goods	112,280,529	96,790,578	19,544,671	13,916,681	131,825,200	110,707,259
- Revenue from other Group companies	539,651	79,613	14,614,216	11,500,842	15,153,867	11,580,455
- Revenue from external customers	111,740,878	96,710,965	4,930,455	2,415,839	116,671,333	99,126,804
Revenue from sale of services	1,641,250	1,571,448	280,438	195,488	1,921,688	1,766,936
- Revenue from other Group companies	95,845	124,050	213,348	179,013	309,193	303,063
- Revenue from external customers	1,545,405	1,447,398	67,090	16,475	1,612,495	1,463,873
Other operating income	647,365	422,367	2,117	98	649,482	422,465
<b>Cost of goods sold and other operating expenses</b>	<b>-94,323,222</b>	<b>-80,891,224</b>	<b>-18,575,131</b>	<b>-13,320,958</b>	<b>-112,898,353</b>	<b>-94,212,182</b>
- Incurred in connection with other Group companies	-528,858	-78,020	-14,170,469	-11,213,195	-14,699,327	-11,291,215
- Incurred in connection with external customers	-93,794,364	-80,813,204	-4,404,662	-2,107,763	-98,199,026	-82,920,967
<b>Gross operating profit or loss</b>	<b>20,245,922</b>	<b>17,893,169</b>	<b>1,252,095</b>	<b>791,309</b>	<b>21,498,017</b>	<b>18,684,478</b>
<b>Operating expenses</b>	<b>-17,896,362</b>	<b>-15,691,268</b>	<b>-658,876</b>	<b>-583,200</b>	<b>-18,555,238</b>	<b>-16,274,468</b>
- Incurred in connection with external customers transactions	-17,896,362	-15,691,268	-658,876	-583,200	-18,555,238	-16,274,468
<b>Operating profit or loss</b>	<b>2,349,560</b>	<b>2,201,901</b>	<b>593,219</b>	<b>208,109</b>	<b>2,942,779</b>	<b>2,410,010</b>
Net financing income/cost	-328,874	246,950	126,308	-46,808	-202,566	200,142
- Incurred in connection with other Group companies	-32,834	9,114	222,157	116,791	189,323	125,905
- Incurred in connection with external customers	-296,040	237,836	-95,849	-163,599	-391,889	74,237
<b>Profit before tax</b>	<b>2,020,686</b>	<b>2,448,851</b>	<b>719,527</b>	<b>161,301</b>	<b>2,740,213</b>	<b>2,610,152</b>
Income tax expense	-444,551	-490,202	-158,296	-32,260	-602,847	-522,462
<b>Profit or loss for the period</b>	<b>1,576,135</b>	<b>1,958,649</b>	<b>561,231</b>	<b>129,041</b>	<b>2,137,366</b>	<b>2,087,690</b>
<b>Attributable to equity holders of the parent</b>	<b>1,576,135</b>	<b>1,958,649</b>	<b>561,231</b>	<b>129,041</b>	<b>2,137,366</b>	<b>2,087,690</b>
Segment assets	108,451,495	84,932,303	22,728,384	14,873,636	131,179,879	99,805,939
Assets in relation to other Group companies	11,207,060	3,791,214	19,994,744	13,306,124	31,201,804	17,097,338
Assets in relation to external customers	97,244,435	81,141,089	2,733,640	1,567,512	99,978,075	82,708,601
Property, plant and equipment, and intangible assets	34,892,759	37,057,377	474,159	396,036	35,366,918	37,453,413
Investments in subsidiaries	84,028				84,028	0
<b>Total assets</b>	<b>143,428,282</b>	<b>121,989,680</b>	<b>23,202,543</b>	<b>15,269,672</b>	<b>166,630,825</b>	<b>137,259,352</b>
Segment liabilities	97,616,488	83,887,140	19,110,788	9,861,909	116,727,276	93,749,049
Liabilities to other Group companies	3,189,681	13,397	2,791,003	2,970,310	5,980,684	2,983,707
Liabilities to external customers	94,426,807	83,873,743	16,319,785	6,891,599	110,746,592	90,765,342
<b>Total liabilities</b>	<b>97,616,488</b>	<b>83,887,140</b>	<b>19,110,788</b>	<b>9,861,909</b>	<b>116,727,276</b>	<b>93,749,049</b>
Acquisition of intangible assets	15,200	124,482			15,200	124,482
Acquisition of property, plant and equipment (PPE) in the period	4,216,970	4,672,428	102	56,958	4,217,072	4,729,386
Impairment expenses recognised in the income statement	4,585	61,561			4,585	61,561

## 9 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERKUR GROUP

### Balance Sheet of Merkur Group as at 30 September 2006

#### Assets

Item	In SIT thousand					31 Dec. 2005*
	30 Sept. 2006	1 Jan. 2006*	30 Sept. 2005	Index		
	1	2	3	4=1/2	5=1/3	
Property, plant and equipment	51,348,591	48,902,497	43,634,784	105.0	117.7	44,480,021
Intangible assets	486,168	575,793	502,002	84.4	96.8	575,793
Investment property	3,495,959	4,957,580	4,512,974	70.5	77.5	4,744,994
Investments in associates accounted for using the equity method (investments in associated companies)	84,028	0	0	-	-	0
Non-current financial assets	18,461,795	17,155,776	15,333,241	107.6	120.4	17,154,231
Non-current trade and other receivables	348,063	415,567	383,466	83.8	90.8	410,550
Deferred tax assets	1,010,119	1,086,131	1,116,796	93.0	90.4	1,063,604
<b>Total non-current assets</b>	<b>75,234,723</b>	<b>73,093,344</b>	<b>65,483,263</b>	<b>102.9</b>	<b>114.9</b>	<b>68,429,193</b>
Inventories	42,816,848	34,038,947	32,276,335	125.8	132.7	32,672,584
Current financial assets	4,971,680	6,608,605	3,627,177	75.2	137.1	5,235,680
Income tax receivable	118,600	52,109	0	-	-	52,109
Current trade and other receivables	57,006,580	46,281,750	45,580,439	123.2	125.1	42,970,551
Assets classified as held for sale	0	59,283	59,283	0.0	0.0	59,283
Cash and cash equivalents	1,701,194	2,728,340	1,147,153	62.4	148.3	2,696,958
<b>Total current assets</b>	<b>106,614,902</b>	<b>89,769,034</b>	<b>82,690,387</b>	<b>118.8</b>	<b>128.9</b>	<b>83,687,165</b>
<b>TOTAL ASSETS</b>	<b>181,849,625</b>	<b>162,862,378</b>	<b>148,173,650</b>	<b>111.7</b>	<b>122.7</b>	<b>152,116,358</b>

#### Equity and liabilities

Item	In SIT thousand					31 Dec. 2005*
	30 Sept. 2006	1 Jan. 2006*	30 Sept. 2005	Index		
	1	2	3	4=1/2	5=1/3	
Issued capital	13,125,850	12,145,850	12,145,850	108.1	108.1	12,145,850
Capital reserves	18,380,718	15,813,118	15,813,118	116.2	116.2	15,813,118
Reserves	3,696,176	3,676,355	2,367,357	100.5	156.1	3,676,355
Retained earnings	8,581,880	7,587,601	7,307,925	113.1	117.4	7,587,601
Fair value reserves	4,333,687	3,859,050	3,233,229	112.3	134.0	3,859,050
Translation reserves	2,166	-55,342	19,412	-	11.2	-55,342
<b>Total equity attributable to equity holders of the parent</b>	<b>48,120,477</b>	<b>43,026,632</b>	<b>40,886,891</b>	<b>111.8</b>	<b>117.7</b>	<b>43,026,632</b>
<b>Minority interest</b>	<b>162,079</b>	<b>213,298</b>	<b>26,371</b>	<b>76.0</b>	<b>614.6</b>	<b>27,830</b>
<b>Total equity</b>	<b>48,282,556</b>	<b>43,239,930</b>	<b>40,913,262</b>	<b>111.7</b>	<b>118.0</b>	<b>43,054,462</b>
Non-current financial liabilities	14,256,182	18,984,800	19,563,230	75.1	72.9	18,822,486
Non-current trade and other payables	911,666	950,031	988,890	96.0	92.2	885,981
Deferred tax liabilities	2,088,734	1,930,542	1,603,476	108.2	130.3	1,813,293
Long-term provisions	2,851,884	2,952,411	1,972,353	96.6	144.6	2,103,109
<b>Total non-current liabilities</b>	<b>20,108,466</b>	<b>24,817,784</b>	<b>24,127,949</b>	<b>81.0</b>	<b>83.3</b>	<b>23,624,869</b>
Current financial liabilities	51,536,504	37,986,147	40,623,072	135.7	126.9	37,709,443
Current trade and other payables	60,290,184	55,532,470	41,985,132	108.6	143.6	47,112,595
Income tax payable	23,978	517,398	0	-	-	375,359
Short-term provisions	1,607,937	768,649	524,235	209.2	306.7	239,630
<b>Total current liabilities</b>	<b>113,458,603</b>	<b>94,804,664</b>	<b>83,132,439</b>	<b>119.7</b>	<b>136.5</b>	<b>85,437,027</b>
<b>Total liabilities</b>	<b>133,567,069</b>	<b>119,622,448</b>	<b>107,260,388</b>	<b>111.7</b>	<b>124.5</b>	<b>109,061,896</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>181,849,625</b>	<b>162,862,378</b>	<b>148,173,650</b>	<b>111.7</b>	<b>122.7</b>	<b>152,116,358</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>69,600,512</b>	<b>57,519,597</b>	<b>47,627,833</b>	<b>121.0</b>	<b>146.1</b>	<b>56,429,255</b>

\*Financial statements of Sava Trade, d. d. have been included in consolidated financial statements of Merkur Group, so the opening balance as at 1 January 2006 is not equal to the closing balance as at 31 December 2005. The balance as at 30 September 2005 does not include the data for Sava Trade, d. d., so the interim data are not completely comparable.

**Income Statement of Merkur Group for the Period from 1 January 2006 to 30 September 2006**

Item	In SIT thousand		Index
	Jan. - Sept. 2006	Jan. - Sept. 2005	
<b>REVENUE</b>	<b>168,407,890</b>	<b>135,267,682</b>	<b>124.5</b>
Cost of sales	138,401,306	110,728,473	125.0
<b>GROSS PROFIT FROM SALES</b>	<b>30,006,584</b>	<b>24,539,209</b>	<b>122.3</b>
Other operating income	1,006,838	960,378	104.8
Distribution expenses	20,815,886	17,293,619	120.4
Administrative expenses	6,211,414	4,923,072	126.2
Other operating expenses	840,948	903,503	93.1
<b>OPERATING PROFIT OR LOSS</b>	<b>3,145,174</b>	<b>2,379,393</b>	<b>132.2</b>
Financial income	1,754,183	2,206,825	79.5
Financial expenses	2,133,545	1,974,936	108.0
<b>NET FINANCING COSTS</b>	<b>-379,362</b>	<b>231,889</b>	<b>-</b>
<b>PROFIT BEFORE TAX</b>	<b>2,765,812</b>	<b>2,611,282</b>	<b>105.9</b>
Income tax expense	662,269	595,919	111.1
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>2,103,543</b>	<b>2,015,363</b>	<b>104.4</b>
Attributable to equity holders of the parent	2,099,552	2,013,040	104.3
Attributable to minority interest	3,991	2,323	171.8
<b>Net earnings per share (in SIT)</b>	<b>1,640</b>	<b>1,657</b>	<b>99.0</b>

**Costs by nature**

Item	In SIT thousand		Index
	Jan. - Sept. 2006	Jan. - Sept. 2005	
<b>Distribution and general administrative expenses</b>	<b>27,027,300</b>	<b>22,216,691</b>	<b>121.7</b>
Costs of materials	1,414,241	1,211,320	116.8
Costs of services	10,492,811	8,630,101	121.6
Labour costs	12,566,771	10,114,590	124.2
Amortisation and depreciation expense	2,137,226	1,941,692	110.1
Long-term provisions	2,920	1,578	185.0
Other costs	413,331	317,410	130.2

## Cash Flow Statement of Merkur Group for the Period from 1 January 2006 to 30 September 2006

In SIT thousand

Item	Jan. - Sept. 2006	Jan. - Sept. 2005	Index
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit or loss for the period</b>	<b>2,103,543</b>	<b>2,015,363</b>	<b>104.4</b>
<b>Adjustments for:</b>	<b>3,071,498</b>	<b>2,378,453</b>	<b>129.1</b>
Depreciation of property, plant and equipment	2,002,848	1,707,081	117.3
Amortisation of intangible assets	134,378	234,611	57.3
Impairment of assets	719,173	726,897	98.9
Gain on disposal of property, plant and equipment	-822,946	-654,159	125.8
Investment income	-1,333,156	-1,888,649	70.6
Foreign exchange profit or loss	-161,289	-114,019	141.5
Interest expense	1,873,807	1,770,779	105.8
Increase in long-term provisions	-3,586	-7	-
Income taxes paid	662,269	595,919	111.1
<b>Change in net operating current assets and provisions</b>	<b>-15,840,448</b>	<b>-592,390</b>	<b>-</b>
Increase in trade and other receivables	-11,047,820	-5,036,154	219.4
Increase in inventories	-8,876,866	1,376,329	-
Increase in trade and other payables	3,341,891	2,745,094	121.7
Increase in accruals and deferrals, and provisions	742,347	322,341	230.3
<b>Net cash from operating activities</b>	<b>-10,665,407</b>	<b>3,801,426</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	1,110,490	1,170,102	94.9
Foreign exchange gains	327,840	244,586	134.0
Dividends received	14,780	380,464	3.9
Proceeds from sale of property, plant and equipment	3,384,149	3,970,931	85.2
Proceeds from sale of intangible fixed assets	0	244	-
Proceeds from sale of investment property	3,702,687	1,135,119	326.2
Proceeds from sale of investments	8,769,697	3,984,417	220.1
Acquisition of property, plant and equipment	-7,570,074	-6,364,676	118.9
Acquisition of intangible assets	-44,753	-184,739	24.2
Acquisition of investment property	-1,681,137	0	-
Acquisition of investments	-7,757,897	-3,766,638	206.0
<b>Net cash used in investing activities</b>	<b>255,782</b>	<b>569,810</b>	<b>44.9</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash receipts from paid-in capital	3,547,600	0	-
Proceeds from / Repayment of borrowings	8,821,739	-2,031,912	-
Foreign exchange loss	-238,965	-177,157	134.9
Dividends paid	-967,962	-785,158	123.3
Interest paid	-1,779,933	-1,682,240	105.8
<b>Net cash used in financing activities</b>	<b>9,382,479</b>	<b>-4,676,467</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>			
	<b>-1,027,146</b>	<b>-305,231</b>	<b>336.5</b>
Cash and cash equivalents at beginning of period	2,728,340	1,452,384	187.9
Cash and cash equivalents at end of period	1,701,194	1,147,153	148.3

**Statement of Changes in Equity of the Merkur Group for the Period from 1 January 2006 to 30 September 2006**

In SIT thousand

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Translation reserve	Reserve for own shares	TOTAL EQUITY HOLDERS OF THE PARENT	MINORITY INTEREST	TOTAL EQUITY
<b>Balance at 1 January 2006</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,437,200</b>	<b>2,239,155</b>	<b>7,587,601</b>	<b>383,268</b>	<b>3,475,782</b>	<b>-55,342</b>	<b>0</b>	<b>43,026,632</b>	<b>213,298</b>	<b>43,239,930</b>
Entry of additional payments of equity capital	980,000	2,567,600	-	-	-	-	-	-	-	3,547,600	-	3,547,600
Net profit for the period from January to September 2006	-	-	-	-	2,099,552	-	-	-	-	2,099,552	3,991	2,103,543
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	680,424	-	-	680,424	-	680,424
Allocation of retained earnings from previous periods to legal reserves	-	-	19,821	-	-19,821	-	-	-	-	0	-	0
Dividends for shareholders	-	-	-	-	-1,008,613	-	-	-	-	-1,008,613	-	-1,008,613
Fair value of property and available-for-sale financial assets transferred to income	-	-	-	-	-	-	-47,576	-	-	-47,576	-	-47,576
Other decreases – change in ownership to benefit the major shareholder	-	-	-	-	-	-	-	-	-	0	-59,272	-59,272
Increase/Decrease in exchange differences on translation	-	-	-	-	-	-	-	57,508	-	57,508	4,062	61,570
Increase/Decrease in deferred taxes	-	-	-	-	-76,839	-	-158,211	-	-	-235,050	-	-235,050
<b>Balance as at 30 September 2006</b>	<b>13,125,850</b>	<b>18,380,718</b>	<b>1,457,021</b>	<b>2,239,155</b>	<b>8,581,880</b>	<b>383,268</b>	<b>3,950,419</b>	<b>2,166</b>	<b>0</b>	<b>48,120,477</b>	<b>162,079</b>	<b>48,282,556</b>

**Statement of Changes in Equity of the Merkur Group for the Period from 1 January 2005 to 30 September 2005**

In SIT thousand

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Translation reserve	Reserve for own shares	TOTAL EQUITY HOLDERS OF THE PARENT	MINORITY INTEREST	TOTAL EQUITY
<b>Balance as at 1 January 2005</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,350,595</b>	<b>930,157</b>	<b>6,166,647</b>	<b>56,023</b>	<b>3,728,373</b>	<b>40,931</b>	<b>0</b>	<b>40,231,694</b>	<b>22,746</b>	<b>40,254,440</b>
Net profit for the period from January to September 2005	-	-	-	-	2,013,040	-	-	-	-	<b>2,013,040</b>	2,323	<b>2,015,363</b>
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-734,890	-	-	<b>-734,890</b>	-	<b>-734,890</b>
Allocation of retained earnings from previous periods to legal reserves	-	-	86,605	-	-86,605	-	-	-	-	<b>0</b>	-	<b>0</b>
Dividends for shareholders	-	-	-	-	-785,157	-	-	-	-	<b>-785,157</b>	-	<b>-785,157</b>
Increase/Decrease in exchange differences on translation	-	-	-	-	-	-	-	-21,519	-	<b>-21,519</b>	1,302	<b>-20,217</b>
Increase/Decrease in deferred taxes	-	-	-	-	-	-	183,723	-	-	<b>183,723</b>	-	<b>183,723</b>
<b>Balance as at 30 September 2005</b>	<b>12,145,850</b>	<b>15,813,118</b>	<b>1,437,200</b>	<b>930,157</b>	<b>7,307,925</b>	<b>56,023</b>	<b>3,177,206</b>	<b>19,412</b>	<b>0</b>	<b>40,886,891</b>	<b>26,371</b>	<b>40,913,262</b>

**10 PRIMARY SEGMENT REPORTING FORMAT – INFORMATION OF MERKUR GROUP ON THE BASIS OF GEOGRAPHICAL SEGMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2006**

Item	Slovenia – domestic market		Foreign market		Eliminations		Merkur Group	
	2006	2005	2006	2005	2006	2005	2006	2005
	In SIT thousand							
<b>Revenue from sale of goods and services and other operating income</b>	<b>148,717,604</b>	<b>124,352,943</b>	<b>50,755,399</b>	<b>35,354,416</b>	<b>-30,058,275</b>	<b>-23,479,299</b>	<b>169,414,728</b>	<b>136,228,060</b>
Revenue from sale of goods	145,486,111	121,776,571	50,196,213	35,042,089	-29,371,067	-23,254,426	166,311,257	133,564,234
- In relation to external customers	131,855,424	110,141,124	34,455,833	23,423,110			166,311,257	133,564,234
- Inter-segment revenue	13,630,687	11,635,447	15,740,380	11,618,979	-29,371,067	-23,254,426	0	0
Revenue from sale of services	2,286,289	2,089,185	497,554	266,876	-687,208	-652,613	2,096,635	1,703,448
- In relation to external customers	1,816,358	1,620,002	280,277	83,446			2,096,635	1,703,448
- Inter-segment revenue	469,931	469,183	217,277	183,430	-687,208	-652,613	0	0
Other operating income	945,204	487,187	61,632	45,451		427,740	1,006,836	960,378
<b>Cost of goods sold and other operating expenses</b>	<b>-123,312,465</b>	<b>-102,879,027</b>	<b>-45,353,360</b>	<b>-31,808,741</b>	<b>29,423,571</b>	<b>23,055,792</b>	<b>-139,242,254</b>	<b>-111,631,976</b>
- In relation to external customers	-109,077,135	-91,093,503	-30,165,119	-20,538,473			-139,242,254	-111,631,976
- Inter-segment transactions	-14,235,330	-11,785,524	-15,188,241	-11,270,268	29,423,571	23,055,792	0	0
<b>Gross operating profit or loss</b>	<b>25,405,139</b>	<b>21,473,916</b>	<b>5,402,039</b>	<b>3,545,675</b>	<b>-634,704</b>	<b>-423,507</b>	<b>30,172,474</b>	<b>24,596,084</b>
<b>Operating expenses</b>	<b>-23,144,479</b>	<b>-19,398,678</b>	<b>-4,392,517</b>	<b>-3,302,211</b>	<b>509,696</b>	<b>484,198</b>	<b>-27,027,300</b>	<b>-22,216,691</b>
- In relation to external customers	-22,852,982	-19,398,678	-4,174,318	-3,302,211		484,198	-27,027,300	-22,216,691
- Inter-segment transactions	-291,497		-218,199		509,696		0	0
<b>Operating profit or loss</b>	<b>2,260,660</b>	<b>2,075,238</b>	<b>1,009,522</b>	<b>243,464</b>	<b>-125,008</b>	<b>60,691</b>	<b>3,145,174</b>	<b>2,379,393</b>
<b>Net financing expenses / revenues</b>	<b>-403,878</b>	<b>133,334</b>	<b>49,383</b>	<b>16,589</b>	<b>-24,867</b>	<b>81,966</b>	<b>-379,362</b>	<b>231,889</b>
- In relation to external customers	-206,673	239,392	-172,689	-105,135		97,632	-379,362	231,889
- Inter-segment transactions	-197,205	-106,058	222,072	121,724	-24,867	-15,666	0	0
<b>Profit before tax</b>	<b>1,856,782</b>	<b>2,208,572</b>	<b>1,058,905</b>	<b>260,053</b>	<b>-149,875</b>	<b>142,657</b>	<b>2,765,812</b>	<b>2,611,282</b>
Income tax expense	-475,714	-503,214	-186,555	-52,296		-40,409	-662,269	-595,919
<b>Profit or loss for the period</b>	<b>1,381,068</b>	<b>1,705,358</b>	<b>872,350</b>	<b>207,757</b>	<b>-149,875</b>	<b>102,248</b>	<b>2,103,543</b>	<b>2,015,363</b>
Attributable to minority interest					3,991	2,323	3,991	2,323
<b>Attributable to equity holders of the parent</b>	<b>1,381,068</b>	<b>1,705,358</b>	<b>872,350</b>	<b>207,757</b>	<b>-153,866</b>	<b>99,925</b>	<b>2,099,552</b>	<b>2,013,040</b>
Segment assets	124,197,911	94,788,463	44,231,129	29,893,469	-38,498,203	-20,645,068	129,930,837	104,036,864
Assets in relation to external customers	105,893,958	88,068,646	23,811,165	15,968,218			129,705,123	104,036,864
Inter-segment assets	18,303,953	6,719,817	20,419,964	13,925,251	-38,498,203	-20,645,068	225,714	0
Property, plant and equipment, and intangible assets	41,214,419	39,429,534	10,846,055	7,006,777	-225,714	-2,299,525	51,834,760	44,136,786
Investments in subsidiaries	84,028						84,028	0
<b>Total assets</b>	<b>165,496,358</b>	<b>134,217,997</b>	<b>55,077,184</b>	<b>36,900,246</b>	<b>-38,723,917</b>	<b>-22,944,593</b>	<b>181,849,625</b>	<b>148,173,650</b>
Segment liabilities	118,931,015	100,151,596	34,012,347	20,971,659	-19,376,293	-13,862,867	133,567,069	107,260,388
Liabilities to external customers	103,131,544	89,874,508	30,435,525	17,385,880			133,567,069	107,260,388
Inter-segment liabilities	15,799,471	10,277,088	3,576,822	3,585,779	-19,376,293	-13,862,867	0	0
<b>Total liabilities</b>	<b>118,931,015</b>	<b>100,151,596</b>	<b>34,012,347</b>	<b>20,971,659</b>	<b>-19,376,293</b>	<b>-13,862,867</b>	<b>133,567,069</b>	<b>107,260,388</b>
Acquisition of intangible assets	27,809	142,518	16,944	42,221			44,753	184,739
Acquisition of property, plant and equipment (PPE) in the period	4,374,590	4,672,428	3,195,484	1,692,248			7,570,074	6,364,676
Impairment expenses recognised in the income statement	269,270	20,669	22,230	7,814			291,500	28,483

## **11 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS OF MERKUR, D. D.**

The starting point for the first-time reporting under IFRS is the opening IFRS balance sheet at the date of transition to IFRS. The date of transition to IFRS at which the consolidated financial statements are prepared is 1 January 2004. The date of transition to IFRS at which the separate financial statements of Merkur, d. d. are prepared is 1 January 2005. Because the opening IFRS balance sheet is the basis for all future reporting, all transactions in respect of economic categories recognised in the opening balance sheet shall be treated under IFRS. Consequently, economic categories were recognised, derecognised, reclassified and re-measured. The differences arising from the adjustment of items in the opening balance sheet were recognised in retained earnings or another category of equity.

The transition to IFRS has been implemented in accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards. The standard requires that the entity shall use the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the reporting date for its first IFRS financial statements. The accounting policies that the entity uses in its opening IFRS balance sheet may differ from those that it used for the same date using its previous accounting standards. The adjustments are recognised directly in retained earnings or another category of equity.

Under IFRS 1, certain aspects of IFRS in respect of accounting estimates shall be exempted from retrospective application. The estimates in the opening IFRS balance sheet are consistent with estimates made under previous accounting standards for the last date prior to transition to IFRS, except estimates in respect of useful life of property.

### Changes in accounting estimates

When reviewing the useful life of the items of property, plant and equipment it was found that the estimated useful lives of property should be reduced as follows: buildings – from 50 to 40 years, containers, warehouse tents and greenhouses – from 20 to 10 years. The useful life of external landscaping should be extended from 20 to 25 years. In respect of other assets, no material deviations were found between the initial estimates and the expected useful lives.

### **Material differences between the financial statements prepared under previous SAS (SAS 2001) and the financial statements prepared under IFRS:**

#### Measurement of property, plant and equipment, and investment property:

In accordance with SAS, an item of property, plant and equipment, and an item of investment property were valued at cost and, as the case may have required, impaired when the carrying amount exceeded their recoverable value. To measure the items of property in more real terms on transition to IFRS, it was decided in Merkur d. d. that revaluation of land, buildings and investment property to fair value would be carried out under the application of the fair value model. Fair values of the items of property and investment property were determined by a certified valuer in compliance with the prescribed methodology. The adjustments had an impact on a change in equity and depreciation expense.

#### Recognition of intangible assets:

In accordance with IFRS, the opening IFRS balance sheet excludes certain intangible assets that did not meet the criteria for recognition at the date of transition to IFRS. A portion of intangible assets (investments and leasehold improvements) was reclassified to property, plant and equipment.

#### Presentation of non-current investments in subsidiaries in separate financial statements:

In accordance with SAS and IFRS, non-current and current investments are initially measured at cost. After initial recognition, an investment in subsidiaries is accounted for using the equity method. In the separate financial statements prepared under IFRS, investments in subsidiaries are measured at their fair values determined on the basis of discounted future cash flows.

#### Classification and measurement of financial assets:

Upon transition to IFRS, most of investments recorded by Merkur, d. d. were classified as available-for-sale financial assets that are measured at fair values. Upon transition to fair value, an increase in financial assets was recorded and recognised as a separate item of equity (fair value reserves). Upon sale, they will be transferred to profit or loss.

#### Provisions for anniversary bonuses and termination pays on retirement

In accordance with IFRS, provisions for liabilities to employees in respect of anniversary bonuses and termination pays on retirement shall be recognised. Provisions for liabilities from previous periods are charged against retained earnings, and provisions for liabilities in the current period are recorded as an increase in operating expenses. Provisions are formed on the basis of the actuarial calculation.

#### Deferred tax calculation:

In the financial statements prepared under IFRS, deferred tax was calculated for the first time. Deferred tax was provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities. Deferred tax assets are recognised in respect of provisions not set up under SAS and revaluation of assets. Deferred tax liabilities are recognised in respect of revaluation of financial assets. Deferred tax assets are recorded as a separate item of non-current assets, and deferred tax liabilities as a separate item of non-current liabilities.

#### Equity:

On the first-time adoption of IFRS, the effects of changes in valuation of assets and liabilities were reflected in equity in the opening IFRS balance sheet at 1 January 2005. Equity reported under IFRS changed compared to equity reported under SAS. The total value of equity increased. The separate components of equity changed as follows: equity revaluation adjustments recognised as fair value reserves on financial assets increased, and retained earnings decreased. Accumulated general equity revaluation adjustments (revaluation of equity until 2001) were only reclassified to capital reserves.

Balance sheet of Merkur, d. d. as at 1 January 2005 and 30 September 2005 – Transition from SAS to IFRS

Item	Note	In SIT thousand					
		1 Jan. 2005 - SAS	Adjustment to IFRS	1Jan. 2005 - IFRS	30 Sept. 2005 - SAS	Adjustment to IFRS	30 Sept. 2005 - IFRS
Property, plant and equipment	a	38,432,759	-784,433	37,648,326	39,178,534	-1,789,102	37,389,432
Intangible assets	b,a	2,728,583	-2,593,797	134,786	1,653,109	-1,589,128	63,981
Investment property	c,a	1,616,366	3,977,578	5,593,944	482,468	3,977,578	4,460,046
Investment in subsidiaries	d	3,133,752	300,328	3,434,080	7,097,184	535,651	7,632,835
Non-current financial assets	e	8,732,368	4,545,552	13,277,920	11,013,374	4,167,194	15,180,568
Non-current trade and other receivables		0	330,525	330,525	0	288,249	288,249
Deferred tax assets	j	0	675,182	675,182	0	675,182	675,182
<b>Total non-current assets</b>		<b>54,643,828</b>	<b>6,450,935</b>	<b>61,094,763</b>	<b>59,424,669</b>	<b>6,265,624</b>	<b>65,690,293</b>
Inventories	f	25,742,510	-949,959	24,792,551	23,096,652	-614,890	22,481,762
Non-current trade and other receivables	g	330,525	-330,525	0	288,249	-288,249	0
Current financial assets	e	6,036,384	-122,967	5,913,417	3,956,835	-479,499	3,477,336
Current trade and other receivables	g	39,938,215	1,087,211	41,025,426	44,258,985	1,189,889	45,448,874
Cash and cash equivalents		185,766	0	185,766	161,087	0	161,087
<b>Total current assets</b>		<b>72,233,400</b>	<b>-316,240</b>	<b>71,917,160</b>	<b>71,761,808</b>	<b>-192,749</b>	<b>71,569,059</b>
<b>Deferred costs (expenses) and accrued revenue</b>	<b>g</b>	<b>137,252</b>	<b>-137,252</b>		<b>574,999</b>	<b>-574,999</b>	<b>0</b>
<b>TOTAL ASSETS</b>		<b>127,014,480</b>	<b>5,997,443</b>	<b>133,011,923</b>	<b>131,761,476</b>	<b>5,497,876</b>	<b>137,259,352</b>
Issued capital	h	12,145,850	0	12,145,850	12,145,850	0	12,145,850
Capital reserves	h	4,809,029	11,004,089	15,813,118	4,809,029	11,004,089	15,813,118
Reserves	h	2,260,428	0	2,260,428	2,260,428	0	2,260,428
Retained earnings	h	10,152,005	-1,395,104	8,756,901	11,219,214	-1,159,781	10,059,433
-retained earnings brought forward	h	10,152,005	-1,395,104	8,756,901	9,366,848	-1,395,104	7,971,744
-net profit or loss for the period	h		0		1,852,366	235,323	2,087,689
Equity revaluation adjustment	h	11,004,513	-7,221,872	3,782,641	11,004,513	-7,773,039	3,231,474
-general	h	11,004,089	-11,004,089	0	11,004,089	-11,004,089	0
- specific	h	424	3,782,217	3,782,641	424	3,231,050	3,231,474
<b>Total equity</b>	<b>h</b>	<b>40,371,825</b>	<b>2,387,113</b>	<b>42,758,938</b>	<b>41,439,034</b>	<b>2,071,269</b>	<b>43,510,303</b>
Non-current financial liabilities		17,499,308	0	17,499,308	17,444,033	0	17,444,033
Non-current trade and other payables		837,651	0	837,651	837,095	0	837,095
Deferred tax liabilities	j		1,787,199	1,787,199	0	1,603,476	1,603,476
Long-term provisions	i	124	1,733,021	1,733,145	50	1,733,021	1,733,071
<b>Total non-current liabilities</b>		<b>18,337,083</b>	<b>3,520,220</b>	<b>21,857,303</b>	<b>18,281,178</b>	<b>3,336,497</b>	<b>21,617,675</b>
Current financial liabilities		36,133,114	0	36,133,114	36,351,307	0	36,351,307
Current trade and other payables	k	30,382,486	1,679,513	32,061,999	35,494,291	53,656	35,547,947
Income tax payable		110,459	0	110,459	142,010	0	142,010
Short-term provisions	k	0	90,110	90,110	0	90,110	90,110
<b>Total current liabilities</b>		<b>66,626,059</b>	<b>1,769,623</b>	<b>68,395,682</b>	<b>71,987,608</b>	<b>143,766</b>	<b>72,131,374</b>
<b>Total liabilities</b>		<b>84,963,142</b>	<b>5,289,843</b>	<b>90,252,985</b>	<b>90,268,786</b>	<b>3,480,263</b>	<b>93,749,049</b>
<b>Accrued costs (expenses) and deferred revenue</b>	<b>k</b>	<b>1,679,513</b>	<b>-1,679,513</b>	<b>0</b>	<b>53,656</b>	<b>-53,656</b>	<b>0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>127,014,480</b>	<b>5,997,443</b>	<b>133,011,923</b>	<b>131,761,476</b>	<b>5,497,876</b>	<b>137,259,352</b>

a) Property, plant and equipment

On transition to IFRS at 1 January 2005, owned property was reclassified to investment property in the carrying amount of 4,783 million SIT, which is in line with the corporate plan in respect of the further use of the property.

Investments in third-party assets that were recognised as intangible assets under previous standards were reclassified to property, plant and equipment in the carrying amount of 2,195 million SIT at 1 January 2005.

Due to revaluation of property to fair value, the value of the item of property increased by 1,941 million SIT; due to an increase in depreciation expense, the value of the item of property decreased by 138 million SIT.

b) Intangible assets

Intangible assets decreased by 398 million SIT due to reclassification of investments in third-party assets and exclusion of certain items of intangible assets that did not meet the criteria for recognitions in the IFRS opening balance sheet.

c) Investment property

Upon reclassification of a portion of property under property, plant and equipment to investment property, revaluation to fair value was carried out. The effect of revaluation to fair value amounted to 805 million SIT.

d) Investments in subsidiaries

Under IFRS, investments in subsidiaries are not measured using the equity method, and foreign exchange differences arising from translation of net investments in subsidiaries operating abroad are not recorded. Due to a change in measurement, investments in subsidiaries increased by 300 million SIT.

e) Non-current and current financial assets

At 1 January 2005, the fair value of available-for-sale financial assets was higher than their carrying amount under previous standards by 4,423 million SIT. On the liabilities side, fair value reserves in equity increased by 3,728 million SIT and deferred tax liabilities by 1,243 million SIT, while retained earnings decreased by 548 million SIT (the change of the method of valuation of shares from the FIFO method to the average cost method).

f) Inventories

At 1 January 2005, inventories decreased by 950 million SIT due to reclassification of advances to suppliers as trade and other receivables.

g) Trade and other receivables and other assets (transfer from deferred costs/expenses and accrued revenue)

On transition to IFRS, trade and other receivables increased due to transfer of advances to suppliers from inventories by 950 million SIT and due to reclassification of items of deferred costs (expenses) and accrued revenue by 137 million SIT.

#### h) Equity

##### Changes in Equity of Merkur, d. d. at 1 January 2005

	In SIT thousand
<b>Equity at 1 January 2005 under SAS</b>	<b>40,371,825</b>
Increase in fair value reserves arising from available-for-sale financial assets	3,727,948
Increase in fair value reserves arising from property, plant and equipment	54,269
Increase in retained earnings by the effect of revaluation of property, plant and equipment to fair value	1,360,348
Increase in retained earnings by the effect of elimination of profits and losses when using the equity method and foreign exchange differences arising from translation of investments in subsidiaries	300,329
Decrease in retained earnings by the effect of revaluation of investment property to fair value	-603,971
Decrease in retained earnings due to derecognition of intangible assets that are considered a cost item in terms of substance	-398,350
Decrease in retained earnings by the amount of provisions for termination pays on retirement, anniversary bonuses, and share options for employees	-1,299,765
Decrease in retained earnings due to a change in the valuation of financial assets from the FIFO method to the average cost method	-548,015
Decrease in retained earnings due to an increase in depreciation expense	-138,098
Decrease in retained earnings by the amount of current provisions for Non-consumed vacations	-67,582
<b>Difference representing an increase in equity</b>	<b>2,387,113</b>
<b>Equity at 1 January 2005 under IFRS</b>	<b>42,758,938</b>

The equity of Merkur, d. d. as at 1 January 2005 increased by 2,387 million SIT. The separate components of equity changed as follows: equity revaluation adjustments recognised as fair value reserves on financial assets and property, plant and equipment increased by 3,782 million SIT, and retained earnings decreased by 1,395 million SIT.

#### i) Non-current provisions

The increase in non-current provisions by 1,733 million SIT is due to setting-up of provisions for termination pays on retirement, anniversary bonuses and share options to employees.

#### j) Deferred taxes

Deferred tax assets and liabilities that arise from temporary differences between the carrying amount and the tax base of an asset or liability were measured using the balance sheet liability method. The applied tax rate was 25 %. As at 1 January 2005, deferred tax assets amounted to 675 million SIT and deferred tax liabilities to 1,787 million SIT.

#### k) Trade and other payables (transfer from accrued costs and deferred revenue) and current provisions

In accordance with the presentation of balance sheet items under IFRS, the items of accrued costs and deferred revenue were reclassified to current other payables and current provisions. The reclassification had no effect. Additional provisions were set up for non-consumed vacations in the amount of 90 million SIT.

**Income statement of Merkur, d. d. for the period January - September 2005 – Transition from SAS to IFRS**

In SIT thousand				
Item	Note	Jan. - Sept. 2005 SAS	Adjustment to IFRS	Jan. - Sept. 2005 IFRS
<b>REVENUE</b>		<b>112,474,195</b>	<b>0</b>	<b>112,474,195</b>
Cost of sales		93,769,702	0	93,769,702
<b>GROSS PROFIT FROM SALES</b>		<b>18,704,493</b>	<b>0</b>	<b>18,704,493</b>
Other operating income	l	365,153	57,312	422,465
Distribution expenses		12,712,600	0	12,712,600
Administrative expenses		3,561,868	0	3,561,868
Other operating expenses	l	395,429	47,052	442,481
<b>OPERATING PROFIT</b>		<b>2,399,749</b>	<b>10,260</b>	<b>2,410,009</b>
Financial income	m	2,023,480	-185,658	1,837,822
Financial expenses	m	2,058,661	-420,981	1,637,680
<b>NET FINANCING INCOME / COSTS</b>		<b>-35,181</b>	<b>235,323</b>	<b>200,142</b>
Extraordinary income	l	57,312	-57,312	0
Extraordinary expenses	l	47,052	-47,052	0
<b>PROFIT BEFORE TAX</b>		<b>2,374,828</b>	<b>235,323</b>	<b>2,610,151</b>
Income tax expense		522,462	0	522,462
<b>PROFIT FOR THE PERIOD</b>		<b>1,852,366</b>	<b>235,323</b>	<b>2,087,689</b>

<b>Costs by nature</b>	<b>16,274,468</b>	<b>0</b>	<b>16,274,468</b>
Cost of materials	948,874	0	948,874
Cost of services	5,633,814	0	5,633,814
Employee benefits expense	7,949,358	0	7,949,358
Depreciation / Amortisation expense	1,483,234	0	1,483,234
Other costs	259,188	0	259,188

l) Other operating income and other operating expenses

Under IFRS, an entity shall not present any items of income and expense as extraordinary items, therefore extraordinary income and expenses reported under SAS were reclassified to other operating income and other operating expenses.

m) Financial income and financial expenses

Under IFRS, net financial income and financial expenses in the period January – September 2005 increased by 235 million SIT due to elimination of profits and losses when using the equity method and foreign exchange gains and losses from translation of investments in foreign subsidiaries.

**Management Board of Merkur, d. d., Naklo**