



Mercator

**Supervisory Board and Management Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolution with regard to the Item 1 of the agenda:

the Shareholders Assembly Bodies shall be elected.

E x p l a n a t i o n

The Management Board has the authority to propose to the Shareholders Assembly the election of operative bodies, i.e. the President of the Shareholders Assembly and members of the Election Committee, who will organize voting and elections as well as make sure of the presence of a notary public. The Supervisory Board approved the proposed election of the operative bodies.

Ljubljana, May 23rd 2007

President of the Management Board
Žiga Debeljak, MScBA

President of the Supervisory Board
Robert Šega, MA



**Supervisory Board and Management Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolution with regard to the Item 2 of the agenda:

a) Translation of the share and nominal share values to euros

Pursuant Article 693 of the Companies Act (ZGD-1), share capital in the amount of SIT 37,653,610,000.00, divided into 3,765,361 ordinary registered shares with nominal value of SIT 10,000.00, shall be translated from tolar to euros; thus, the share capital in the new currency amounts to EUR 157,128,514.53, and is divided into 3,765,361 ordinary registered shares with a nominal value of EUR 41.73 per share. The relations between particular rights pertaining to the ownership of shares and the relations of voting rights in the company were not changed by the currency translation.

The difference in the amount due to the translation amounts to EUR 2,784.27; it will be covered from other provisions from profit.

b) Introduction of par value shares and changes to the Articles of Association and company Bylaws

Share capital in the amount of EUR 157,128,514.53, divided into 3,765,361 ordinary registered shares with nominal value of 41.73 EUR per share, shall be re-divided into no par value shares, in such way that each ordinary registered share with a nominal value of EUR 41.73 shall be replaced by one ordinary no par value share. Thus, the share capital amounting to EUR 157,128,514.53 is divided into 3,765,361 ordinary registered shares.

Based on the resolution adopted with regard to item 2.a) and harmonization with the Companies Act (ZGD-1), Article 12 of Articles of Association and company Bylaws shall be changed to the following wording:

Share capital of the company amounts to EUR 157,128,514.53 and it is divided into 3,765,361 ordinary registered no par value shares.

Pursuant relevant legislation and rules and regulations, the shares are presented in dematerialized form and represent shares of a single class as defined by the Companies Act (ZGD-1). All shares have been paid-up entirely.

c) Changes of company's registered activities

Field of company's activities and operations shall be expanded with the following activities:

15.810 Production of bread, fresh pastry and confectionery

15.820 Production of rusk and cookies, production of long-lasting pastry and confectionery

15.850 Production farinaceous products (pasta)

92.610 Operation of sports facilities

92.623 Other sports activities

92.720 Other leisure activities, d.n.

d) Approved capital

Among the changes and amendments to the Articles of Association and Bylaws of the company Poslovni sistem Mercator, d.d., the Management Board is hereby authorized to increase in five years after the changes to the Articles of Association and company Bylaws are entered into the Court Register the company share capital by up to 20 % of the share capital entered on the day of adoption of this resolution at the 13th regular company Shareholders Assembly, by issuing new shares, subject to approval by the Supervisory Board; preemptive right of the existing shareholders to acquire new shares may be omitted under the following conditions:

- newly issued shares are used to acquire shares or ownership of other companies or business funds upon establishing strategic alliances;
- omission of the preemptive right shall be approved by the Supervisory Board;
- prior to the emission of new shares, company Management Board shall inform the shareholders of the reasons for the emission of new shares and reason for omission of the preemptive right, by announcing these reasons on the electronic dissemination information system of the relevant stock exchange;
- with each strategic alliance or partnership, none of the respective recipients of the newly issued shares or group of associated recipients of the newly issued shares shall acquire more than 10 % of the company share capital;
- an independent financial advisor shall issue a positive opinion on the fairness of issuing new shares from the aspect of shareholders and the company, and the Management Board shall inform the shareholders with such opinion by publishing it on the stock market electronic dissemination information system no later than 30 days after the establishment of a binding agreement on the issue of new shares.

e) Adoption of other changes and amendments to the Articles of Association and company Bylaws

The proposed changes and amendments to the Articles of Association and Bylaws of the company Poslovni sistem Mercator, d.d., are hereby adopted.

E x p l a n a t i o n

(a) Translation of share capital and nominal share values to euros

The Companies Act (ZGD-1) stipulates a two-year deadline following the introduction of euro, by which the sum of share capital of the companies is to be translated into the new currency; hence, share capital was translated from tolar to euros.

(b) Introduction of no par value shares and the change of the Articles of Association and company Bylaws

In addition to the shares with a nominal value, i.e. the par value shares, the Companies Act (ZGD-1) regulated in the Article 172 the shares without nominal value, or the no par value shares; however, the new treatment is subject to the introduction of euro. Exchange rate for converting tolar into euros does not enable the nominal value of a share, currently amounting to SIT 10,000.00, to be translated into euros in such way that SIT 10,000.00 was a multiple of 1 EUR, which is the minimum unit in which a par value share may be expressed. Therefore, no par value shares are introduced, as they do not relate to any nominal share, but only to a number of a respective share. Each shareholder shall calculate his or her ownership share in the company based on the ratio between the number of shares owned and the total number of company shares.

(c) Change in the field of activities

The company feels the requirement to engage in some additional activities; therefore, the expansion of registered activities is proposed.

(d) Approved capital

Approved capital is an instrument based on which the company share capital may be increased by simplified procedure in such way, that a special resolution by the company Shareholders Assembly is not required upon the issue of new shares itself. Such decision is adopted in advance for a particular period, to be subsequently carried out by the company Management Board, subject to the approval by the Supervisory Board, including the issue of new shares and registration of the increased share capital at the relevant court.

On the 5th Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on August 25th 1999, the Management Board as authorized to omit the preemptive right to a maximum of 291,496 new shares, subject to approval by the Supervisory Board; however, the authorization was not exercised. The instrument of approved capital was again adopted by the changes to the company Articles of Association and company Bylaws adopted at the 8th regular Shareholders Assembly of Poslovni sistem Mercator, d.d., held on May 31st 2002. Article 48 of the Articles of Association and Bylaws stipulated that the Management Board may in five years after the changes to the Articles of Association and company Bylaws as adopted at the 8th regular Shareholders Assembly are entered into the Court Register increase the

company share capital by 20 % of its value entered on the day of adoption of the resolution on issuing new shares, with the option to omit the preemptive right of the existing shareholders. The company partly exercised this option by increasing the company share capital in the second half of 2005 and the first half of 2006 when it issued 382,340 new shares and entirely omitted the preemptive right.

The decision on potential omission of the preemptive right is a constituent part of this resolution and it is expressly stipulated.

Preemptive right to new shares is one of the fundamental material or property rights of a shareholder, based on which individual shareholders have the preemptive right to acquire in case of a capital increase a part of the newly issued shares, proportional to the currently owned share of the company. This corporate right was enacted to prevent the internal relations between the shareholders from changing, as well as to prevent to a certain extent the entry of new stakeholders into the company ownership composition. However, the preemptive right may be omitted, either partly either entirely, if certain formal and material assumptions or prerequisites are met.

Company Management Board opted to omit the preemptive right of the existing shareholders under the condition that apart from the formal assumptions, all material prerequisites are met as well:

- omission of the preemptive right is the only way to attain a goal that is objectively in the best interest of the company (the principle of *company's best interest*);
- the set goal cannot be attained in any other way, i.e. without the omission of the preemptive right (principle of *necessity* or *inevitability*);
- there is a proportional relation between the objective value of the goal set, and the disbenefit to the existing shareholders due to the omission of the preemptive right (the principle of *proportionality*).

One of the strategic goals set by the company management is to make Mercator Group the largest or second largest FMCG retailer in the markets of Croatia, Serbia, Montenegro, and Bosnia and Herzegovina. Mercator Group plans to attain the target market shares both by systematic development of its own retail network, as well as with strategic partnerships with the existing trade chains in the target markets. According to management's estimates, own resources alone and borrowings, given the restrictions of financial commitments related to borrowing agreements, suffice for annual investment in the amount of EUR 150 million, which falls short of attaining the target market shares within the planned or desired time schedule.

It is thus essential that the expansion of the Mercator Group is enabled by issuing additional shares to be offered to interested strategic investors – and the most convenient method of such transactions is non-public issuing of additional shares y omission of the preemptive right.

Another reason for the option to omit the preemptive right is the fact that in a procedure without the omission of the preemptive right of the existing shareholders to the acquisition of new shares includes a complex and expensive procedure of a public offering. The public offering procedure would most probably cause a considerable delay in the accomplishment of the capital increases, thus slowing the dynamics of the company's expansion, which a vital aspect given the increasingly stringent competition and consolidation in progress in the industry in new markets, or

even inhibiting the company from pursuing potential strategically relevant business opportunities that arise occasionally.

Also relevant is the fact that the company Supervisory Board will retain the right to decide on the choice of strategic investors, based on which the capital increase will only include the investors who show a long-term strategic interest and meet the criteria of the Supervisory Board, a body that represents the interests of all shareholders, including the minority shareholders, and looks to maximize their long-term benefit, value, and return on the capital invested. The fundamental criterion will remain the care for long-term development of Mercator and all of its stakeholders.

Furthermore, the proposed resolution also includes the following additional constraints:

- a individual recipient of a group of associated recipients of shares issued from approved capital, shall not receive more than 10 % of the shares;
- Management Board shall inform the shareholders of the reasons for issuing the shares and for omission of the preemptive right;
- the company publishes an opinion by an independent financial advisor on the fairness and justification of issuing the shares from approved capital, from the aspect of shareholders and the company.

We believe that the proposed resolution on approved capital, given its amount and additional constraints, does not inhibit or restrict the rights of any group of shareholders, but to the contrary, enables the company to effectively pursue its strategic goals, also by forging strategic partnerships in the target markets of its operation.

(e) Adoption of other changes and amendments to Articles of Association and company Bylaws

The Articles of Association and company Bylaws shall be amended and changed in the following way:

1.

Article 1, indent 6 shall be changed to the following wording:

- Share capital and the number of shares.

Explanation of the change:

ARTICLE 1, INDENT 6 OF THE ARTICLES OF ASSOCIATION AND COMPANY BYLAWS HITHERTO:

- *Amount of share capital, nominal value per share, number of shares.*

Article 1 stipulates which issues are defined and regulated by the company Articles of Association and Bylaws. Since the company is introducing no par value shares, i.e.

shares without a nominal value, the provision stipulating that Articles of Association and Bylaws define the nominal value per share was omitted.

2.

Article 3 shall be changed to the following wording:

Companies Act (hereinafter referred to as ZGD-1) shall be applied directly, unless stipulated otherwise by these Articles of Association and Bylaws.

Explanation of the change:

ARTICLE 3 OF THE COMPANY ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Companies Act shall be applied directly, unless stipulated otherwise by these Articles of Association and Bylaws.

The revised Companies Act (ZGD-1), published in the Official Journal RS No. 42/2006 on April 19th 2006, replaced the initial Companies Act from 1993; therefore, the relevant article of the Articles of Association and Bylaws shall expressly stipulate that in certain instances, the revised Companies Act can be applied directly.

3.

Article 11, stipulating the company activities, shall be amended with the following activities:

- 15.810 Production of bread, fresh pastry and confectionery
- 15.820 Production of rusk and cookies, production of long-lasting pastry and confectionery
- 15.850 Production farinaceous products (pasta)
- 92.610 Operation of sports facilities
- 92.623 Other sports activities
- 92.720 Other leisure activities, d.n.

Explanation of the change:

The company felt the requirement to register for additional activities.

4.

Article 21, Paragraph 1 shall be changed to the following wording:

A list of all present or represented shareholders and their representatives shall be compiled for the Shareholders Assembly, including their first and last names, places of residence, and the number of shares held by each shareholder.

Explanation of the change:

ARTICLE 21, PARAGRAPH 1 OF THE COMPANY ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

A list of present. represented shareholders or their representatives, including their name, residence, and share amount of each of them, should be made for the General meeting.

Due to the introduction of no par value shares, stating the value (amount) of shares in the list of present shareholders is contradictory, as such shares do not have a nominal value; furthermore, pursuant Article 303 of the ZGD-1, the list of present shareholders should include not only first but also last name.

5.

In Article 23, after Paragraph 3, a new Paragraph 4 shall be added, with the following wording:

In exercise of its authorizations, granted in compliance with the relevant legislation, these Articles of Association and Bylaws, or a Supervisory Board resolution, the Management Board may put individual employees with special authorizations and responsibilities in charge of particular affairs to; equally, the Management Board may assign these employees the right to represent the company within the field of their operation. The Management Board may not transfer its authorizations and responsibilities in their full extent.

Explanation of the amendment:

The provision related to the option of the Management Board to assign the responsibility for particular affairs to individual employees with special authorization, is a necessity in daily operation of the company.

6.

Article 27, Paragraph 1, shall be changed to the following wording:

The president and the members of the Management Board are appointed by the Supervisory Board; the members are proposed by the Management Board President. Both the President and the members are appointed for a five-year term, with the possibility of reappointment.

Explanation of the change:

ARTICLE 27, PARAGRAPH 1 OF THE COMPANY ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

The president and the members of the Management Board are appointed by the Supervisory Board; the members are proposed by the Management Board President.

Both the President and the members are appointed for a five-year term, with the possibility of reappointment.

Pursuant the provision of the Article 255 of the Companies Act (ZGD-1) stipulating that members of the bodies of governance and control may only be appointed for a period defined in the company Articles of Association and Bylaws which does not exceed six years, the term of the president and members of the Management Board is expressly defined in the proposition of the actual change to the Articles of Association and Bylaws. Instead of the current provision that term of office lasts up to five years, a fixed term of five years shall be defined.

7.

Article 28, Item 5, Indent 2, shall be changed to the following wording:

- may pay out an interim dividend during the year, with consideration of the planned net profit for the business year; however, the dividend should not exceed one half of the sum remaining after the allocation of provisions from profit, nor one half of the distributable profit of the previous year; the payment is subject to approval by the Supervisory Board;

Explanation of the change:

ARTICLE 28, ITEM 5, INDENT 2 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

- *may pay out interim dividend which shall not exceed 50% of the amount remaining from the planned profit after the establishment of provisions, nor 50% of the profit from the previous year; payment is subject to approval by the Supervisory Board;*

This indent regulates the interim dividend; the purpose of the proposed changes is merely harmonization with Article 232 of the ZGD-1.

8.

Article 31 shall be changed to the following wording:

The company has a Supervisory Board with nine members. Two thirds of the members that represent the interest of the shareholders are elected by the Shareholders Assembly.

Supervisory Board member that represents the employees shall represent the interest of all employees within the authorizations granted to the Supervisory Board, in compliance with a special Act and these Articles of Association and Bylaws.

In addition to legal requirements, all candidates for Supervisory Board members must normally meet the following general criteria:

at least level VII education (university degree) and at least five years of experience in business. Furthermore, the candidates must normally meet the following special criteria:

- relevant expert knowledge for efficient performance of the function, and comprehensive business knowledge;
- good knowledge of the trade industry in Slovenia and in the markets of SE Europe;
- relevant documents and proofs of required knowledge, proving the qualification of the candidate for work in Supervisory Boards;
- business ethics and personal integrity;
- sufficient time available.

Explanation of the change:

ARTICLE 31 OF ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

The company has a Supervisory Board which consists of 12 members. One half of members that represent the interests of shareholders are elected by the Shareholders Assembly.

The number of Supervisory Board members shall be decided by the Shareholders Assembly in the Act on the Election of Supervisory Board.

Supervisory Board member that represents the employees shall represent the interest of all employees within the authorizations granted to the Supervisory Board, in compliance with a special Act and these Articles of Association and Bylaws.

Number of employee representatives in the Supervisory Board shall be reduced from one half to one third of the membership; furthermore, statutory criteria are added, which must be met by all candidates for Supervisory Board members.

9.

Article 32, Paragraph 1 shall be changed to the following wording:

Supervisory Board members are elected for 5-year terms and may be reelected.

Explanation of the change:

ARTICLE 32, PARAGRAPH 1 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Supervisory Board members are elected for 4-year terms and may be reelected.

Given the provision of Article 255 of the Companies Act (ZGD-1), members of bodies of governance and control may be elected for a period that does not exceed six years, the four-year term was extended to a five-year term.

10.

Article 35 shall be changed to the following wording:

The Shareholders Assembly may recall an elected member of the Supervisory Board before the end of the members' term.

Explanation of the change:

ARTICLE 35 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

The Shareholders Assembly may recall an elected member of the Supervisory Board before the end of the members' term:

- *at member's own request,*
- *if the member is no longer fit to perform his or her duty,*
- *if the member performs the duty negligently or disadvantageously,*
- *for other reasons relevant to company operations.*

Adoption of a resolution on the recall requires at least three quarter majority of the votes cast.

Pursuant Article 275 of the Companies Act (ZGD-1), recall of a Supervisory Board member is no longer subject to any predefined condition; hence, the current wording of the Articles of Association and Bylaws could cause ambiguities in the recall process.

11.

Article 37, Paragraph 3 shall be changed to the following wording:

Supervisory Board meeting must be convened at least once per quarter.

Explanation of the change:

ARTICLE 37, PARAGRAPH 3 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

As a rule, the Supervisory Board must be convened at least once quarterly, while it must be convened obligatorily once in a half- year.

Given that Article 257 of the Companies Act (ZGD-1) stipulates a compulsory convocation of a body of governance or control at least once per quarter, the provision that the Supervisory Board must be convened once per half-year was omitted from the wording, as it is in discord with the relevant legislation.

12.

Article 38, Paragraph 4 shall be changed to the following wording:

Supervisory Board member does not take part in the decision on the affairs that concern him or her.

Explanation of the change:

ARTICLE 38, PARAGRAPH 4 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Supervisory Board member does not take part in the decision on the affairs that concern him or her, with the exception of elections for chairman and deputy chairman of the Supervisory Board.

The wording of the Articles of Association and Bylaws was harmonized with Article 257, Paragraph 5 of the Companies Act (ZGD-1), which does not permit any exception in the provision stating that Supervisory Board member cannot take part in decisions related to her or him.

13.

Article 48 shall be changed to the following wording:

The Management Board is hereby authorized to increase in five years after the changes to the Articles of Association and Bylaws adopted at the 13th regular company Shareholders Assembly are entered into the Court Register the company share capital by up to 20 % of the share capital entered on the day of adoption of this resolution, by issuing new shares, subject to approval by the Supervisory Board; preemptive right of the existing shareholders to acquire new shares may be omitted under the following conditions:

- newly issued shares are used to acquire shares or ownership of other companies or business funds upon establishing strategic alliances;
- omission of the preemptive right shall be approved by the Supervisory Board;
- prior to issuing new shares, company Management Board shall inform the shareholders of the reasons for issuing new shares and reason for omission of the preemptive right, by announcing these reasons on the electronic dissemination information system of the relevant stock exchange;
- with each strategic alliance or partnership, none of the respective recipients of the newly issued shares or no group of associated recipients of the newly issued shares shall acquire more than 10 % of the company share capital;
- an independent financial advisor shall issue a positive opinion on the fairness of issuing new shares from the aspect of shareholders and the company, and the Management Board shall inform the shareholders with such opinion by publishing it on the stock market electronic dissemination information system no later than 30 days after the establishment of a binding agreement on the issue of new shares.

Explanation of the change:

ARTICLE 48 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Upon previous consent of the Supervisory Board, within five years after the entry of the Articles of Association amendments, adopted on the eight (8th) regular Shareholders Assembly, into the Court Register, the Management Board can may increase the share capital by up to 20% of share capital entered on the date when decision was adopted, by issuing new shares for investments, where it can also eliminate the preemptive priority right of new share subscription.

The consent from the above paragraph is granted if at least three-quarters of the members of Supervisory Board representing the shareholders' interests vote for it.

New shares can also be issued to employees of the controlling company and affiliated companies.

Current authorization to the Management Board for increasing the share capital from approved capital, granted among the changes and amendments to company Articles of Association and Bylaws adopted at the 8th regular Shareholders Assembly in 2002, has mostly been exercised and will expire in October 2007; therefore, approval of a new authorization to the Management Board is proposed for the next five-year term. Granting the authorization is intended for the realization of company's strategic plan, as it will enable the Management Board to respond to any financing requirements, subject to approval by the Supervisory Board.

14.

At the end of Article 49, a new, fourth Paragraph shall be added, with the following wording:

Share capital increase pursuant this Article may either be carried out by increasing the relevant sum of each no par value share, or by issuing new no par value shares. In the latter case (if new shares are issued), the existing shareholders shall be entitled to new shares in relative proportion to their current shares in the company share capital.

Explanation of the amendment:

Article 358 of the Companies Act (ZGD-1) enables the companies with no par value shares to increase their share capital without the emission of new shares, as described in the wording of the Articles of Association and Bylaws.

15.

Paragraph 1, Article 53 shall be changed to the following wording:

Share capital may be decreased by procedures in compliance with the Companies Act (ZGD-1).

Explanation of the change:

ARTICLE 53, PARAGRAPH 1 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Share capital may be decreased:

- *by with decrease of nominal amount of shares,*
- *by consolidation of shares when the lowest nominal value per shares can no longer be decreased,*
- *by withdrawing the shares.*

Upon the introduction of no par value shares, all provisions of the Articles of Association and Bylaws that define shares with a nominal value, or include or mention the nominal value of a share or total nominal value of all shares, must be changed accordingly. In this case, Article 53 stipulating the decrease of share capital by decreasing the nominal value of shares or by consolidation of shares falls into the said category.

16.

Article 54, Paragraph 5 shall be changed to the following wording:

Shareholder participation in the distributable profit shall be defined in proportion to their share in the share capital.

Explanation of the change:

ARTICLE 54, PARAGRAPH 5 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

Shareholder participation in the profit shall be defined in proportion to the nominal values of their shares.

This change is a logical consequence of the introduction of no par value shares.

17.

Article 65 shall be changed to the following wording:

The company shall inform the shareholders on the convocation of the Shareholders Assembly in the Delo daily paper, while all other information relevant to the exercise of their rights shall be submitted in due electronic form.

Explanation of the resolution:

ARTICLE 65 OF THE ARTICLES OF ASSOCIATION AND BYLAWS HITHERTO:

The company shall inform the shareholders with regard to all matters of relevance for exercise of their rights and fulfilling their liabilities in the daily newspaper Delo and in electronic form.

With regard to informing the shareholders, the company decided that only the convocation of the Shareholders Assembly shall be announced in the Delo daily paper, while all other relevant information shall be submitted to the shareholders in electronic form.

18.

The following editorial corrections to the Articles of Association and Bylaws shall also be adopted:

- In the beginning of Article 6, the wording "In the sense of the company transformation according to the Companies Act, the company founders are as follows" shall be replaced by the wording "Company founders are the following".
- In Article 15, the word 'zakonskim' ('legal') shall be spelled correctly.
- In Article 26, the word 'conference' shall be replaced by the word 'council';
- In Article 30, the words 'Poslovni sistem Mercator, d.d.' shall be omitted and replaced by the word 'the Group';
- In Article 40, Paragraphs 1 and 2, the words 'tajnost' and 'tajnosti' shall be replaced by the words 'skrivnost' and 'skrivnosti' (both expressions meaning 'secret').
- At the end of Article 42, the words 'Poslovni sistem Mercator, d.d.' shall be omitted and replaced by the word 'the Group';
- In Article 51, Paragraph 2, the words 'individual' shall be replaced by the word 'business'.

Explanation of editorial changes:

- Pursuant the Article 183 of the Companies Act (ZGD-1), Article 6 of the Articles of Association and Bylaws lists the company founders. However, the Companies Act is no longer quoted in the introduction because this is no longer required, and because it could cause confusion with the currently valid Companies Act (ZGD-1).
- In Article 15, the word 'zakonskim' (legal) is misspelled (letter 'i' has been omitted); this misspelling should be corrected.
- Article 26 stipulates that the management as a consulting body convenes the conference of directors of all companies of the Group; however, the expression 'Council of Directors' has been quite established; thus, the change only relates to the actual state of affairs.
- Article 30 stipulates that members of the Management Board must protect any business secrets of the company and Poslovni sistem Mercator, d.d.; to avoid any ambiguity, it should be expressly stated that 'Poslovni sistem Mercator, d.d.' is meant here as the Group.

- Article 40 regulates the obligation and commitment of the Supervisory Board members to protect the business secrets of the company; by changing the expression 'tajnost' to 'skrivnost', the wording of these Articles of Association and Bylaws shall be harmonized with that of the relevant legislation.
- Article 42 restricts the members of the Management Board from engaging in any profitable activity in the field of activities of the company, or take part in business transactions for own benefit or the benefit of a third person, in a way that would negatively affect the interests of the company or Poslovni sistem Mercator, d.d.; to avoid any ambiguity, it should be expressly stated that 'Poslovni sistem Mercator, d.d.,' here indicates the Group.
- Article 51, Paragraph 2, stipulates that transforming other items of share capital into share capital is not allowed if the balance sheet based on which such transformation is to be carried out indicates transferred loss or net loss of a current year; on the other hand, Article 359 of the Companies Act (ZGD-1) expressly mentions the loss of the current year; hence, the wording of these Articles of Association and Bylaws were harmonized with that of the relevant legislation.

Ljubljana, May 23rd 2007

President of the Management Board
Žiga Debeljak, MScBA

President of the Supervisory
Board
Robert Šega, M.A.



**Supervisory Board and Management Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolutions with regard to the Item 3 of the agenda:

a) Adoption of the resolution on allocation of the distributable profit and payment of dividends

1. Distributable profit as at December 31st 2006 in the amount of SIT 29,264,696,782.42 (EUR 122,119,415.72) is to be allocated as follows:
 - Part of the distributable net profit in the amount of SIT 3,548,066,704.00 (EUR 14,805,820.00) deriving from undistributed profit for the previous years shall be allocated for the payment of dividends in gross amount of SIT 958.56 (EUR 4.00) per ordinary share;
 - Remaining part portion of the distributable net profit in amount of SIT 25,716,630,077.62 (EUR 107,313,595.72) shall be allocated to other reserves from profit.
2. Dividends shall be paid out in cash within 60 days after the adoption of the resolution, to those shareholders that will be registered as owners of shares with the KDD – Central Clearing and Depository Agency as at July 2nd 2007

b) Granting a discharge to the Supervisory Board

Shareholders Assembly hereby grants a discharge to the company Supervisory Board for the business year 2006.

c) Granting a discharge to the Management Board

Shareholders Assembly is giving a discharge to the company Management Board for the business year 2006.

E x p l a n a t i o n

Pursuant Article 282 of the Companies Act, the company Supervisory Board discussed and adopted at its meeting on April 17th 2007 the audited Annual Report for 2006. Pursuant provision of Articles 293 and 294 of the Companies Act, the

Shareholders Assembly shall decide on the allocation of distributable profit and on the discharge to the Management and Supervisory Board.

Management and Supervisory Board have submitted a proposal for resolution on the allocation of distributable profit for the year 2006, which is consistent with the long-term development policy of the Mercator Group, as defined in its strategic plan; the proposed sum of dividend per share corresponds to the company dividend policy for the period 2007 – 2010.

Ljubljana, May 23rd 2007

President of the Management Board
Žiga Debeljak, MScBA

President of the Supervisory
Board
Robert Šega, M.A.



Mercator

**Supervisory Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolutions with regard to the Item 4 of the agenda:

Mr. Srečko Kenda shall be appointed as the Supervisory Board member with a term from the date of appointment until October 30th 2009.

E x p l a n a t i o n

On April 12th 2006, Mr. Gorazd Čuk resigned as the member of the company Supervisory Board, and during the last year's regular Shareholders Assembly, none of the proposed candidates was appointed as the substitute Supervisory Board member.

Pursuant Article 36 of the Articles of Association and Bylaws of the company Poslovni sistem Mercator, d.d., the Supervisory Board has decided to propose Mr. Srečko Kenda to the Shareholder Assembly for the election as a substitute member of the Supervisory Board. The said candidate submitted his written consent to his nomination and a statement that his appointment would not breach the provision of the Companies Act-1.

Mr. Srečko Kenda is employed as a member of the Management Board of the Company Istrabenz, d.d., Koper. In 1990, he was awarded the title Master of Economics. He holds a stock broker's license and a license to be a member of a management board of Stock-brokerage companies and asset management companies. During his career, he worked at High School of Economics in Koper, in Banka Koper, and since 1994, in Istrabenz where he started as an assistant to the Chief Financial Officer, and became a member of the management board in 2001.

We believe that based on his previous work experience, Mr. Srečko Kenda has acquired the knowledge and experience about the operations of commercial banks and a large part of central banking operations, asset management, investment policy, ensuring company and group liquidity, as well as designing finance policy for the group and the company.

The Supervisory Board believes that the proposed candidate, given his professional experience, will perform successfully the duties of the member of the Supervisory Board and that he will act consistently with company's goals.

Ljubljana, May 23rd 2007

President of the Supervisory
Board
Robert Šega, M.A.



Mercator

**Supervisory Board and Management Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolutions with regard to the Item 5 of the agenda:

a) Compensation for the Supervisory Board service

Members of the Supervisory Board as at December 31st 2006 shall be paid against operating costs a compensation for successful performance in 2006, in total gross amount of EUR 231,000.00, of which the chairman shall receive EUR 35,000.00, deputy chairman EUR 28,000.00, and other members EUR 21,000.00 each.

b) Changes in the amount of session fees and definition of other forms of compensation to the Supervisory Board members

As of January 1st 2007, the Supervisory Board members shall receive the following compensation:

- monthly compensation for performing their duties, in the amount of EUR 2,500.00 per month for the Supervisory Board chairman, and EUR 1,500.00 per month to other members;
- session fees in the net amount of EUR 350.00 for the Supervisory Board chairman, and EUR 200.00 net for other Supervisory Board members;
- reimbursements of expenses related to the performance of their duties.

Final assessment for the payments already due in 2007 shall be carried out within 15 days after the Shareholders Assembly.

E x p l a n a t i o n

(a) Compensation to the Supervisory Board

In 2006, the Supervisory Board supervised the operations of the company professionally and consistently, thus contributing to company's successful performance. It is therefore proposed that the company, against its account of operating costs, awards the Supervisory Board for its service with the compensation in the amount stated above.

(b) Changes in the session fees and definition of other compensations to the Supervisory Board members

Hitherto, Supervisory Board members were compensated for their service in the Supervisory Board with the session attendance fee (SIT 100,000.00 or EUR 417.29 for the Supervisory Board chairman, and SIT 80,000.00 or EUR 333.83 for other Supervisory Board members), reimbursement of travel expenses, and a bonus against the operating costs, if approved at the Shareholders Assembly. The proposed resolution introduces a transition to a model of compensation recommended by the Association of the Supervisory Board Members and described in the Management code for publicly traded companies, i.e. awarding the Supervisory Board members with a fixed payment and a session attendance fee.

Ljubljana, May 23rd 2007

President of the Management Board
Žiga Debeljak, MScBA

President of the Supervisory
Board
Robert Šega, M.A.



Mercator

**Supervisory Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolutions with regard to the Item 6 of the agenda:

The auditing company KPMG SLOVENIJA, podjetje za revidiranje, d.o.o., is appointed as the company auditor for 2007.

E x p l a n a t i o n

In April 2007, we sent requests for quotations for auditing services for the company Poslovni sistem Mercator, d.d., and the Mercator Group to several international auditing companies offering their service in Slovenia.

The request for quotations included the most relevant criteria for the selection of the auditor, among which were the following: references (experience and recommendations), price, independence of auditors, and the possibility of central coordination of the audit for all markets of Mercator's operations. Examination of the quotations indicated that the company KPMG Slovenija, podjetje za revidiranje, d.o.o., submitted the most favorable offer. We therefore propose to appoint the auditing company KPMG Slovenia, podjetje za revidiranje, d.o.o., as the company auditor.

Ljubljana, May 23rd 2007

President of the Supervisory
Board
Robert Šega, M.A.



Mercator

**Supervisory Board and Management Board of
Mercator, d.d.**

hereby submit to the Shareholders Assembly the following

proposal of the resolutions with regard to the Item 7 of the agenda:

The shareholders Assembly is informed of the findings of the special auditor with regard to the revision of selected business transactions of the company.

E x p l a n a t i o n

Following a proposal by the shareholders of PIVOVARNA LAŠKO, d.d. (Laško Brewery), and PIVOVARNA UNION, d.d. (Union Brewery), a resolution was adopted at last year's regular Shareholder's Assembly to appoint a special auditor of the company DELOITTE & TOUCHE, d.o.o., from Ljubljana, in order to revise the following transactions completed in the last five years:

1. All transactions completed by the company Mercator, d.d., and its subsidiaries, with the company Electa, d.o.o., from Ljubljana, in the field of investment construction, where the company Electa, d.o.o., performed as a contractor and sub-contractor.
2. All transactions completed between the company Mercator, d.d., and the company Volos, d.o.o., from Ljubljana, where the latter performed as Mercator's supplier.
3. All transactions completed by the company Mercator, d.d., related to the acquisition of real-estate outside the territory of the Republic of Slovenia, in the territory of Serbia and Montenegro.
4. All transactions related to corporate entertainment costs of the company Mercator, d.d., incurred by the members of the Management Board.

Special auditor's report was submitted by the Management Board to the Supervisory Board and published it in its entirety on the stock market information dissemination system on November 15th 2006. Pursuant Article 320, Item 4, of the Companies Act (ZGD-1), informing the shareholders of the report was included in the shareholders Assembly agenda.

Ljubljana, May 23rd 2007

President of the Management Board
Žiga Debeljak, MScBA

President of the Supervisory
Board
Robert Šega, M.A.