



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

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

Naklo, 24 August, 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) and Securities Market Act, Merkur, d. d. (plc), with the registered office in Naklo, at Cesta na Okroglo 7, herewith releases the summary of unaudited interim report of Merkur, d. d., and Merkur Group for the period from January to June 2006. At their 22nd meeting of 24 August 2006, the Supervisory Board of Merkur gave its unqualified opinion of the interim report of Merkur, d. d. and the Merkur Group. Any important changes to data in the company's prospectus shall be promptly released in public announcements on SEOnet of the Ljubljana Stock Exchange. The complete unaudited interim report is available at sight at the registered office of the company, at Merkur, d. d., Cesta na Okroglo 7, in the e-information system of the Ljubljana Stock Exchange, SEOnet, and at www.merkur.si.

1.1 Reporting Standards

Unaudited financial statements of Merkur, d. d. for the period from January to June 2006 and unaudited consolidated financial statements of the Merkur Group for the period from January to June 2006 have been drawn in compliance with the stipulations of the Companies Act and International Financial Reporting Standards (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 15th 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 the 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.

The Merkur Group prepares and releases its consolidated financial statements for the periods after 1 January 2005 in compliance with IFRS. Unaudited interim consolidated financial statements of the Merkur Group for 2006 apply the same accounting principles as the consolidated financial statements for 2005.

All comparable financial statements of Merkur, d. d. and consolidated financial statements of the Merkur Group for the period from January to June 2005, and as at 30 June 2005, 31 December 2005 and 1 January 2006, have been presented in compliance with the IFRS to allow for comparison.

1.2 Companies Included in the Consolidation

Subsidiary	Country	Ownership share since	Ownership share in % as of 30 June 2006	Ownership share in % as of 30 June 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	97.99	-
- 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	1994	100	100
- Bofex Beograd, d. o. o.	Serbia	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 Sava Trade, d. d., Ljubljana were included in the Merkur Group. On 24 April 2006, Merkur concluded a sales contract on purchase of the holding in Sava Trade, d. d. According to that contract, Merkur became the owner and gained control over Sava Trade already on 1 January 2006. Due to the inclusion of Sava Trade's financial statements into the consolidated financial statements of Merkur Group, it is not quite possible to compare the opening balance of Merkur Group as at 1 January 2006 and its consolidated financial statements as at 30 June 2006 with the interim data of the previous year, i.e. 30 June 2005.

2 HIGHLIGHTS ON OPERATIONS

MERKUR, D. D.

Item	January- June			Index	
	2006	Plan 2006	2005	Plan=100	2005=100
Net sales revenues (in SIT thousand)	83,354,839	79,738,468	72,493,008	104.5	115.0
Net operating profit or loss from regular operations (in SIT thousand)	1,974,763	1,266,040	1,340,161	156.0	147.4
EBITDA (earnings before interest, tax, depreciation and amortization in SIT thousand)	2,887,022	2,295,558	2,340,355	125.8	123.4
Profit before taxation (in SIT thousand)	1,801,917	949,068	1,449,614	189.9	124.3
Net profit (in SIT thousand)	1,405,495	797,910	1,144,674	176.1	122.8
Added value (in SIT thousand)	9,051,473	8,128,198	7,773,246	111.4	116.4
Assets (as at 30 June - in SIT thousand)	161,899,158		140,813,710		115.0
Equity capital (as at 30 June - in SIT thousand)	49,980,798		42,440,694		117.8
Number of employees from hours worked	2,519	2,564	2,441	98.2	103.2
Net sales revenue per employee (in SIT thousand)	33,090	31,099	29,698	106.4	111.4
Added value per employee (in SIT thousand)	3,593	3,170	3,184	113.3	112.8
Net profit per employee (in SIT thousand)	558	311	469	179.3	119.0
Net return on equity - ROE - % p.a.	6.03		5.44		110.8
Total revenue net profitability rate - in %	1.66	0.98	1.55	168.6	107.1
Book value of share (as at 30 June - in SIT)	38,078		34,943		109.0
Market price per share (as at 30 June - in SIT)	38,457		36,148		106.4
Market price per share in comparison to its book value (as at 30 June - in %)	101		103		97.6
Net earnings per share (in SIT)	1,112	631	942	176.1	118.0

MERKUR GROUP

Item	January- June			Index	
	2006	Plan 2006	2005	Plan=100	2005=100
Net sales revenues (in SIT thousand)	105,571,610	101,821,230	85,371,553	103.7	123.7
Net operating profit or loss from regular operations (in SIT thousand)	2,149,707	1,465,262	1,396,331	146.7	154.0
EBITDA (earnings before interest, tax, depreciation and amortization in SIT thousand)	3,521,472	1,465,262	2,678,059	240.3	131.5
Profit before taxation (in SIT thousand)	1,809,851	923,327	1,655,504	196.0	109.3
Net profit (in SIT thousand)	1,362,554	680,855	1,276,610	200.1	106.7
Added value (in SIT thousand)	12,086,547	11,221,878	9,914,059	107.7	121.9
Assets (as at 30 June - in SIT thousand)	178,092,329		152,957,465		116.4
Equity capital (as at 30 June - in SIT thousand)	48,295,105		40,123,929		120.4
Number of employees from hours worked	3,813	3,906	3,341	97.6	114.1
Net sales revenue per employee (in SIT thousand)	27,687	26,068	25,553	106.2	108.4
Added value per employee (in SIT thousand)	3,170	2,873	2,967	110.3	106.8
Net profit per employee (in SIT thousand)	357	174	382	205.0	93.5
Net return on equity - ROE - % p.a.	6,08		6,45		94.3
Total revenue net profitability rate - in %	1,27	0,66	1,46	193.0	87.2
Book value of share (as at 30 June - in SIT)	36,665		33,014		111.1
Market price per share (as at 30 June - in SIT)	38,457		36,148		106.4
Market price per share in comparison to its book value (as at 30 June - in %)	105		109		95.8
Net earnings per share (in SIT)	1,078	539	1,051	200.1	102.6

3 IMPORTANT EVENTS IN THE PERIOD FROM JANUARY TO JUNE 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 will be managed by a six-member Management Board: three from Merkur, and three from SCT. The Management Board will run the business and pass all business decisions independently. Merkur holds a 45% stake in the company.

The Acquisition of Sava Trade

At their 20th 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, which will allow for fast advance of those programmes as well.

Increase in Share Capital

At their 20th 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 new issuance of new shares, but the return on capital is expected to increase from 8.0% to 8.3%.

New Business Premises and Warehousing Facilities

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 ultra-modern **steel centre** opened in **Rijeka**

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

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

Entry of Capital Increase in the Court Register of Companies

On 18 April 2006, the recent 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 210,735 Sava Trade, d. d. shares exclusive of the company MG Market, d. o. o., and to become a 96.87% shareholder in Sava Trade. 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 the 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, transfer and distribution. Clients from trading companies met in June.

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 its structure. The system applies for 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 JUNE 2006

The Merkur Group recorded further positive sales trends in the second quarter of 2006. Total sales exceeded SIT 20 billion already in May. The favourable trend continued in June as well, when sales exceeded SIT 21 billion. In the first half of the year, net sales revenues of Merkur Group amounted to SIT 105.6 billion, which was 24% more than in the same period of 2005. The plan for the first half of the year was exceeded 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 17%. Merkur saw a similar increase, and the sales amounted to SIT 83.4 billion exceeding the plan by 5%.

Merkur increased its retail and wholesale in Slovenia approximately by 15%, Bofex by 10%, whilst sales on foreign markets grew by 33%. Thanks to the opening of a new sales centre, the increase was the highest in Beograd, Serbia. The MI Zagreb sales went up by 50% as well. It is very important that all Merkur core programmes saw at least a 10% increase in sales. Thanks to the acquisition of Sava Trade, the rise was most obvious in sales of chemical and paper products. Measured in SIT, ferrous and non-ferrous metal products recorded more than 20% growth, and as far as quantities are concerned, the rise actually exceeded 33%. The prices of steel slumped in the second half of 2005. They have been increasing ever since, but even so the prices in the first half of 2006 were still at least 10% lower on average than in the same period of 2005.

The difference in prices grew in correspondence to net sales revenues. There is an exception though, which occurred due to the reclassification of sales. Retailing to small companies has been reported at retail sales to physical persons, so retailing to companies has recently presented a slightly lower total. In the first half of 2006, gross operating profit from sales reached 21.4% in Merkur Group, and the growth of costs lagged behind by 2.5% percentage points, reaching only 18.9%. The labour cost was the most significant cost item and presented almost a half of the total cost. Merkur performed very well in 2006, so the company increased the wages and salaries slightly above the Slovene average.

The costs grew slowly, so operating profit increased by more than 50%. It totalled SIT 2.15 billion in Merkur Group, from that Merkur realised SIT 1.97 billion, and EBITDA reached SIT 3.52 billion, which was 31.5% more than last year. If financial effects are considered, total profit of Merkur Group amounted to SIT 1.81 billion, or 9.3% more than last year. Due to higher income tax, however, net profit amounted to SIT 1.37 billion. In the first half of 2006, net profit of Merkur amounted to SIT 1.41 billion, which was 22.8% more than in the first half of 2005. The comparable data for 2005 were calculated in observation of IFRS (International Financial Reporting Standards).

The alterations in structure of Merkur Group balance sheet reflect differences in sales and acquisition of Sava Trade, d. d. The inventories and receivables grew by 20%, but the operating liabilities retained the end-of-the-year level. The difference was financed by the issuance of 98,000 new shares and by other financial sources. Sava, d. d., Kranj bought the newly issued Merkur shares. It bought Merkur shares sold by KD Group as well, and became an important 20% stakeholder in Merkur. In addition to that, the ownership role of Banka Koper has also increased. At the beginning of July 2006, Banka Koper bought 6% of all shares from NFD skladi. In the first half of the year, the price of Merkur shares ranged from SIT 34,000 to SIT 35,000, but at the end of June the price peaked at SIT 39,000, when it reached approximately the same level as in spring 2005.

In addition to current business operations, the company also focused on fulfilment of its strategic objectives. In spring 2006, Merkur opened a new sales centre in Ptuj, and plans to open another two soon, in Velenje and Lesce. The company has also started preparations for construction of new facilities in Maribor, Koper, Ljubljana, Zagreb, Split and Novi Sad. In May 2006, a new steel centre opened in Rijeka to enhance the sales of ferrous and non ferrous metal products in Croatia. In September, a similar facility is due to open in Sarajevo, Bosnia and Herzegovina. To meet the demand in Serbia, the company has temporarily rented a larger warehouse in Beograd.

The interim results recorded in the first half of 2006 confirm the correctness of the strategic guidelines. The company has consolidated its position on the domestic market, and expanded on the neighbouring markets. It has further developed the Merkur sales model based on quality of goods and services, wide variety of goods, and the combination of sales to end-consumers and industrial companies. Despite the keen competition, Merkur has managed to improve productivity and business performance, and may expect good results at the end of the year.

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 first half of 2006, the structure of the Management Board of Merkur did not change in any way. The Management Board as at 1 January 2006 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, Memeber of the Management Board – Director of Labour Relations

In the first half of 2006, the structure of the Supervisory Board of Merkur did not change in any way. 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 16th 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 June 2006

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

No.	Name	30 June 2006			31 December 2005		
		Number of shareholders	Total shares Number	%	Number of shareholders	Total shares Number	%
1	Sava, d. d.	1	257,419	19.61	-	-	-
2	Kapitalska družba, d. d.	1	218,491	16.65	1	218,491	17.99
3	NFD 1 investicijski sklad, d. d.	1	178,288	13.58	1	170,432	14.03
4	Slovenska odškodninska družba, d. d.	1	93,194	7.10	1	93,194	7.67
5	Gorenjska banka, d. d.	1	84,955	6.47	1	47,455	3.91
6	Euro jamstvenik d. o. o.	1	48,000	3.66	-	-	-
7	Salonit Anhovo, d. d.	1	29,342	2.24	1	32,810	2.70
8	Zlata moneta I d. d.	1	27,608	2.10	1	27,608	2.27
9	Zavarovalnica Triglav	1	17,729	1.35	1	17,729	1.46
10	SOP Ljubljana	1	15,761	1.20	1	15,761	1.30
11	Zvon ena ID, d. d.	1	10,534	0.80	1	7,018	0.58
12	Employees	699	98,763	7.52	724	87,524	7.20
13	Other legal entities	137	89,455	6.82	175	351,716	28.96
14	Other shareholders	3,728	143,046	10.90	3,974	144,847	11.93
TOTAL		4,575	1,312,585	100.00	4,882	1,214,585	100.00

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

Management and Supervisory Boards	Number of shares 30 June 2006	Holding in % of total shares
Management Board	7,736	0.589
Kordež Bine	3,316	0.252
Čelesnik Goran	1,822	0.139
Jelovčan Milan	1,509	0.115
Kajzer Marijanca	1,089	0.083
Supervisory Board	3,539	0.270
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.

Since the end of 2005, the price of Merkur share has increased by 6.1%, from SIT 36,257.99 to SIT 38,457.01, whilst SBI 20 index has recorded a 10.0% growth at the Ljubljana Stock Exchange.

Net Earnings per Share and the Applicable Calculation Method

Net earnings per share of Merkur, d. d. in the period from January to June 2006: SIT 1,112

Net earnings per share of Merkur, d. d. in the period from January to June 2005: SIT 942

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 June 2006: $1,263,585 = (1,214,585 \cdot 3 + 1,312,585 \cdot 3) / 6$), in the period from January to June 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 June 2006: SIT 38,078

Book value of Merkur share as at 30 June 2005: SIT 34,943

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

Authorised Capital and Conditional Increase in Share Capital

Merkur, d. d. has not adopted any resolutions concerning 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 the Plan

In the period from January to June 2006, net sales exceeded the plan by 4.5% in Merkur, and respectively by 3.7% in Merkur Group. In the first half of 2006, net profit of Merkur amounted to SIT 1.41 billion, and exceeded the plan by 76.1%, whilst net profit of Merkur Group reached SIT 1.36 billion, which was 101% more than planned.

6.4 Explanation Concerning Seasonal Character of Sales

The sale in Merkur, d. d. is strongly marked by seasonal fluctuations, and this trend was observed in the last five years as well. Net sales are usually the lowest in the first quarter of the year. In the second quarter, Merkur exceeded its first-quarter-net-sales on average by 30% in the last five years. This year, however, Merkur's net sales were by 38% higher in the second quarter than in the first. In 2006, the Merkur Group exceeded the average as well.

6.5 Important Events after the Accounting Period

16th General Meeting of Shareholders of Merkur, d. d.

On 3 July 2006, the General Meeting of Shareholders convened at their 16th regular meeting. The shareholders passed the proposal concerning the distribution of accumulated profit for 2005, and released the Management and Supervisory Boards from their duties. The shareholders appointed the certified auditor (KPMG Slovenija, podjetje za revidiranje, d. o. o.), elected new members to the Supervisory Board and passed the alterations to the Articles of Association to prepare everything necessary for the adoption of euro. The shareholders elected the following shareholders' representatives to the Supervisory Board: Janez Bohorič, Zlatko Kavčič, Zvonka Novak Hobot, Jakob Piskernik, Miha Resman and Marta Bertonec. The three members of the Supervisory Board – workers' representatives - will be elected by the worker's council of Merkur in autumn. The term of office for the new Supervisory Board members commences on 20 December 2006.

7 UNAUDITED FINANCIAL STATEMENTS OF MERKUR, D. D.

Balance Sheet of Merkur, d. d., as at 30 June 2006

Assets

Item	in thousand SIT				
	30 June 2006	1 January 2006 = 31 Dec 2005	30 June 2005	Index	
	1	2	3	4=1/2	5=1/3
Property, plant and equipment	34,717,375	34,998,560	37,937,103	99.2	91.5
Intangible assets	132,609	145,375	81,747	91.2	162.2
Investment property	3,703,950	4,681,853	4,462,902	79.1	83.0
Investments in associates accounted for using the equity method (investments in associated companies)	32,400	-	-	-	-
Non-current financial assets	36,584,392	25,885,643	19,787,854	141.3	184.9
Non-current trade and other receivables	308,384	319,598	332,949	96.5	92.6
Deferred tax assets	954,862	974,411	675,182	98.0	141.4
Total non-current assets	76,433,972	67,005,440	63,277,737	114.1	120.8
Inventories	28,436,410	21,692,604	24,238,603	131.1	117.3
Current financial assets	3,293,474	5,132,276	5,591,752	64.2	58.9
Current trade and other receivables	53,539,613	44,783,466	47,444,616	119.6	112.8
Cash and cash equivalents	195,689	640,687	261,002	30.5	75.0
Total current assets	85,465,186	72,249,033	77,535,973	118.3	110.2
TOTAL ASSETS	161,899,158	139,254,473	140,813,710	116.3	115.0

Equity and Liabilities

Item	in thousand SIT				
	30 June 2006	1 January 2006 = 31 Dec 2005	30 June 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
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	10,829,653	9,443,707	9,116,418	114.7	118.8
Fair value reserves	4,075,149	3,857,296	3,104,880	105.6	131.2
Total equity	49,980,798	44,829,399	42,440,694	111.5	117.8
Non-current financial liabilities	17,706,753	15,628,983	18,998,072	113.3	93.2
Non-current trade and other payables	774,837	774,877	837,143	100.0	92.6
Deferred tax liabilities	1,884,843	1,812,225	1,561,280	104.0	120.7
Long-term provisions	1,853,989	1,862,166	1,738,544	99.6	106.6
Total non-current liabilities	22,220,422	20,078,251	23,135,039	110.7	96.0
Current financial liabilities	43,141,751	33,558,357	39,003,334	128.6	110.6
Current trade and other payables	46,446,808	40,307,094	35,901,661	115.2	129.4
Income tax payable	1,724	373,717	242,872	-	-
Short-term provisions	107,655	107,655	90,110	100.0	119.5
Total current liabilities	89,697,938	74,346,823	75,237,977	120.6	119.2
Total liabilities	111,918,360	94,425,074	98,373,016	118.5	113.8
TOTAL EQUITY AND LIABILITIES	161,899,158	139,254,473	140,813,710	116.3	115.0
OFF BALANCE SHEET ITEMS	64,542,241	59,295,751	54,614,694	108.8	118.2

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

Item	in thousand SIT		
	January – June 2006	January – June 2005	Index
REVENUE	83,354,839	72,493,008	115.0
Cost of sales	69,932,430	60,640,282	115.3
GROSS PROFIT FROM SALES	13,422,409	11,852,726	113.2
Other operating income	540,379	304,673	177.4
Distribution expenses	8,850,149	8,077,154	109.6
Administrative expenses	2,719,472	2,439,745	111.5
Other operating expenses	418,404	300,339	139.3
OPERATING PROFIT OR LOSS	1,974,763	1,340,161	147.4
Financial income	933,875	1,209,883	77.2
Financial expenses	1,106,721	1,100,430	100.6
NET FINANCING COSTS	-172,846	109,453	-
PROFIT BEFORE TAX	1,801,917	1,449,614	124.3
Income tax expense	396,422	304,940	130.0
PROFIT OR LOSS FOR THE PERIOD	1,405,495	1,144,674	122.8
Net earnings per share (in SIT)	1,112	942	118.0

Costs by Nature

Item	in thousand SIT		
	January – June 2006	January – June 2005	Index
Costs by nature	11,569,621	10,516,899	110.0
Costs of materials	731,698	642,317	113.9
Costs of services	3,989,547	3,572,480	111.7
Labour costs	5,746,047	5,132,552	112.0
Amortisation and depreciation expense	912,259	1,000,194	91.2
Other costs	190,070	169,356	112.2

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

in thousand SIT

Item	January - June 2006	January - June 2005	Index
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit or loss for the period	1,405,495	1,144,674	122.8
Adjustments for:	1,364,629	1,552,253	87.9
Depreciation of property, plant and equipment	884,935	969,648	91.3
Amortisation of intangible assets	27,324	30,546	89.5
Impairment of assets	378,962	202,009	187.6
Gain on disposal of property, plant and equipment	-496,667	-75,779	655.4
Investment income	-845,807	-849,403	99.6
Foreign exchange profit or loss	-10,824	10,310	-
Interest expense	1,038,456	965,381	107.6
Increase in long-term provisions	-8,172	-5,399	151.4
Income taxes paid	396,422	304,940	130.0
Change in net operating current assets and provisions	-10,488,268	-3,516,336	298.3
Increase in trade and other receivables	-9,053,857	-6,622,641	136.7
Increase in inventories	-6,770,091	544,870	-
Increase in trade and other payables	5,327,508	2,556,036	208.4
Increase in accruals and deferrals, and provisions	8,172	5,399	151.4
Net cash from operating activities	-7,718,144	-819,409	941.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	778,348	829,474	93.8
Dividends received	2,964	347,175	-
Proceeds from sale of property, plant and equipment	1,489,977	2,442,285	61.0
Proceeds from sale of investment property	1,441,254	1,028,742	140.1
Proceeds from sale of investments	8,322,377	1,190,568	699.0
Acquisition of property, plant and equipment	-2,060,731	-3,482,445	59.2
Acquisition of intangible assets	-14,558	-37,115	39.2
Acquisition of investments	-16,856,829	-4,827,641	349.2
Net cash used in investing activities	-6,897,198	-2,508,957	274.9
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from / Repayment of borrowings	3,547,600	-	-
Cash receipts from paid-in capital	11,661,164	4,368,983	266.9
Interest paid	-1,038,456	-965,381	107.6
Net cash used in financing activities	14,170,308	3,403,602	416.3
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
	-445,034	75,236	-
Cash and cash equivalents at beginning of period	640,687	185,766	344.9
Cash and cash equivalents at end of period	195,689	261,002	75.0

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

in thousand SIT

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Reserve for own shares	TOTAL EQUITY
Balance at 1 January 2006	12,145,850	15,813,118	1,330,273	2,239,155	9,443,707	381,513	3,475,782	0	44,829,398
Entry of additional payments of equity capital	980,000	2,567,600	-	-	-	-	-	-	3,547,600
Net profit for the period from January to June 2006	-	-	-	-	1,405,495	-	-	-	1,405,495
Changes in fair value of available-for-sale financial Assets	-	-	-	-	-	-	338,046	-	338,046
Transfer of fair value from property and available-for-sale financial assets to revenues	-	-	-	-	-	-	-47,576	-	-47,576
Increase/Decrease in deferred taxes	-	-	-	-	-19,549	-	-72,616	-	-92,165
Balance at 30 June 2006	13,125,850	18,380,718	1,330,273	2,239,155	10,829,653	381,513	3,693,636	0	49,980,798

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

in thousand SIT

Items of capital	Share capital	Capital reserves	Legal reserves	Other reserves	Retained earnings	Fair value reserve – land and buildings	Fair value reserve – financial assets	Reserve for own shares	TOTAL EQUITY
Balance at 1 January 2005	12,145,850	15,813,118	1,330,273	930,155	8,756,901	54,268	3,728,373	0	42.758.938
Net profit for the period from January to June 2005	-	-	-	-	1,144,674	-	-	-	1.144.674
Changes in fair value of available-for-sale financial Assets	-	-	-	-	-	-	-903,681	-	-903.681
Dividends for shareholders	-	-	-	-	-785,157	-	-	-	-785.157
Increase/Decrease in deferred taxes	-	-	-	-	-	-	225,920	-	225.920
Balance at 30 June 2005	12,145,850	15,813,118	1,330,273	930,155	9,116,418	54,268	3,050,612	0	42.440.694

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

in thousand SIT

Item	Slovenia – domestic market		Foreign market		Total	
	2006	2005	2006	2005	2006	2005
Revenue from sale of goods and services and other operating income	71,602,858	62,475,945	12,292,360	10,321,736	83,895,218	72,797,681
Revenue from sale of goods	69,939,758	61,131,666	12,115,802	10,187,996	82,055,560	71,319,662
- Incurred in connection with other Group companies	435,941	278,597	9,525,291	8,263,551	9,961,232	8,542,148
- Revenue from external customers	69,503,817	60,853,069	2,590,511	1,924,445	72,094,328	62,777,514
Revenue from sale of services	1,124,838	1,039,616	174,441	133,730	1,299,279	1,173,346
- Incurred in connection with other Group companies	68,519	83,904	131,517	124,422	200,036	208,326
- Revenue from external customers	1,056,319	955,712	42,924	9,308	1,099,243	965,020
Other operating income	538,262	304,663	2,117	10	540,379	304,673
Cost of goods sold and other operating expenses	-58,270,998	-50,899,292	-11,661,432	-9,740,990	-69,932,430	-60,640,282
- Incurred in connection with other Group companies	-408,027	-275,045	-9,248,038	-8,082,209	-9,656,065	-8,357,254
- Revenue from external customers	-57,862,971	-50,624,247	-2,413,394	-1,658,781	-60,276,365	-52,283,028
Gross operating profit or loss	13,331,860	11,576,653	630,928	580,746	13,962,788	12,157,399
Operating expenses	-11,566,541	-10,405,952	-421,484	-411,286	-11,988,025	-10,817,238
- Incurred in connection with external customers transactions	-11,566,541	-10,405,952	-421,484	-411,286	-11,988,025	-10,817,238
Operating profit or loss	1,765,319	1,170,701	209,444	169,460	1,974,763	1,340,161
Net financing income/cost	-194,579	198,608	21,733	-89,155	-172,846	109,453
- Incurred in connection with other Group companies	-15,817	7,907	124,429	68,436	108,612	76,343
- incurred in connection with external customers	-178,762	190,701	-102,696	-157,591	-281,458	33,110
Profit before tax	1,570,740	1,369,309	231,177	80,305	1,801,917	1,449,614
Income tax expense	-345,564	-288,076	-50,858	-16,864	-396,422	-304,940
Profit or loss for the period	1,225,176	1,081,233	180,319	63,441	1,405,495	1,144,674
Attributable to equity holders of the parent	1,225,176	1,081,233	180,319	63,441	1,405,495	1,144,674
Segment assets	104,608,997	87,327,721	22,407,777	15,467,139	127,016,774	102,794,860
Assets in relation to other Group companies	10,965,644	3,908,189	20,023,581	13,623,587	30,989,225	17,531,776
Assets in relation to external customers	93,643,353	83,419,532	2,384,196	1,843,552	96,027,549	85,263,084
Property, plant and equipment, and intangible assets	34,373,571	37,622,457	476,413	396,393	34,849,984	38,018,850
Investments in subsidiaries	32,400				32,400	0
Total assets	139,014,968	124,950,178	22,884,190	15,863,532	161,899,158	140,813,710
Segment liabilities	93,728,777	86,364,015	18,189,583	12,009,001	111,918,360	98,373,016
Liabilities to other Group companies	1,549,274	42,677	3,304,144	2,953,572	4,853,418	2,996,249
Liabilities to external customers	92,179,503	86,321,338	14,885,439	9,055,429	107,064,942	95,376,767
Total liabilities	93,728,777	86,364,015	18,189,583	12,009,001	111,918,360	98,373,016
Acquisition of intangible assets	14,558	37,115			14,558	37,115
Acquisition of property, plant and equipment (PPE) in the period	2,060,731	3,419,078	63,367		2,124,098	3,419,078
Impairment expenses recognised in the income statement	1,982	61,335			1,982	61,335

9 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERKUR GROUP

Balance Sheet of Merkur Group as at 30 June 2006

Assets

Item	in thousand SIT					
	30 June 2006	1 January 2006*	30 June 2005	Index		31 Dec 2005*
	1	2	3	4=1/2	5=1/3	6
Property, plant and equipment	50,688,048	48,902,497	43,882,181	103.7	115.5	44,480,021
Intangible assets	520,607	575,793	543,518	90.4	95.8	575,793
Investment property	3,897,775	4,957,580	4,516,364	78.6	86.3	4,744,994
Investments in associates accounted for using the equity method (investments in associated companies)	32,400	-	-	-	-	-
Non-current financial assets	18,211,231	17,155,776	12,323,768	106.2	147.8	17,154,231
Non-current trade and other receivables	405,094	415,567	433,428	97.5	93.5	410,550
Deferred tax assets	1,066,582	1,086,131	1,116,810	98.2	95.5	1,063,604
Total non-current assets	74,821,737	73,093,344	62,816,069	102.4	119.1	68,429,193
Inventories	40,734,159	34,038,947	34,849,848	119.7	116.9	32,672,584
Current financial assets	5,132,072	6,608,605	5,713,103	77.7	89.8	5,235,680
Income tax receivable	88,258	52,109	8,991	-	981.6	52,109
Current trade and other receivables	55,879,955	46,281,750	48,044,917	120.7	116.3	42,970,551
Assets classified as held for sale	-	59,283	59,283	0.0	0.0	59,283
Cash and cash equivalents	1,436,148	2,728,340	1,465,254	52.6	98.0	2,696,958
Total current assets	103,270,592	89,769,034	90,141,396	115.0	114.6	83,687,165
TOTAL ASSETS	178,092,329	162,862,378	152,957,465	109.4	116.4	152,116,358

Equity and Liabilities

Item	in thousand SIT					
	30 June 2006	1 January 2006*	30 June 2005	Index		31 Dec 2005*
	1	2	3	4=1/2	5=1/3	6
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	8,910,154	7,587,601	6,571,495	117.4	135.6	7,587,601
Fair value reserves	4,076,904	3,859,050	3,106,635	105.6	131.2	3,859,050
Translation reserves	-64,087	-55,342	94,037	115.8	-	-55,342
Total equity attributable to equity holders of the parent	48,125,715	43,026,632	40,098,492	111.9	120.0	43,026,632
Minority interest	169,390	213,298	25,437	79.4	665.9	27,830
Total equity	48,295,105	43,239,930	40,123,929	111.7	120.4	43,054,462
Non-current financial liabilities	20,909,904	18,984,800	21,262,902	110.1	98.3	18,822,486
Non-current trade and other payables	964,433	950,031	999,237	101.5	96.5	885,981
Deferred tax liabilities	2,003,113	1,930,542	1,561,280	103.8	128.3	1,813,293
Long-term provisions	2,933,345	2,952,411	2,002,439	99.4	146.5	2,103,109
Total non-current liabilities	26,810,795	24,817,784	25,825,858	108.0	103.8	23,624,869
Current financial liabilities	46,375,060	37,986,147	43,448,081	122.1	106.7	37,709,443
Current trade and other payables	55,082,873	55,532,470	42,518,905	99.2	129.5	47,112,595
Income tax payable	18,886	517,398	349,802	-	-	375,359
Short-term provisions	1,509,610	768,649	690,890	196.4	218.5	239,630
Total current liabilities	102,986,429	94,804,664	87,007,678	108.6	118.4	85,437,027
Total liabilities	129,797,224	119,622,448	112,833,536	108.5	115.0	109,061,896
TOTAL EQUITY AND LIABILITIES	178,092,329	162,862,378	152,957,465	109.4	116.4	152,116,358
OFF BALANCE SHEET ITEMS	62,956,836	57,519,597	44,939,495	109.5	140.1	56,429,255

*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 June 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 June 2006

Item	in thousand SIT		
	January – June 2006	January – June 2005	Index
REVENUE	105,571,610	85,371,553	123.7
Cost of sales	86,515,856	69,679,769	124.2
GROSS PROFIT FROM SALES	19,055,754	15,691,784	121.4
Other operating income	780,064	813,220	95.9
Distribution expenses	13,054,652	11,150,628	117.1
Administrative expenses	4,068,735	3,254,506	125.0
Other operating expenses	562,724	703,539	80.0
OPERATING PROFIT OR LOSS	2,149,707	1,396,331	154.0
Financial income	1,070,574	1,535,091	69.7
Financial expenses	1,410,430	1,275,918	110.5
NET FINANCING COSTS	-339,856	259,173	-
PROFIT BEFORE TAX	1,809,851	1,655,504	109.3
Income tax expense	443,860	377,662	117.5
PROFIT OR LOSS FOR THE PERIOD	1,365,991	1,277,842	106.9
Attributable to equity holders of the parent	1,362,554	1,276,610	106.7
Attributable to minority interest	3,437	1,232	279.0
Net earnings per share (in SIT)	1,078	1,051	102.6

Costs by Nature

Item	in thousand SIT		
	January – June 2006	January – June 2005	Index
Costs by nature	17,123,387	14,405,134	118.9
Costs of materials	980,538	818,722	119.8
Costs of services	6,501,772	5,567,879	116.8
Labour costs	8,002,351	6,532,461	122.5
Amortisation and depreciation expense	1,371,765	1,281,728	107.0
Long-term provisions	2,014	-	-
Other costs	264,947	204,344	129.7

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

Item	in thousand SIT		Index
	January – June 2006	January – June 2005	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit or loss for the period	1,365,991	1,277,842	106.9
Adjustments for:	1,932,054	1,387,326	139.3
Depreciation of property, plant and equipment	1,282,913	1,192,197	107.6
Amortisation of intangible assets	88,956	89,679	99.2
Impairment of assets	491,643	549,105	89.5
Gain on disposal of property, plant and equipment	-695,728	-575,499	120.9
Revenue from derecognition of goodwill	-842,256	-1,286,356	65.5
Investment income	-21,885	-107,096	20.4
Foreign exchange profit or loss	1,203,999	1,134,279	106.1
Interest expense	-19,448	13,355	-
Increase in long-term provisions	443,860	377,662	117.5
Change in net operating current assets and provisions	-17,354,036	-4,536,305	382.6
Increase in trade and other receivables	-9,897,758	-7,430,404	133.2
Increase in inventories	-6,771,843	-1,165,159	581.2
Increase in trade and other payables	-1,425,396	3,553,537	-
Increase in accruals and deferrals, and provisions	740,961	505,721	146.5
Net cash from operating activities	-14,055,991	-1,871,137	751.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	911,648	985,598	92.5
Dividends received	3,101	347,175	-
Proceeds from sale of property, plant and equipment	2,146,056	2,469,026	86.9
Proceeds from sale of investment property	1,910,086	1,028,742	185.7
Proceeds from sale of investments	8,404,393	1,291,467	650.8
Acquisition of property, plant and equipment	-5,464,707	-5,221,894	104.6
Acquisition of intangible assets	-46,716	-80,509	58.0
Acquisition of investments	-7,522,475	-582,421	-
Net cash used in investing activities	341,386	237,184	143.9
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from paid-in capital	3,547,600	-	-
Proceeds from / Repayment of borrowings	10,105,829	2,783,583	363.1
Interest paid	-1,231,016	-1,136,760	108.3
Net cash used in financing activities	12,422,413	1,646,823	754.3
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
	-1,292,192	12,870	-
Cash and cash equivalents at beginning of period	2,728,340	1,452,384	187.9
Cash and cash equivalents at end of period	1,436,148	1,465,254	98.0

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

in thousand SIT

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
Balance at 1 January 2006	12,145,850	15,813,118	1,437,200	2,239,155	7,587,601	383,268	3,475,782	-55,342	0	43,026,632	213,298	43,239,930
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 March	-	-	-	-	1,362,554	-	-	-	-	1,362,554	3,437	1,365,991
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	338,046	-	-	338,046	-	338,046
Allocation of retained earnings from previous periods to legal reserves	-	-	19,821	-	-19,821	-	-	-	-	0	-	0
Transfer of fair value from property and available-for-sale financial assets to revenues	-	-	-	-	-	-	-47,576	-	-	-47,576	-	-47,576
Other decreases – change in ownership to benefit the major shareholder	-	-	-	-	-	-	-	-	-	0	-47,204	-47,204
Increase/Decrease in exchange differences on translation	-	-	-	-	-	-	-	-8,745	-	-8,745	-141	-8,886
Increase/Decrease in deferred taxes	-	-	-	-	-20,180	-	-72,616	-	-	-92,796	-	-92,796
Balance at 30 June 2006	13,125,850	18,380,718	1,457,021	2,239,155	8,910,154	383,268	3,693,636	-64,087	0	48,125,715	169,390	48,295,105

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

in thousand SIT

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
Balance at 1 January 2005	12,145,850	15,813,118	1,350,595	930,157	6,166,647	56,023	3,728,373	40,931	0	40,231,694	22,746	40,254,440
Net profit for the period from January to March	-	-	-	-	1,276,610	-	-	-	-	1,276,610	1,232	1,277,842
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-903,681	-	-	-903,681	-	-903,681
Allocation of retained earnings from previous periods	-	-	86,605	-	-86,605	-	-	-	-	0	-	0
Dividends for shareholders	-	-	-	-	-785,157	-	-	-	-	-785,157	-	-785,157
Increase/Decrease in exchange differences on translation	-	-	-	-	-	-	-	53,106	-	53,106	1,459	54,565
Increase/Decrease in deferred taxes	-	-	-	-	-	-	225,920	-	-	225,920	-	225,920
Balance at 30 June 2005	12,145,850	15,813,118	1,437,200	930,157	6,571,495	56,023	3,050,612	94,037	0	40,098,492	25,437	40,123,929

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

in thousand SIT

Item	Slovenia – domestic market		Foreign market		Eliminations		Merkur Group	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from sale of goods and services and other operating income	95,212,263	79,318,902	31,489,977	23,745,790	-20,350,566	-16,879,919	106,351,674	86,184,773
Revenue from sale of goods	92,897,323	77,583,525	31,111,629	23,502,655	-19,902,895	-16,862,275	104,106,057	84,223,905
- Incurred in connection with external customers	83,503,072	69,045,595	20,963,568	15,178,310			104,466,640	84,223,905
- Inter-segment revenue	9,394,251	8,537,930	10,148,061	8,324,345	-19,902,895	-16,862,275	-360,583	0
Revenue from sale of services	1,569,432	1,398,381	343,792	194,651	-447,671	-445,384	1,465,553	1,147,648
- Incurred in connection with external customers	1,254,247	1,077,419	211,306	70,229			1,465,553	1,147,648
- Inter-segment revenue	315,185	320,962	132,486	124,422	-447,671	-445,384	0	0
Other operating income	745,508	336,996	34,556	48,484		427,740	780,064	813,220
Cost of goods sold and other operating expenses	-78,250,869	-65,302,232	-28,157,374	-21,327,912	19,892,387	16,950,375	-86,515,856	-69,679,769
- Incurred in connection with external customers transactions	-69,152,959	-56,490,384	-18,304,793	-13,189,385			-87,457,752	-69,679,769
- Inter-segment transactions	-9,097,910	-8,811,848	-9,852,581	-8,138,527	19,892,387	16,950,375	941,896	0
Gross operating profit or loss	16,961,394	14,016,670	3,332,603	2,417,878	-458,179	70,456	19,835,818	16,505,004
Operating expenses	-15,200,179	-12,844,598	-2,791,775	-2,282,049	305,843	17,974	-17,686,111	-15,108,673
- Incurred in connection with external customers transactions	-14,765,934	-12,827,800	-2,560,922	-2,280,873			-17,326,856	-15,108,673
- Inter-segment transactions	-434,245	-16,798	-230,853	-1,176	305,843	17,974	-359,255	0
Operating profit or loss	1,761,215	1,172,072	540,828	135,829	-152,336	88,430	2,149,707	1,396,331
Net financing expenses / revenues	-343,558	143,540	3,702	2,345	0	113,288	-339,856	259,173
- Incurred in connection with external customers transactions	-210,306	328,793	-120,675	-69,620			-330,981	259,173
- Inter-segment transactions	-133,252	-185,253	124,377	71,965	0	113,288	-8,875	0
Profit before tax	1,417,657	1,315,612	544,530	138,174	-152,336	201,718	1,809,851	1,655,504
Income tax expense	-364,677	-304,702	-79,183	-32,551		-40,409	-443,860	-377,662
Profit or loss for the period	1,052,980	1,010,910	465,347	105,623	-152,336	161,309	1,365,991	1,277,842
Attributable to minority interest	1,762	932	1,675	300			3,437	1,232
Attributable to equity holders of the parent	1,051,218	1,009,978	463,672	105,323	-152,336	161,309	1,362,554	1,276,610
Segment assets	119,803,651	98,428,990	44,307,961	31,574,654	-37,260,338	-21,471,877	126,851,274	108,531,767
<i>Assets in relation to external customers</i>	103,875,903	91,054,563	23,201,085	17,477,204			127,076,988	108,531,767
<i>Inter-segment assets</i>	15,927,748	7,374,427	21,106,876	14,097,450	-37,260,338	-21,471,877	-225,714	0
Property, plant and equipment, and intangible assets	40,513,420	39,159,627	10,920,949	6,471,755	-225,714	-1,205,684	51,208,655	44,425,698
Investments in subsidiaries	32,400						32,400	0
Total assets	160,349,471	137,588,617	55,228,910	38,046,409	-37,486,052	-22,677,561	178,092,329	152,957,465
Segment liabilities	115,833,644	96,631,080	32,349,994	29,846,991	-18,386,414	-13,644,535	129,797,224	112,833,536
<i>Liabilities to external customers</i>	101,431,369	86,570,440	28,365,855	26,263,096			129,797,224	112,833,536
<i>Inter-segment liabilities</i>	14,402,275	10,060,640	3,984,139	3,583,895	-18,386,414	-13,644,535	0	0
Total liabilities	115,833,644	96,631,080	32,349,994	29,846,991	-18,386,414	-13,644,535	129,797,224	112,833,536
Acquisition of intangible assets	29,293	37,115	6,739				36,032	37,115
Acquisition of property, plant and equipment (PPE) in the period	2,185,950	3,419,078	2,900,008	2,116,369			5,085,958	5,535,447
Impairment expenses recognised in the income statement	12,322	94,186		183			12,322	94,369

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 remeasured. 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 June 2005 – Transition from SAS to IFRS

In thousand SIT

Item	Note	1 Jan 2005 - SAS	Adjustment to IFRS	1Jan 2005 - IFRS	30 June 2005 - SAS	Adjustment to IFRS	30 June 2005 - IFRS
Property, plant and equipment	a	38,432,759	-784,433	37,648,326	38,759,444	-822,341	37,937,103
Intangible assets	b,a	2,728,583	-2,593,797	134,786	2,637,636	-2,555,889	81,747
Investment property	c,a	1,616,366	3,977,578	5,593,944	485,324	3,977,578	4,462,902
Investment in subsidiaries	d	3,133,752	300,328	3,434,080	7,268,983	363,851	7,632,834
Non-current financial assets	e	8,732,368	4,545,552	13,277,920	8,433,370	3,721,650	12,155,020
Non-current trade and other receivables		0	330,525	330,525	0	332,949	332,949
Deferred tax assets	j	0	675,182	675,182	0	675,182	675,182
Total non-current assets		54,643,828	6,450,935	61,094,763	57,584,757	5,692,980	63,277,737
Inventories	f	25,742,510	-949,959	24,792,551	24,839,738	-601,135	24,238,603
Non-current trade and other receivables	g	330,525	-330,525	0	332,949	-332,949	0
Current financial assets	e	6,036,384	-122,967	5,913,417	5,794,497	-202,745	5,591,752
Current trade and other receivables	g	39,938,215	1,087,211	41,025,426	46,064,890	1,379,726	47,444,616
Cash and cash equivalents		185,766	0	185,766	261,002	0	261,002
Total current assets		72,233,400	-316,240	71,917,160	77,293,076	242,897	77,535,973
Deferred costs (expenses) and accrued revenue	g	137,252	-137,252		778,591	-778,591	0
TOTAL ASSETS		127,014,480	5,997,443	133,011,923	135,656,424	5,157,286	140,813,710
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	10,447,999	-1,331,581	9,116,418
-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		1,081,151	63,523	1,144,674
Equity revaluation adjustment	h	11,004,513	-7,221,872	3,782,641	11,004,513	-7,899,633	3,104,880
-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	3,104,456	3,104,880
Total equity	h	40,371,825	2,387,113	42,758,938	40,667,819	1,772,875	42,440,694
Non-current financial liabilities		17,499,308	0	17,499,308	18,998,072	0	18,998,072
Non-current trade and other payables		837,651	0	837,651	837,143	0	837,143
Deferred tax liabilities	j		1,787,199	1,787,199	0	1,561,280	1,561,280
Long-term provisions	i	124	1,733,021	1,733,145	5,523	1,733,021	1,738,544
Total non-current liabilities		18,337,083	3,520,220	21,857,303	19,840,738	3,294,301	23,135,039
Current financial liabilities		36,133,114	0	36,133,114	39,003,334	0	39,003,334
Current trade and other payables	k	30,382,486	1,679,513	32,061,999	35,845,196	56,465	35,901,661
Income tax payable		110,459	0	110,459	242,872	0	242,872
Short-term provisions	k	0	90,110	90,110	0	90,110	90,110
Total current liabilities		66,626,059	1,769,623	68,395,682	75,091,402	146,575	75,237,977
Total liabilities		84,963,142	5,289,843	90,252,985	94,932,140	3,440,876	98,373,016
Accrued costs (expenses) and deferred revenue	k	1,679,513	-1,679,513	0	56,465	-56,465	0
TOTAL EQUITY AND LIABILITIES		127,014,480	5,997,443	133,011,923	135,656,424	5,157,286	140,813,710

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) 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 thousand SIT
Equity at 1 January 2005 under SAS	40,371,825
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
Difference representing an increase in equity	2,387,113
Equity at 1 January 2005 under IFRS	42,758,938

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 - June 2005 – Transition from SAS to IFRS

In thousand SIT

Item	Note	Jan. - June 2005 SAS	Adjustment to IFRS	Jan. - June 2005 IFRS
REVENUE		72,493,008	0	72,493,008
Cost of sales		60,640,282	0	60,640,282
GROSS PROFIT FROM SALES		11,852,726	0	11,852,726
Other operating income	l	270,778	33,895	304,673
Distribution expenses		8,077,154	0	8,077,154
Administrative expenses		2,439,745	0	2,439,745
Other operating expenses	l	263,344	36,995	300,339
OPERATING PROFIT		1,343,261	-3,100	1,340,161
Financial income	m	1,393,495	-183,612	1,209,883
Financial expenses	m	1,347,565	-247,135	1,100,430
NET FINANCING INCOME / COSTS		45,930	63,523	109,453
Extraordinary income	l	33,895	-33,895	0
Extraordinary expenses	l	36,995	-36,995	0
PROFIT BEFORE TAX		1,386,091	63,523	1,449,614
Income tax expense		304,940	0	304,940
PROFIT FOR THE PERIOD		1,081,151	63,523	1,144,674

Costs by nature	10,516,899	0	10,516,899
Cost of materials	642,317	0	642,317
Cost of services	3,572,480	0	3,572,480
Employee benefits expense	5,132,552	0	5,132,552
Depreciation / Amortisation expense	1,000,194	0	1,000,194
Other costs	169,356	0	169,356

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 – June 2005 increased by 63 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