Mercator d.d.

AGREED-UPON PROCEDURES REPORT

May 31, 2012

ERNST & YOUNG

Contents

COVERING LETTER

To the Management of Mercator d.d.

May 31, 2012

Dear Sirs,

In accordance with our contract / engagement letter, dated May 16, 2012, we have performed the procedures agreed with you and set out in section A of the accompanying report. The procedures we agreed with you to perform followed the decision of the Company's AGM dated March 30, 2012, a relevant extract of which is presented in Annex 1 of this report, which appointed Ernst & Young d.o.o. to perform certain procedures related to the events / transactions surrounding its decision to submit a takeover intent and takeover bid for the acquisition of shares of Pivovarna Laško d.d. (hereinafter referred to as "Laško").

Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements.

The procedures were performed solely to report to Mercator d.d. (hereinafter referred to as the "Company" or "Mercator") the factual findings from our work.

The accompanying report outlines the procedures we have performed (section A) as well as our findings from the performance of these procedures (section B). Annex 2 of this report lists the documents we received from Mercator's management for the purpose of carrying out our agreed upon procedures.

Because the procedures we have performed do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the proforma, consolidated balance sheet[1], or other financial information contained in the accompanying report.

Had we performed additional procedures or had we performed an audit or review of the proforma, consolidated balance sheet in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to light that would have been reported.

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[1] Extracts from the proforma, consolidated balance sheet, prepared by Mercator in accordance with International Financial Reporting Standards and which consolidates the assets, liabilities and equity of Mercator and Laško under the assumption that Laško was controlled by Mercator, as presented in the Preliminary economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in December 2011) and the Economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in January 2012).

In performing the procedures outlined in section A of the accompanying report our work was limited to reading and comparing documentation for consistency and compliance and did not comprise any legal evaluation or consideration. We relied on the data provided to us by the management of the Company and we did not seek to verify its authenticity.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties, except for the Company's shareholders. This report relates only to the procedures specified in section A of this report and does not extend to any financial statements of the Company, taken as a whole. To the fullest extent permitted by law, we do not assume responsibility to anyone other than the Company for this report.

Yours faithfully,

Janez Uranič
Director

ERNST & YOUNG
Revizija, poslovno
svetovanje, d.o.o.
Ljubljana 1

Primož Kovačič
Certified Auditor

A. PROCEDURES PERFORMED

We have performed the following procedures:

a. We read the Company's Statute, and other documents (e.g. Internal Acts) presenting the decision making process of Mercator (including the Executives authorised to make decisions and the applicable authorization levels) as regards to strategic decisions, such as the take-over of other companies.

b. Based on our reading of the documents obtained under step (a) above and discussions with Mercator management, we summarised the decision making process of Mercator as regards to the acquisition of other companies.

c. We obtained the minutes of the Management Board Committee meetings of Mercator for the 5 year period from March 30, 2007 to March 30, 2012, which include references to the proposed acquisition of Laško, as provided to us by Mercator's management. Mercator's management represented to us that only the minutes of the Management Board Committee meetings held during the period from January 10, 2011 to February 20, 2012 make reference to the proposed acquisition of Laško, hence we have obtained only the minutes of the Management Board Committee meetings held during this period.

d. We read all the minutes obtained under step (c) above and summarised all discussions in the Management Board Committee meetings of Mercator, during the period from January 10, 2011 to February 20, 2012, regarding the possible acquisition of Laško.

e. Following completion of step (d) above, we prepared a chronological summary of events so as to present how and by whom the decision to publicly announce Mercator's intention to submit a take-over bid for Laško was made.

f. We obtained and read:

   i. Documents and reports presenting the strategy of Mercator in connection to its proposed take-over of Laško, as presented to us by the management of Mercator, and reports prepared internally or commissioned and received from external advisors during the months of December 2011 and January 2012 in connection with Mercator's strategy to take over Laško and integrate it into the operations of the Mercator Group, as presented to us by the management of Mercator, and

   ii. Reports, analysis and other relevant documentation prepared internally or commissioned and received from external legal and other advisors during the period from the date of announcement of the intention to submit a take-over bid (December 23, 2011) to the date of announcement that a take-over bid will not be submitted (January 19, 2012), as presented to us by the management of Mercator, related to Mercator's decision not to launch a formal take-over bid for Laško.

g. Based on the documentation read under the above steps, we considered whether:
   i. the decision to publicly announce Mercator's intention to submit a take-over bid for Laško was in compliance with Mercator's internal regulations (i.e. the Statute and Internal Acts reviewed under step (a) above) indicating areas of compliance, and
   ii. the decision was consistent with the strategic documents reviewed under step (f) above and considered by the appropriate decision making body of Mercator in the 5 year period prior to the date of announcement of the intention to submit a bit to take over Laško, indicating areas of consistency.

h. We obtained and read reports, analysis and other relevant documentation prepared internally, or commissioned and received from external legal and other advisors during the period from the date of announcement of intention to submit a take-over bid (December 23, 2011) to the date of announcement that a take-over bid will not be submitted (January 19, 2012), as presented to us by the management of Mercator and related to Mercator's decision not to launch a formal take-over bid for Laško.

i. We read the documents obtained under steps (c) and (h) above, prepared during the period from the date of announcement of intention to submit a take-over bid (December 23, 2011) to the date of announcement that a take-over bid will not be submitted (January 19, 2012) and outlined who (or which corporate body) and on what basis decided to stop the take-over bid for Laško.

j. We summarised the documents and reports used by the Management Board, Management Board Committee and the Supervisory Board of Mercator, prepared during the period from the date of announcement of intention to submit a take-over bid (December 23, 2011) to the date of announcement that a take-over bid will not be submitted (January 19, 2012), supporting, in their opinion, the decision not to submit a public take-over bid for Laško.

k. Based on the documentation read under the above steps, we have considered whether Mercator's decision not to submit a take-over bid for Laško was taken in line with its internal regulations (i.e. the Statute and Internal Acts reviewed under step (a) above) indicating areas of support.

l. We received from the management of Mercator two documents with extracts from the proforma, consolidated balance sheet, prepared by Mercator's management using the planned data for 2012 as a basis, included in the Preliminary economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in December 2011) and the Economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in January 2012).

m. We read the extracts from the proforma, consolidated balance sheet, referred to under point (l) above, as presented in the preliminary economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in December 2011) and the economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management January 2012), and we checked their mathematical accuracy. Also, by reference to the details provided in the above mentioned two documents on the elimination and other adjustments made to the sum of the balances of Mercator and Laško, so as to arrive at the relevant extracts from the proforma, consolidated balance sheet, we considered their completeness for the purposes of the preparation of the relevant extracts from the proforma, consolidated balance sheet presented in the above mentioned two documents.

n. We obtained and read a sample of 17 bank loan agreements and accompanying annexes (as applicable) of Mercator with different banks, in force as of December 31, 2011, as provided to us by the management of Mercator, and identified and summarised the financial debt covenants contained therein.

o. We have received and read the covenants analysis presented by Mercator's management in the "Preliminary economic analysis of the take-over (prepared by Mercator's management in December 2011)" and the "Economic analysis of the take-over (prepared by Mercator's management in January 2012)" that were provided to us.

p. Based on the information obtained from the management of Mercator under steps (m) (n) and (o) above[2] we recalculated Mercator's debt covenants, using the assumptions applied by the management of Mercator for the various phases of the Laško take-over project. These phases are as follows:

   i After Mercator obtained control over Laško and after the completion of the restructuring process of Laško, using the planned data for 2012 with the monetisation process included and the estimated synergies of the Laško take-over as a basis; and

   ii. After Mercator obtained control over Laško and after the restructuring and divestment process of significant parts of Laško is completed, using the planned data for 2012, the estimated synergies of the Laško take-over and the estimated effects of the divestment process as a basis.

[2] The Preliminary economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in December 2011) and the Economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in January 2012).

B. OUR FINDINGS

B.1. Mercator's decision making process for the acquisition of other companies

B.1.1. Company's Statute's provisions on Management Board, Management Board Committee and Supervisory Board Powers

We have obtained the Statute of Mercator as of July 13, 2010 and read it. We summarise below the decision making process of Mercator as regards to the acquisition of other companies.

The Management Board (MB) has unlimited power on representation against third parties. The MB has the right to empower one or more persons, based on the pre-approval of the Supervisory Board (SB). In addition, more details on the authorities and areas of responsibility of the individual MB members, as approved by the SB, are contained in the document "Act on Management Board of Mercator Group".

The Company is lead by the MB, which comprises a Chairman and Members. The number of members and the areas of their responsibility are determined by the SB. All MB members, including the Chairman, represent the Company at their own will and without power limitations.

The MB usually approves resolutions unanimously, otherwise with ordinary majority of all members, where each member has one vote. In case of equal votes, the Chairman's vote is decisive.

The MB has various rights and responsibilities. It manages the Company, determines the three-year strategy and annual plan, and it represents the Company in a legally binding manner. Its jurisdiction and responsibility towards the SB also includes reporting on planned business strategy, business performance, on business transactions with significant influence on the profitability and liquidity and all other matters concerning the Company and its related parties. It announces news and decisions of the Company, determines which information is important for shareholders and needs to be published, and takes care that all necessary information is published. It can increase the Company's share capital in accordance with its Statute.

The SB has 12 members, where half are voted by the Shareholders' Assembly. The Chairman and his deputy are appointed by the SB members representing the Shareholder's interests. The Chairman's tasks are to organise, convene and lead the SB meetings, and to represent the Company at the MB.

The SB's jurisdiction towards the MB is to supervise the business, accept the MB's reports, review and check the accounting records and supporting documentation, give consensus to decisions by law and statute, give consensus on the three-year strategy and annual plan, and can demand at any time a report from the MB about any question important for the business and position of the Company.

The MB has the authority (with the prior agreement of the SB) to increase the share capital by 20% in 5 years from the entry of Statute changes into the Court Register, with the issuance of new shares, where it can exclude the pre-emption right to new shares under the condition that the newly issued shares are used for the acquisition of stock or shares of companies, or business assets, in accordance with the strategic plans and provided that the exclusion of the pre-emption right is approved by the SB.

B.1.2. Rules of Procedure for managing the Mercator Group

The Rules of Procedure define the areas of responsibility, authorizations, powers (or jurisdiction) and responsibilities for business areas in the Mercator Group.

Management Board Committee (MBC) consists of the whole MB of Mercator, assistants of the CEO and other members who are named by the MB.

The MBC has oversight over the planning and coordination in the Mercator Group.

The MBC's main tasks are:

- Leads (plans, coordinates and controls) the operations of the Mercator Group
- Discusses and confirms the strategy of the Mercator Group
- Discusses and confirms the middle and long-term annual plans of the Mercator Group, and Mercator
- Discusses and confirms the business policies of the Mercator Group and individual business areas
- Coordinates the functioning of business areas and divisions of the Mercator Group and its subsidiaries
- Supervises the operations of the Mercator Group, divisions, the parent company and the subsidiaries of the Mercator Group
- Discusses and accepts reports in accordance with corporate governance
- Discusses and accepts reports about operations of business areas
- Accepts organisational records of Mercator Group and Mercator
- Accepts more important business decisions in accordance with the approved authority levels
- Decides on all other important matters for the Mercator Group and the parent company

The authorities of the MBC in relation to the transactions with financial assets and liabilities are not limited in any cases when deciding about purchasing securities, or participating shares in other companies. The MBC is also not limited in any case when deciding about a restructuring within the Mercator Group.

B.1.3. Rules of Procedure of the MBC of the Mercator Group

The resolutions of the MBC are regarded also as resolutions of the MB. The Chairman of the MBC convenes the MBC meetings / sessions according to his judgement, usually twice per month.

The MBC constitutes a quorum if at least half of its members are present, including at least half of the MB members. A resolution is accepted when at least half of the members present at the meeting voted for the proposal and if at least half of the members present are also MB members. The minutes of the MBC meetings are published on the intranet site of the Company.

B.1.4. Our Findings

From reading the Statute of the Company we identified that there are no explicitly stated limitations for the MB or MBC that could prevent it from accepting the decision to execute a take-over intent and submit a bid. In addition, reading the Rules of Procedure of managing the Mercator Group, the authorities of the MBC are also not explicitly limited as regards to the acquisition of securities and participation in other companies.

Therefore, the decision of the MB to publish the intention to execute a take-over bid for Laško is consistent with the MB's authorities, in accordance with the Rules of Procedure of Managing the Mercator Group, provided to us by Mercator's management.

B.2. Chronological summary of events up to the date of public announcement of Mercator's intention to submit a take-over bid for Laško (i.e. December 23, 2011), including a summary of reports and other documentation supporting the strategy and decision to publically announce Mercator's intention to submit a bit to take over Laško

B.2.1. Documents obtained and read

Based on representations of the management of Mercator, that there is no specific reference to the acquisition of Laško in the MB, MBC or SB meeting minutes, before January 1, 2011, which we received from the Management of Mercator, we have read all the minutes which included discussions on the potential acquisition of Laško in the MBC meetings of Mercator, and at the SB meetings of Mercator during the period from January 10, 2011 to February 20, 2012, regarding the possible acquisition of Laško, with a view of identifying all references made to discussions and / or decisions to acquire Laško. The Management of Mercator represented to us that no such discussions took place prior to January 10, 2011, which was the first meeting held by MBC of Mercator in 2011.

We have also received and read reports and other documentation supporting the strategy and decision to publically announce Mercator's intention to submit a bid to take over Laško, which are also summarised below.

B2.2. Statement of the Management of Mercator in relation to the rationale for the announcement of the take-over intent before the issuance of a formal take-over bid

The Management of Mercator provided to us the following written statement in relation to the rationale for the announcement of the take-over intent before the issuance of a formal take-over bid:

"Pursuant to the Takeovers' Act (ZPre-1), a takeover intent is considered a notification of the acquirer of his intended takeover bid. Prior to the publication of the takeover bid, the acquirer must notify the Securities Market Agency (ATVP), the Competition Protection Office of the Republic of Slovenia, the Management of the target company and representatives of employees of the target company of his takeover intent and publish the takeover intent in the press and on SEOnet on that same day. Therefore, prior to submitting his takeover intent i.e. before his intent is made public, the acquirer must not freely communicate his takeover plans. Through his takeover intent, the acquirer discloses to the interested public his serious business intention to submit the takeover bid, while at the same time he prevents abuse of the financial instruments market by the shareholders of the target company, the target company, or other entities on the financial instruments market (e.g. insider trading) since submission of the takeover intent ensures that the information is made public immediately.

Through his takeover intent, the acquirer prevents the target company from performing activities (in the interest of only some of his shareholders), which would either hinder or prevent the takeover. During the period of the takeover intent, the target company must not (without the resolution of the General Meeting of Shareholders) increase its share capital, conclude transactions outside the ordinary operations or perform acts, or enter into transactions which could seriously jeopardize further operations of the company, must not acquire treasury shares, or perform other activities that could preclude the takeover bid.

Furthermore, if individual pieces of information relating to the takeover leaked out before the submission of the takeover intent, this could result in various speculations on the capital market and influence the (takeover) price. In particular, we believe this to be significant in this case, as Mercator and Pivovarna Laško are both public limited companies."

B.2.3. Chronological summary of events and relevant documents up to December 23, 2011

We present below a chronological summary of events up to December 23, 2011, date of public announcement of Mercator's intention to submit a take-over bid for Laško, as reflected in the minutes we have read, including a summary of relevant minutes of the MBC meetings, as well as a summary of relevant reports and other relevant documentation referring to the period up to the date of public announcement of Mercator's intention to submit a take-over bid for Laško (i.e. December 23, 2011).

B.2.3.1. MBC meetings up to December 23, 2011

In connection with the decision making process within Mercator Group, it was explained to us by Mercator's management that the MBC's minutes include just the resolutions, while the discussions held during the MBC meetings are not documented in the minutes. The management of Mercator also represented to us that they had discussions regarding the potential take-over of Laško in previous MBC meetings, however, these were, as stated above, not included in the minutes.

We read the minutes of the meetings of the MBC, held during the period from January 10, 2011 to December 23, 2011, and identified that on its 3rd meeting, held on December 22, 2011, Mercator's MBC decided to issue the take-over intent and start the process of acquiring Laško.

We have not identified any other important decisions of Mercator's MBC, by reading the minutes of the meetings of the MBC during the period from January 10, 2011 to December 23, 2011, received from Mercator's management, which could directly be linked to the Laško take-over process.

B.2.3.2. Summary of relevant reports and other relevant documents related, or referring to the period up to December 23, 2011

B.2.3.2.1. Summary of the document entitled "Strategic association with Pivovarna Laško - basis for discussion", dated May 2011

We have received and read the document entitled "Strategic association with Pivovarna Laško - basis for discussion", dated May 2011, in which several arguments in favour of the take-over of Laško are presented. It is stated in this document that Mercator would take over 100% of Laško's shares, restructure and sell a significant part of its business and keep only the part of importance to Mercator's activities.

The reasons outlined in this document as supporting the take-over are the following: a profit would be generated when selling the brewery activity of Laško; Laško has its own production of water and non-alcoholic beverages; there would be synergies on the wholesale / distribution activity; stabilisation of the ownership of Mercator.

In this report the assumptions used, with figures and synergies, are presented, based on which rough estimations of potential future earnings are stated. It is also stated in this report that the take-over of Laško was regarded as an economically very interesting project.

Moreover, important risks were identified and presented in this report, regarding the Competition Protection Office's demand for disposal of the brewery activity (following the take-over by Mercator), the probability of selling the brewery activity, the impact on relations with creditors, the impact on the finance obligations of Mercator, the impact on relations of Pivovarna Laško with other merchants, the impact on relations with banks which are shareholders of Mercator. All the risks outlined in this report were regarded by the Management of Mercator as either non-problematic, or, in Mercator's management's view, a solution for them is stated in this document.

B.2.3.2.2. Email from the external financial advisor, dated January 25, 2012

We have received a copy of an e-mail dated January 25, 2012 between an external financial advisor and Mercator. This email indicated that discussions between the external financial advisor and Mercator to launch a take-over bid for Pivovarna Laško d.d. took place from May 2011 onwards. These discussions were part of the external financial advisor's services, acting as an exclusive financial advisor in connection with the envisaged sale process by a consortium of sellers of a majority stake in Mercator.

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011)

We received from Mercator's management the Preliminary economic analysis and justification of the strategic project of Mercator to take over Pivovarna Laško (prepared by Mercator's management in December 2011), which we summarise below. We understand that the decision from the economic point of view to announce the take-over intention and to proceed with it was mainly based on this document.

In December 2011, the management of Mercator prepared a preliminary economic analysis of the feasibility of the take-over of Laško[3] (hereinafter also referred to as "the project", or "the take-over", or "the acquisition") for the long term, stating also the reasons for the execution of the project.

As stated in this document[4], Mercator's management assessed that the Mercator Group would realise the following positive operational and financial effects from the take-over of Laško:

- Mercator would strengthen its core business and become more competitive in the Slovenian and Croatian markets (this would yield positive effects on its daily operations);
- Mercator would realise positive financial effects, or one-off gains, by restructuring and selling a major part of the business of Laško (brewery, non alcoholic drinks, and media segments) within 2012 and 2013 (this would yield positive, one-off gains); and
- Mercator would stabilise its ownership structure due to the instability (high indebtedness) of Laško (this would result in a decrease in the risks perceived by the stakeholders of Mercator).

Also, as stated in this document[5], Mercator's management estimated that the positive effects from the take-over would arise from the following areas:

- The restructuring of Laško with the aim of providing financial stability and increase in operational efficiency;
- Management's argument was that Mercator knows Laško well because of their business relationship (Mercator is Laško's is one of most significant customers) and could effectively restructure its operations based on the know-how they possess. Management also argumented that Mercator could also renegotiate better terms with the creditors of Laško due to its good relationships with the creditors.
- The increased business operations, by providing support for sales in the Balkans region;

[3] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[4] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[5] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

- The increased competitiveness of Mercator in the segment of producing Mercator branded products (beer, water and other beverages);
- The synergies in the area of supplying hotels, restaurants and the catering business (HORECA);
- The optimisation of the management of real-estate and the examination of including Laško's real-estate assets in the process of monetisation[6]; and
- The divesting of businesses which are not strategic.

This document[7] states that the Mercator Group is not interested in the long-term management of the brewery and media business because this is not in accordance with the Group's strategic focus, with the exception of providing capacity to produce water and non-alcohol beverages for the private label for the Slovenian and Croatian markets and increasing the wholesale activities in the segment of hotels and catering. In addition, it is stated in this document[8] that Mercator would, after obtaining a controlling share in Laško, at the latest in a couple of years, sell the majority of the brewery and beverages business (Union and Laško; potentially also part of Radenska), sell the entire media business (Večer, Delo), and sell other unnecessary business and financial assets.

Before assessing the feasibility of the project, Mercator's management made and presented in this document[9] an analysis of Laško, showing the structure of Laško, the business operations and financial statements of the Laško Group as of September 30, 2011 and key Laško Group companies as of December 31, 2010. The analysis also shows the 2011 projection of Laško Group's financial statements and the 2012 plan (budget) for Laško.

The preliminary assessment of the effects of the take-over of Laško on the assets and liabilities of the Mercator Group, as stated in this document[10], was made based on the following assumptions:

The analysis was prepared using the estimation of key balance sheet and income statement elements for Laško for 2012 and the 2012 plan for the Mercator Group.

- Mercator uses the subscribed share capital and cash in terms of a combined take-over bid for Laško (part share, part cash offer).

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[6] Sale and lease back

[7] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[8] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[9] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[10] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

- The shares of Laško were valued by a Certified Valuer.
- In 2012 and 2013 the Mercator Group performs restructuring activities and divestments of non-strategic businesses. The effects used in the analysis were derived from own estimations of the management of Mercator.

As stated in this document[11], the feasibility of the project was assessed by dividing the project into two phases: Phase 1 - the take-over, and consolidation phase; and Phase 2 - the steps to be taken after the take-over (i.e. restructuring and divesting); and then assessing the effects on loan covenants throughout the entire project.

We recalculated the loan covenants, as presented in the Preliminary economic analysis of the take-over, prepared by Mercator's management in December 2011, based on the figures provided in this analysis and the definitions of each loan covenant as stated in the sample of the 17 loan contracts obtained and read.

Based on the discussions we held with the management of the Mercator Group and the documents read (such as a sample of 17 loan agreements, together with related annexes (as applicable), loan covenant confirmations sent to 17 creditors for 2011 and the calculations of the loan covenants performed by Mercator's management), we understand that the Mercator Group is required by contractual provisions to comply with the following financial loan covenants:

- The interest cover ratio should not decrease below a specified amount;
- The leverage ratio should not increase above a specified amount; and
- The consolidated tangible net worth should not decrease below a specified amount.

More details on the loan covenants contained in a sample of loan agreements we received and read are presented in section **B.5.** of this report.

[11] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

We present below a summary of the two phases of the project for the take-over of Laško, as contained in the Preliminary economic analysis of the take-over (December 2011):

Phase 1 of the Project to Take over Laško

As per the Preliminary economic analysis performed in December 2011, the first phase of the take-over project encompasses the actual take-over of Laško, and its consolidation into the Mercator Group. The document does not contain information on the date of the take-over.

The management of Mercator prepared and presented in this document[12] an analysis of this phase based on the following assumptions:

1. Plans for 2012:

Mercator Group:

The key balance sheet and income statement elements used in the first phase of the analysis derive from the business plan of Mercator Group for 2012. Based on the published business plan of the Mercator Group for 2012, we understand that the plan incorporates the effects of the monetisation (sale and lease-back) of real-estate in the amount of EUR 250 million in the middle of 2012. The published business plan of the Mercator Group for 2012 presents as the estimated effects of the monetisation the following:

- reduced bank borrowings by EUR 250 million, hence improving the net financial debt structure of Mercator Group;
- lower net interest expense, hence improving the cover ratio (ceteris paribus);
- lower depreciation; and
- higher rental costs, which would reduce EBITDA and the cover ratio (ceteris paribus).

Management also estimated a EUR 5 million profit from the sale of real-estate, which would directly improve EBITDA and the cover ratio as a one-off item in 2012.

[12] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

Laško:

At the time of the preparation of the preliminary economic assessment, Laško had not yet published the 2011 year-end estimation of its business results for 2011, or its 2012 plan. The management of Mercator estimated the 2011 and 2012 results based on the prior years' results and market expectations, incorporating known information (such as the sale of Fructal) into the estimations made.

The analysis made by Mercator's management assumes that Laško's results would be consolidated into those of Mercator for the entire year 2012.

2. Consideration payable

The preliminary analysis is based on financing the take-over by the issuance of new share capital of EUR 165.6 million at EUR 220 per one share of Mercator. Based on this document, the value per share is comparable to the book value of Mercator's shares. According to the Annual Report of the Mercator Group for 2011, the book value per share as of December 31, 2011, was EUR 221.81 per share.

The preliminary analysis of the take-over does not consider any debt financing of the transaction.

3. Treasury shares

Based on the analysis, Laško owns EUR 144 million of Mercator's shares. Those shares were treated as treasury shares in the projected, proforma, consolidated financial statements of Mercator, after the take-over would take place.

4. Intercompany transactions

The analysis assumes that a certain amount of intercompany sales and purchases between the Mercator Group and Laško would occur, which were estimated to be at the same level as in 2011, based on management's data. Management assessed that this would not affect EBITDA of the combined group.

Based on the above assumptions, the projected, proforma, consolidated financial statements of the combined Mercator Group and Laško, as presented in this report[13], show that two out of three loan covenants would be met after the completion of the first phase (in accordance with Mercator's management's representation, at the date of closing of the transaction – take-over of Laško), which assumed that the monetisation would have taken place by that time.

We have received the following statement from the Management of Mercator regarding their compliance with financial loan covenants:

[13] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

"The management planned to re-negotiate the arrangements with the banks, including the financial covenants and other collateral, in the first half of the year 2012, within the real-estate monetisation project. It was management's estimation that based on: (a) the excellent long-term relations with all key banking partners, (b) structure of assets and business of the group, (c) effects of the planned real-estate monetisation project, (d) the majority of banks being co-owners of Mercator and Laško brewery, (e) the banks' expressed intention to dispose of their investments in the Laško brewery, and (e) economic attractiveness of the take-over project, (f) the fact that no assets have been pledged, the re-negotiation of all key arrangements with the banks regarding refinancing, pricing and type of collateral, including financial covenants, will be successful and in line with Mercator's interests, and therefore as such does not represent a key risk."

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

Phase 2 of the Project to take over Laško

The second phase of the project to take over Laško was divided into two steps: (i) the restructuring activities, and (ii) the divesting activities. The simulation of the effects of these steps was prepared using the planned data for 2012 as a basis.

The restructuring activities assume additional investments in the infrastructure of Laško Group companies of EUR 50 million (according to the representation of Mercator's management, this was a conservative estimation based on retail experience rather than production one and that later this estimate was decreased to EUR 10 million, based on a more detailed analysis by an external Consultant), using debt financing; optimization of the operations of Laško with an estimated annual increase in EBITDA of EUR 12.5 million; and a decrease in the effective interest rate of Laško's debt to 5.0% per annum. After the restructuring activities (but before the divesting activities), Mercator management's analysis shows that, during the completion of the first part of Phase 2 of the take-over of Laško, the interest cover ratio loan covenant would still not be met.

Mercator Management has made the following representation to us: "Based on the above assumptions, the projected, preliminary, proforma, roughly estimated consolidated balance sheet of the combined Mercator Group and Laško and restructuring of Laško with additional investments of EUR 50 million as presented in this report, show that two out of three loan covenants would be met after the completion of the first step of the second phase, whereby the breached covenant shows minor non material difference (0,07). This was an acceptable and manageable risk due to the fact that additional investments were assumed at a conservative level which was confirmed in the later phase where additional investments amounted to EUR 10 million (as estimated by the external Consultant). With this amount of additional investments all three covenants would be met".

The divesting activities assume the sale of the improved beverage (only brewery and non-alcohol drinks) and media businesses of Laško; and the retention of Radenska. The analysis of Mercator's management shows all loan covenants would be met after the divesting activities are completed, i.e. at the end of phase 2 of the project.

Key assumptions used in the preliminary economic analysis, prepared in December 2011[14]

The preliminary analysis of the take-over was prepared by the management of Mercator Group in December 2011 using the following key assumptions:

- The 2012 plan of Mercator Group includes the effects of sale and lease-back transactions of its real-estate of EUR 250 million.
- The proforma, consolidated extracts from the financial statements of Mercator Group and Laško as of and for the year ending December 31, 2012 assume that Laško would be consolidated for the entire 12 months ending December 31, 2012.

[14] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.2.3.2.3. Summary of the Preliminary economic analysis of the take-over (December 2011) - Continued

- The effects of the second phase (restructuring and divesting) are shown as of December 31, 2012, regardless of the fact that Mercator's management assumes that the restructuring and divesting steps would be taken in 2012 and 2013. All estimations of the restructuring effects are included in terms of annual estimated amounts.
- The restructuring activities include a hypothesis that the cost of debt of Laško will decrease and this transaction would have no impact on the cost of debt of the Mercator Group.
- The restructuring activities also include estimations made for the annual savings from the optimization of Laško's business and the estimations of additional investments required to restructure Laško. Mercator's management represented to us that these estimations have been assessed internally.
- The analysis is based on Mercator securing a 100% stake in Laško.

The preliminary analysis performed in December 2011 by the management of Mercator shows that by executing all the phases of the project successfully and as anticipated by management (including the successful disposal of the brewery, non alcoholic drinks and media business of Laško) it would be possible that the loan covenants would be adhered to.

We have received the following statement from the Management of Mercator regarding their compliance with financial loan covenants:

"As regards the relationship with banks, the management planned to re-negotiate the arrangements with the banks, including the financial covenants and other collateral, in the first half of the year 2012, within the real-estate monetisation project. It was management's estimation that based on: (a) the excellent long-term relations with all key banking partners, (b) structure of assets and business of the group, (c) effects of the planned real-estate monetisation project, (d) the majority of banks being co-owners of Mercator and Laško brewery, (e) the banks' expressed intention to dispose of their investments in the Laško brewery, and (e) economic attractiveness of the take-over project, (f) the fact that no assets have been pledged, the re-negotiation of all key arrangements with the banks regarding refinancing, pricing and type of collateral, including financial covenants, will be successful and in line with Mercator's interests, and therefore as such does not represent a key risk."

B.2.3.2.3. Summary of the minutes of MBC's meeting on December 22, 2011

At the MBC meeting on December 22, 2011 the MBC of Mercator approved the announcement of the intention of executing the take-over of Laško. The underlying reasons put forward for the take-over were the potential synergies between the Mercator Group and the Pivovarna Laško Group, which would result in business efficiency and added value to the shareholders and stabilise the ownership structure.

For the execution of the take-over, the MB commissioned a legal advisor to prepare a legal opinion, appointed a financial advisor as financial advisors, and a consultant to carry out an evaluation of the potential effects of the synergies from the acquisition and subsequent restructuring of Laško.

B.2.3.2.4. Publication of the take-over intent on December 23, 2011

Mercator published the intent for the take-over of Laško on December 23, 2011, following MBC's meeting on December 22, 2011.

We have read the document stating Mercator's intent to take over all of the shares of Laško (with stock exchange shares codes: PILR and PILH). The intention was communicated the following day to the Securities Market Agency (SMA), the management of Laško, the Competition Protection Office (CPO), and representatives of workers at Laško. Mercator's management stated in this document that they had the intention to follow the legal requirements and to publish the take-over bid for the shares of Laško with a related prospectus within 30 days from the date of the published intent (i.e. 30 days from December 23, 2011).

B.3. Internal procedures carried out by Mercator from the date of announcement of Mercator's intention to submit a take-over bid for Laško up to the date of announcement that a take-over bid will not be submitted; and Reports, analysis and other relevant documentation used by Mercator Management to reach its decision not to launch a formal take-over bid for Laško

B.3.1. Introduction

This section focuses on the developments between the date of public announcement of the take-over intention on December 23, 2011 up to the date the management of Mercator decided to withdraw from its plans to issue the take-over bid for Laško, publicly announced on January 19, 2012.

We have carried out the procedures outlined below:

- We have obtained and read reports, analysis and other relevant documentation, such as legal opinions, commissioned and received from external Legal Advisors, and external valuations of Mercator and Laško commissioned and received from Certified Valuers during the period (i.e. from December 23, 2011 to January 19, 2012), which underpin Mercator management's decision not to continue with the take-over bid.

- We have obtained, read and summarised the MBC meetings, held during the period from December 23, 2011 to January 19, 2012, so as to present which body accepted the decision to stop the process of the take-over of Laško, and whether this was in accordance with the Internal Acts and/or Statute of Mercator and supported with appropriate documentation (i.e. expert opinions).

Furthermore, Mercator has made other consultations with the Competition Protection Office, the Ministry of Economy and Securities Market Agency, which were also used by management in the course of decision making as regards to the take-over of Laško.

B.3.2. Summary of relevant minutes of the MBC meetings from December 23, 2011 to January 19, 2012

In connection with the proposed take-over of Laško, the MBC discussed and accepted the decision to stop the process of the take-over of Laško at its 3rd MBC Meeting, dated January 19, 2012. The minutes of the MBC meeting held on January 19, 2012 stated that on the basis of new important matters that have come to light during the period from the date announcement of Mercator's intent to submit a take-over bid for Laško (on December 23, 2011) to January 19, 2012.

We have not identified any other important decisions of Mercator's MBC, during the period from December 23, 2011 to January 19, 2012, which could directly be linked to the Laško take-over process.

B.3.3. Summary of documents obtained and read

B.3.3.1. Valuations of Mercator's and Laško's shares

In the process of issuing the take-over bid for Laško, Mercator received a valuation report from Certified Valuers for the valuation of Laško's shares (with stock exchange codes: PILH, PILR). The valuation report, dated January 15, 2012, provided a value of all of Laško's shares, on the basis of a combination of methods comprising the discounted future cash flows and certain multiples of comparable listed companies in the region and worldwide.

The Certified Valuers also prepared a valuation report for Mercator, also based on the request from Mercator's management. The valuation report, dated January 15, 2012, provided a value of one Mercator share (MELR), on the basis of discounted future free cash flows.

As per the representations received from Mercator's management, both above mentioned valuation reports for Laško and Mercator as of September 30, 2011 were used in the process of forming the pricing strategy for the purchase of Laško's shares. The exchange ratio provided in the prospectus submitted to the SMA and also presented in the proposed take-over bid was calculated on the basis of these valuations, was thus 1 MELR share per 12 PILR/PILH shares, valued at EUR 17 each, with an additional EUR 2 cash payment per share to be offered to the shareholders of Laško.

B.3.3.2. Summary of inquires made by Mercator to the Competition Protection Office and the Ministry of Economy

Mercator has made inquiries with the Competition Protection Office and the Ministry of Economy through the Notification of concentration, relating to the intended take-over bid of Mercator for the acquisition of all shares of Laško, in several documents dated January 9, 2012.

In the interval of events starting from January 9, 2012 and ending on January 23, 2012, Mercator management made several documented inquiries with the SMA or the Ministry of Economy about the process of market concentration in the case of a successful take-over bid for Laško. Finally, on January 20, 2012 a Mercator MB Member notified the Ministry of Economy in writing through a letter the "withdrawal of the notification of concentrations relating to the intended take-over bid of Mercator d.d. Group for the acquisition of all shares of Laško" about the decision of Mercator's management (reached on January 19, 2012), not to go ahead with the take-over bid.

B.3.3.3. Legal opinion and advice obtained from legal advisors

In the period from December 23, 2011 to January 19, 2012 Mercator management received a legal opinion from external Legal Advisors, dated January 18, 2012, detailing the risks of continuing the take-over process of Laško, pursuant to Zpre-1[15]. In this legal opinion, the legal advisors mention the risks which would probably arise for Mercator due to the facts which have become apparent from the announcement of the agenda of the proposed Shareholders' General Meeting of Laško, on December 29, 2011.

The risks mentioned in the legal advisors' report are the following (which are items per the agenda of the proposed Shareholders' General Meeting of Laško):

- Proposed issuance of new shares of Laško
- Determination of the size and timing of the issuance of new shares of Laško
- Plans to dispose off Mercator's (with stock exchange code: MELR) shares and share exchange
- Report on the internal valuation of Laško shares (with stock exchange codes: PILR and PILH)

The legal opinion advised Mercator management to decide on the withdrawal from the acquisition of Laško due to the significant negative facts deriving from the agenda of Laško's General Shareholders' Meeting, which was announced on December 29, 2011.

B.3.3.4. Summary of the Economic analysis of the take-over (January 2012)

In January 2012, the management of Mercator prepared an analysis of the feasibility of the project to take over Laško[16], based on the preliminary analysis prepared in December 2011. The document specifically states "the Management Board of Mercator has considered the potential execution of the strategic project to take over Pivovarna Laško already several times in the past" and that "at the end of December 2011 (the Management Board) decided to carry out a more detailed examination and execution of this project".

This analysis states that the take-over project would be finalised in the same two phases as the preliminary analysis carried out in December 2011.

[15] Take-over Act (published in the Slovene Government Gazette number 79/06, dated July 27, 2006).

[16] Economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (prepared by Mercator's management January 2012)

B.3.3.4. Summary of the Economic analysis of the take-over (January 2012) - Continued

We present below a summary of the two phases of the take-over project of Laško, as presented in this report.

Phase 1 of the project to take over Laško

The following assumptions, contained in the Economic analysis of the take-over (January 2012), were made by Mercator's management when preparing this analysis of the feasibility of the project to take over Laško:

- The basic financial data are the plans (budgets) for Mercator Group and Laško as of and for the year ending December 31, 2012. The assumptions used were the same as in the preliminary analysis[17] (i.e. the monetisation of real-estate of Mercator Group and estimations of the 2012 plans for Laško).
- Mercator issues share capital of certain amount and assumes new debt of certain amount for the cash payment part of the take-over, in order to finance the take-over. This assumption is different from the preliminary assumption made to issue a certain amount of shares without debt financing.
- Laško owns EUR 144 million of Mercator's shares, treated as treasury shares in the proforma, consolidated financial statements after the take-over.
- Intercompany transactions are eliminated upon consolidation. The amount is based on the value of transactions in 2011.

Based on the above assumptions, included in the economic analysis of the take-over, prepared by Mercator's management in January 2012, the proforma, consolidated financial statements of the combined Mercator Group and Laško, show that two out of the three loan covenants would be met, in the first phase (in accordance with Mercator's management's representation, at the date of closing of the transaction – take-over of Laško).

Phase 2 of the project to take over Laško

The second phase of the project to take over Laško was divided into two steps: (i) the restructuring activities, and (ii) the divesting activities; but the assumptions were changed from those presented in the preliminary economic analysis of the take-over[18].

[17] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

[18] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

B.3.3.4. Summary of the Economic analysis of the take-over (January 2012) - Continued

The estimated additional investment in the infrastructure of Laško companies, as presented in this report, decreased by EUR 40 million, to EUR 10 million, as compared to the figure presented in the Preliminary economic analysis performed by the Management of Mercator in December 2011. According to the representation of Mercator's management, the estimated additional investment in the infrastructure of Laško companies, as per the preliminary economic analysis of the Laško take-over, prepared in December 2011, was a conservative estimation based on retail experience rather than production one and that later this estimate was decreased to EUR 10 million, based on a more detailed analysis by an external Consultant.

The estimated annual savings from the optimization of the brewery business was derived from the Consultant's report on the potential impact of the restructuring of Laško. In the Consultant's report, the anticipated synergies from the take-over of Laško were forecasted to occur within a period from one to two and a half years.

The Consultant's report also states that overall an annual saving could be obtained from better refinancing terms of current debt. The management of Mercator used the lower range of this estimate.

The estimated proceeds from the sale of non-strategic businesses of Laško (brewery, non-alcohol beverages and media) decreased as compared to the same estimate contained in the preliminary economic analysis of the take-over, prepared in December 2011. We understand from the document containing the economic analysis, prepared by Mercator's management in January 2012, that this estimate derived from the valuation performed by Certified Valuers and management's estimations of the synergies.

Based on the above written assumptions used in the evaluation of the second phase of the project, the proforma, consolidated financial statements as of and for the year ending December 31, 2012, after the second phase is anticipated to be completed, show that Mercator would comply with all the loan covenants.

Key assumptions used in the economic analysis of the take-over, performed in January 2012[19]

The analysis prepared by the management of the Mercator Group in January 2012 contained the following assumptions:

- The 2012 plan for Mercator Group includes the effects of sale and lease-back transactions for EUR 250 million of its real-estate.

[19] Economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (prepared by Mercator's management January 2012)

B.3.3.4. Summary of the Economic analysis of the take-over (January 2012) - Continued

- The proforma, combined / consolidated extracts from the financial statements of Mercator Group and Laško assume that Laško would be consolidated for the entire 12 months ending December 31, 2012.
- The effects of the second phase (restructuring and divesting) of the take-over plan are shown as of December 31, 2012.
- The restructuring activities include a hypothesis that the cost of debt of Laško will decrease and this transaction would have no impact on the cost of debt of Mercator Group.
- The restructuring activities also include estimations of additional investments required to restructure Laško, which were estimated by the external Consultant.
- The analysis is based on obtaining a 100% stake in Laško.

B.3.3.5. Summary of the "Request for permission for the take-over bid" sent to the SMA on January 18, 2012

The request for the permission of the take-over bid, sent to the SMA on January 18, 2012, contains details on the number of shares of Laško Mercator would like to acquire, the confirmation of the Central Securities Clearing Corporation (CSCC) about a signed contract in relation to the provision of services for the take-over bid and fees paid for this service, the draft prospectus of the take-over bid, a report of Laško's shares that Mercator acquired during the 12 months period prior to the announcement of the take-over intention (report PRE-VP12) and payment of a EUR 12 thousand fee. Mercator also stated that the MB and SB of Mercator will have meetings on January 19, 2012, and if the decision to withdraw from the proposed acquisition of Laško will be accepted, then Mercator's management will follow that decision.

The request filed with the SMA was not submitted with the final version of the take-over bid and prospectus (a draft of the take-over bid and prospectus was submitted at first), which is a normal procedure to follow, in accordance with usual market practice, while the details included in the draft take-over bid and prospectus are being finalised. According to the Act ZPre-1[20], the request should include the following: the calculation of the funds needed to be deposited at the CSCC for the cash distribution and the confirmation that these funds were deposited with the CSCC. These documents were not filed with the take-over bid. The explanation provided by Mercator's management to the SMA for their inability to file these documents was that the amount required for the cash distribution was still being calculated in cooperation with the CSCC.

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[20] Take-over Act (published in the Slovene Government Gazette number 79/06, dated July 27, 2006).

B.3.3.6. Withdrawal of the "Request for permission for the take-over bid" and "Request for consent to withdraw from the take-over intent", submitted to the SMA, dated January 19, 2012

On January 19, 2012, Mercator's management sent to the SMA a withdrawal of the "Request for permission for the take-over bid" and requested for SMA's consent to withdraw the take-over intent submitted to the SMA on January 18, 2012.

The main reason stated for the withdrawal of the "Request for permission for the take-over bid" is the topics for discussion (agenda) at Laško's Shareholders' meeting, announced on December 29, 2011. Mercator's management stated that the following two main items in the agenda of this meeting would affect the take-over bid of Mercator directly:

(i) The increase of Laško's share capital (new share issue at EUR 10 per share); and

(ii) The increase of Laško's share capital based on the approved initial share capital.

One of the items of the agenda for this meeting was the ratification of the contracts between Laško, Union, and Radenska, so as to establish Laško's control over Radenska and Union. These contracts were signed on December 27, 2011 and provided that Laško would pay the minority shareholders of Union and Radenska, so as to sell their shares of Mercator to Laško, if they would not agree with the conclusion of this contract. The share exchange ratio was calculated by a Certified Valuer, who assessed the value of Laško shares at EUR 34 per share.

Mercator's arguments for the withdrawal of the take-over intent, as stated in the letter submitted to the SMA by Mercator's Management on January 19, 2012, were as follows:

- If the shareholders of Laško would vote for the increase in capital as per the agenda of the meeting, this would affect the number of shares Mercator could acquire. Furthermore, the value per new Laško share of EUR 10 is substantially lower than Mercator's offer of EUR 17 plus EUR 2 per share. In addition, the increase of shares, as per point (i) above[21], would be executed after the final deadline for the acceptance of Mercator's take-over bid, and therefore, it is not possible to predict the effect of dilution of Mercator's shareholding in Laško after Mercator has already obtained the 75% + 1 share majority, required for a successful bid, as it is possible that Mercator would lose the absolute majority in such event.

- The fact the two Certified Valuers, one appointed by Mercator and one by Laško, assessed the value of shares of Laško with a significant difference between their estimates. The Management of Mercator stated in this letter to the SMA that it is likely to assume that Laško's shareholders would not accept Mercator's take-over bid, if the price per share offered is less than EUR 34, as estimated by the Certified Valuer appointed by Laško. Mercator's offer was EUR 17 plus EUR 2 in cash per share. Mercator stated in the above mentioned letter that the Certified Valuer appointed by Laško had better insights and information, as provided by Laško. Therefore, Mercator's management stated that the Certified Valuer appointed by Laško was more informed.

[21] The increase of Laško's share capital (new share issue at EUR 10 per share).

B.3.3.7. Mercator's MBC's meeting on January 19, 2012

On January 19, 2012, Mercator's MBC held a meeting where it got familiar with the economic analysis and reports, prepared by the Management of Mercator or received from external advisors, regarding the take-over of Laško and the memo (dopis) from the Competition Protection Office regarding the anticipated concentration of Mercator and Laško.

The minutes of this meeting stated that the MBC found that the new facts that have arisen from the announced agenda of Laško's Shareholders' Assembly, posed new legal threats that could not be easily removed before or during the take-over and risks, affecting the probability of success of executing the bid. The MBC received the legal opinion from Mercator's external Legal Advisors regarding these risks and the advice not to execute the take-over at this point in time.

The MBC of Mercator decided not to execute the take-over.

B.3.3.8. Mercator's MBC's notification to the SB of the withdrawal of the take-over intent on January 19, 2012

Also on January 19, 2012, a meeting between Mercator's MBC and the SB was held. According to the minutes of this meeting, the MBC presented to the SB the strategic project of taking over Laško and familiarised it with the business reasons, economic reasons and valuations performed.
MB also acquainted the SB with the decision brought at the MBC meeting on the same day that the take-over bid would not be submitted. The reason for this decision was Pivovarna Laško's Shareholders' Assembly, which was convened after the announcement of the take-over intention on December 23, 2011. It was also stated in the minutes of this meeting that this would bring new legal and economic threats that could not be efficiently removed before or during the take-over.
Laško's General Assembly was regarded as a "poison pill" that Mercator could not "swallow". The MBC of Mercator stated to the SB that the proposed decisions of Laško were made with the intent to follow their business interests and the protection of interests of Laško.

Summary of proposed resolutions, outlined in the announced agenda of Laško's Shareholders' Meeting:

- Issuance of up to 100% of new equity, at EUR 10 per share, which represents less than 30% of the fair value of Laško's share as per the appraisal of the Certified Valuer appointed by Laško,

- Possibility of issuing approved capital up to 50% of share capital, with no pre-emption right and no price determined, and

- Ratification of the contract to sell Mercator shares, where certain elements of the contract deviate from best practice and cause an imbalance for the benefit of the buyer. The key terms of the contract were not known to Mercator before the announcement of Laško's Shareholders' Meeting.

EUR 34 was the value of each of Laško's shares as per the result of the valuation carried out by the Certified Valuer, which was deemed by the Management of Mercator to be more informed, as internal information of Laško was used. The fair value of Laško's shares, as estimated by the Certified Valuers, was EUR 19 under the assumption of total control of

Laško (100% of its shares). Taking this price and the value of all effects of Laško's restructuring and related synergies, the price of the share for the investor would not achieve EUR 34 per share (assuming the synergies assessed by the Consultants are incorporated in the price) under the assumption that Mercator would obtain a 75% plus one share ownership in Laško. Mercator used the price of EUR 19 per share in the combined offer with the shares issue and additional cash compensation.

The MBC stated that due to the price difference it was reasonable to assume that the shareholders of Laško would not accept any offer under the price of EUR 34. Due to this fact the MBC decided that the take-over bid of Mercator with a targeted 75% plus one share shareholding as a minimum would not succeed.

B.3.3.8. Mercator's MBC's notification to the SB of the withdrawal of the take-over intent on January 19, 2012 - Continued

The MBC and later also the SB of Mercator decided on January 19, 2012, during their meeting on January 19, 2012, due to the new facts that surfaced after December 23, 2011, not to issue the take-over bid for Laško's shares. On this matter the MBC took the advice of the legal counsel.

B.3.3.9. Mercator's communication with the SMA in connection with the take-over procedure

On January 18, 2012, Mercator submitted a request to the SMA for the latter to issue its consent on Mercator's take-over bid for Laško's shares.

On January 19, 2012, Mercator issued a request to the SMA to withdraw the take-over intent and not to submit to the SMA the take-over bid.

On January 20, 2012, Mercator received from the SMA a resolution, whereby the SMA stopped Mercator's take-over bid for Laško's shares.

On January 26, 2012, Mercator received the SMA's resolution, stating that its request to withdraw the take-over intent was rejected.

The SMA stated that in its request to withdraw the take-over bid Mercator presented the following reasons for the withdrawal of the take-over intent, deriving from the announced agenda of Laško's shareholders' meeting:

- The planned increase of share capital of Laško for a cash consideration
- The increase of share capital of Laško from the authorised share capital
- The ratification of the contract for the sale of Mercator's shares

Mercator supported its arguments based on article 52 of ZPre-1[22], that after the announcement of the take-over intent on December 23, 2011 there was a change of circumstances and that buying the shares of Laško would affect Mercator's expectations. The announced agenda of Laško's shareholders' meeting, to be held on January 30, 2012, stated that the independent Valuer evaluated the shares of PILR at EUR 34 per share, which is significantly higher than Mercator's planned offer (of EUR 17 for one Laško share, plus EUR 2 in cash per share).

[22] Take-over Act (published in the Slovene Government Gazette number 79/06, dated July 27, 2006).

B.3.3.9. Mercator's communication with the SMA in connection with the take-over procedure - Continued

The SMA argued that Mercator could not justify the withdrawal of the take-over intent in accordance with article 52 of ZPre-1[23] because the announced agenda of Laško's shareholders' meeting was published on December 29, 2011, 20 days prior to Mercator's request to the SMA to withdraw the take-over intent. The SMA also argued that the conditions for such withdrawal, as presented in article 52 of ZPre-1[24] had not actually occurred as the shareholders' meeting of Laško was to be held on January 30, 2012 and its shareholders might have chosen not to approve the proposed resolutions.

B.3.3.10. Summary of the draft take-over bid submitted to the SMA
After publishing the intent to submit a bid to take over Laško, Mercator prepared a draft take-over bid.

We obtained the draft take-over bid and the draft take-over prospectus for the acquisition of shares of Laško, submitted to the SMA, dated January 21, 2012, which was submitted to the SMA prior to January 19, 2012, to facilitate the process of review by and approval of the SMA. The final take-over bid was prepared by Mercator but was never submitted to the SMA.

The draft take-over prospectus stated that the deadline for the acceptance of the offer was March 20, 2012. It also stated that the take-over would be binding only if Mercator acquired 75% plus one of Laško's shares.

The main assumption made by Mercator's management for the take-over bid is the acquisition of 100% of the shares of Laško (8.581.732 shares of PILR and 136.171 PILH shares, as Mercator already owns 29.749 shares of PILR, all together 8.747.652 shares). Mercator proposed a combined offer to the shareholders of Laško, by share exchange and additional cash consideration.

In accordance with statements of Mercator's management, the authorization to the MB to proceed with the increase of the share capital and the issuance of new shares was given on the 13th Annual General Assembly of Mercator, held on June 26, 2007. Mercator's MB suggested that such a share exchange would be within the authorizations given to it at the AGM held on June 26, 2007.

[23] Take-over Act (published in the Slovene Government Gazette number 79/06, dated July 27, 2006).

[24] Take-over Act (published in the Slovene Government Gazette number 79/06, dated July 27, 2006).

B.3.4. Our Findings

Based on the agreed upon procedures performed, Mercator's management received from external advisors certain reports (valuation reports and legal opinions), or prepared internally certain procedures, reports and other documentation, in the process of reaching the decision not to continue with the take-over process. The above mentioned reports and documents, which were provided to and read by us, underpin the decision of Mercator not to continue with the take-over bid.

Moreover, the summary of Mercator's MBC and SB meetings, in section **B.3.2.** of this report, shows that the management of Mercator reached its decision not to continue with the take-over of Laško.

Furthermore, the decision of Mercator's management not to continue with the acquisition process is consistent with the MB's authorities, in accordance with the Rules of Procedure of Managing the Mercator Group, provided to us by Mercator's management.

B.4 Proforma, consolidated balance sheet of Mercator under the assumption that Laško was controlled by Mercator

We received two documents with extracts from the proforma, consolidated financial statements, namely the Preliminary economic analysis and justification of the strategic project to take over Laško by Mercator (prepared by Mercator's management in December 2011) and the Economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (prepared by Mercator's management in January 2012). We understand that the decision to announce the take-over intention and to proceed with it was based on the Preliminary economic analysis and justification of the strategic project to take over Laško by Mercator (prepared by Mercator's management in December 2011).

A summary of the Preliminary economic analysis of the take-over and the Economic analysis of the take-over, prepared by Mercator' management in December 2011 and January 2012, respectively are presented in sections **B.2.3.2.3.** and **B.3.3.4.** of this report, respectively.

B.5. Bank loan agreements and financial covenants contained therein

B.5.1. Introduction

We obtained and read a sample of 17 bank loan agreements and accompanying annexes (as applicable) of Mercator with different banks, in force as of December 31, 2011, as provided to us by the management of Mercator.

We summarise below the financial debt covenants contained in the loan agreements we have received and read.

B.5.2. Summary of loan covenants contained in a sample of Mercator's loan agreements

All loan contracts we have received and read contain the same three financial covenants, as follows:

- The Leverage ratio, which must not exceed a specified amount;
- The Interest Cover ratio, which must be at least a specified amount; and
- The Consolidated Net Worth which must be greater than or equal to a specified amount.

We understand from Mercator management's representations that all loan contracts, which include financial covenants, contain the same financial covenants.

The contracts we read clearly state that the financial covenants are calculated on the basis of the consolidated financial statements of the Mercator Group.

In terms of reporting the compliance with financial covenants, all contracts we obtained and read include provisions of reporting requirements as of each financial year-end of the Company. Nevertheless, two syndicated loan agreements we read require the Company to report compliance with financial covenants also based on consolidated, semi-annual, financial statements, as well as one loan contract requires continuous compliance with covenants throughout the year, even though, as stated in this contract, the bank checks compliance with the covenants on an annual basis.

We understand, based on representation from Mercator's management that the take-over of Laško was anticipated to be completed until the end of September 2012, because Mercator's management anticipated that the process of obtaining approval from the Competition Protection Office would take until September 2012 to be completed. We have not been provided with a calculation of the impact on covenants of consolidating Laško for the three month period to December 31, 2012.

We received the following statement from the Management of Mercator regarding their compliance with financial loan covenants:

"As regards the relationship with banks, the management planned to re-negotiate the arrangements with the banks, including the financial covenants and other collateral, in the first half of the year 2012, within the real-estate monetisation project. It was management's estimation that based on: (a) the excellent long-term relations with all key banking partners, (b) structure of assets and business of the group, (c) effects of the planned real-estate monetisation project, (d) the majority of banks being co-owners of Mercator and Laško brewery, (e) the banks' expressed intention to dispose of their investments in the Laško brewery, and (e) economic attractiveness of the take-over project, (f) the fact that no assets have been pledged, the re-negotiation of all key arrangements with the banks regarding refinancing, pricing and type of collateral, including financial covenants, will be successful and in line with Mercator's interests, and therefore as such does not represent a key risk."

Moreover, all loan contracts, which we obtained and read, contain the requirement for the borrower to inform the creditors of any other matter which might reasonably be expected to affect the ability of the borrower to fully perform his material obligations and which might have a material adverse effect on the financial condition of the borrower.

Based on the Preliminary analysis of the take-over, prepared by Mercator's management in December 2011[25], Mercator's management assessed that the net financial debt of Mercator Group would increase by EUR 358 million in the first phase of the Laško take-over project (i.e. before restructuring Laško and divesting significant parts of it).

Our comments on the loan covenants compliance of Mercator, as prepared by Mercator's management during the take-over process of Laško, are presented in sections **B.2.3.2.3.** and **B.3.3.4.** of this report, which present a summary of the Preliminary economic analysis of the take-over and the Economic analysis of the take-over of Laško, as prepared by Mercator's management in December 2011 and January 2012, respectively.

[25] Preliminary economic analysis and justification of the strategic project to take over Pivovarna Laško by Mercator (December 2011)

Annex 1 – Decision included in the Minutes of Mercator d.d.'s Annual General Meeting (AGM), held on March 30, 2012

Item 6 on the Agenda: Appointment of a special auditor to review individual Company transactions

AGM DECISION:

The general meeting of shareholders herby appoints Ernst & Young Revizija, poslovno svetovanje, d.o.o., Dunajska cesta 111, 1000 Ljubljana, as the special auditor to review the Company's transactions. The special auditor is to review all the Company's transactions associated with the takeover intent and takeover bid for acquisition of shares issued by PIVOVARNA LAŠKO, d.d., Trubarjeva ulica 28, 3270 Laško, share symbol PILR and PILH as well as those relating to the takeover intent and takeover bid for these shares in the past five year period prior to adoption of this decision. In addition, the special auditor is to review the takeover intent and takeover bid for acquisition of shares issued by PIVOVARNA LAŠKO, d.d., share symbol PILR and PILH. As part of its review of business conduct, the special auditor should in particular review the appropriateness of the decision (in terms of legal and formal aspects, economic viability and advisability) to announce the takeover intent and takeover bid for acquisition of shares issued by PIVOVARNA LAŠKO d.d., share symbol PILR and PILH, the implementation (in view of transparency, economic viability and advisability) of the announcement of the takeover intent and the takeover bid for acquisition of shares issued by PIVOVARNA LAŠKO d.d., share symbol PILR and PILH, as well as the impact of the takeover intent and the takeover bid for acquisition of shares issued by PIVOVARNA LAŠKO d.d., share symbol PILR and PILH on the Company's operations (in view of economic viability and advisability, as well as in terms of exposure to risks, risk management and in view of its financial and accounting impact).

The special auditor must prepare a written report including its findings with regards to all transactions indicated in the decision of the general meeting of shareholders in accordance with the provisions of Article 320 of the Companies Act (ZGD-1).

Annex 2. List of documents received and read

Number	Document title	Document date
1	13th Annual General Shareholder meeting - invitation 27.5.2007	27.05.2007
2	13th Annual General Shareholder meeting - accepted decisions 27.6.2007	27.06.2007
3	Act on Management Board of Mercator Group	30.03.2010
4	Notarised document - Statute of the Poslovni sistem Mercator PLC	15.07.2010
5	Rules and Procedure of the Management Board of Mercator Group	23.12.2009
6	Pivovarna Laško d.d. - Annual Report 2010	28.03.2011
7	Strategic association with Pivovarna Laško - basis for discussion	2011 May
8	Statute of the public limited company Pivovarna Laško d.d. (consolidated text)	24.06.2011
9	Notarised document pursuant to Article 332/1 of ZGD-1	24.06.2011
10	Pivovarna Laško - financial data for the period January 2011 to September 2011	24.11.2011
11	Preliminary economic analysis and justification of the financial sustainability of the transaction	2011 December
12	Preliminary economic analysis and justification of the strategic take-over of Pivovarna Laško by Mercator	2011 December
13	Minutes of the 3rd conference call of MBC held on 22 December 2011	22.12.2011
14	The take-over Intent for acquisition of all the shares of Pivovarna Laško d.d.	23.12.2011
15	The take-over intent for acquisition of all shares of Pivovarna Laško d.d.	22.12.2011
16	The take-over intent for acquisition of all shares of Pivovarna Laško d.d.- sent to the Securities Market Agency	22.12.2011

Number	Document title	Document date
17	The take-over intent for acquisition of all shares of Pivovarna Laško d.d.- sent to the Competition Protection Office	22.12.2011
18	The take-over intent for acquisition of all shares of Pivovarna Laško d.d.- sent to Pivovarna Laško, d.d.	22.12.2011
19	The take-over intent for acquisition of all shares of Pivovarna Laško d.d. - sent to Pivovarna Laško, d.d.	22.12.2011
20	The take-over intent for acquisition of all shares of Pivovarna Laško d.d. - sent to SMA	22.12.2011
21	The take-over intent for acquisition of all shares of Pivovarna Laško d.d. - sent to SMA	22.12.2011
22	The take-over intent published in the newspaper (copy)	22.12.2011
23	Acknowledgement of receipt of all the Take-over intents for Pivovarna Laško sent (6 acknowledgements)	23.12.2011
24	Rules of Procedure of managing the Mercator Group	no date on document
25	Proposal for the control and organisation of the contractual associated group (between Pivovarna Laško d.d. and Radenska d.d.)	27.12.2011
26	Contract for the control and organisation of the contractual associated group (between Pivovarna Laško d.d. and Pivovarna Union d.d.)	27.12.2011
27	Proposal for the resolution concerning supplements to the Statute (authorised capital) - requested by Kapitalska družba, d.d. on December 20, 2011	29.12.2011
28	Proposal for the resolution for rescheduling of financial liabilities	29.12.2011
29	Proposal for the resolution relating to the informing and consent of the general meeting to the Contract for the sale and acquisition of shares of Poslovni sistem Mercator d.d.	29.12.2011
30	Proposal for the resolution relating to the consent to the performance of the supervision in the subsidiary entities	29.12.2011
31	Proposal for the resolution relating to amendments to the Statute	29.12.2011
32	Proposal for the resolution for determination of remuneration of members of the Supervisory Board	29.12.2011

Number	Document title	Document date
33	Call to the 19th General Meeting of Shareholders of Pivovarna Laško, d.d., Trubarjeva 28, Laško (pursuant to Articles 281 and 293 of ZGD-1; Article 47 of ZPre-1 and Article 26 of the Statute) and proposed resolutions	29.12.2011
34	Proposal for the resolution to increase the share capital through cash contributions (capital increase)	29.12.2011
35	Proposal for the resolution on the General Meeting's consent to contracts on control and amendments to the Statute (authorised capital)	29.12.2011
36	Economic analysis and justification of the strategic project of the take-over of Pivovarna Laško by Mercator	2012 January
37	Contract for Valuation of Pivovarna Laško d.d. and Mercator d.d.	04.01.2012
38	Contact No. _ for Consultation Services	09.01.2012
39	Notification of concentrations relating to the intended take-over bid of Poslovni sistem Mercator, d.d. for acquisition of all shares issued by Pivovarna Laško d.d. sent to the Competition Protection Office	09.01.2012
40	Notification of concentrations form (confidential format)	09.01.2012
41	Notification of concentrations form (non-confidential format)	09.01.2012
42	Contract for the performance of services associated with the shares take-over bid pursuant to the Merger and Acquisitions Act	12.01.2012
43	Amendment and counter proposal to Item 6 of the Agenda of the 19th General Meeting of Shareholders of Pivovarna Laško, d.d.	12.01.2012
44	Profile of the Contractor and Proposal for the Opinion regarding the fairness of the transaction	13.01.2012
45	Supplement to the notification of concentrations relating to the intended take-over bid of Poslovni sistem Mercator, d.d. for acquisition of all shares issued by Pivovarna Laško d.d. sent to the Competition Protection Office	13.01.2012
46	Notification of concentrations form (confidential format)	13.01.2012
47	Notification of concentrations form (non-confidential format)	13.01.2012
48	Letter by Mercator d.d. to the Competition Protection Office of the Republic of Slovenia	16.01.2012

Number	Document title	Document date
49	Potential impact of the restructuring of the Pivovarna Laško Group - Final report	16.01.2012
50	Pivovarna Laško d.d. - Report on assessment of the value of the share capital as at September 30, 2011	15.01.2012
51	Mercator d.d - Report on assessment of the value of the share capital as at September 30, 2011	15.01.2012
52	Risk of continued take-over process of Pivovarna Laško d.d., pursuant to Zpre-1, after new facts came to light - Legal Opinion	18.01.2012
53	Reply to the request of Mercator d.d. for opinion of the Office concerning admissibility of the intended conduct of PS Mercator d.d. in the matter of notification of concentrations (Competition Protection Office of RS)	18.01.2012
54	Request for permission for the take-over bid	18.01.2012
55	Withdrawal of the Request for permission for the take-over bid and request for consent to withdraw from the take-over intent	19.01.2012
56	Invitation to attend the 3rd meeting - Decision on the take-over of Pivovarna Laško d.d. and proposal for discussion at the meeting of the Board of Directors	19.01.2012
57	Minutes of the 3rd meeting of the Management Board Committee of the Mercator Group	19.01.2012
58	17th session of the Supervisory Board of the Poslovni sistem Mercator d.d.	19.01.2012
59	Resolutions of the 17th session of the Supervisory Board of the Poslovni sistem Mercator d.d., relating to the take-over bid for the shares of Pivovarna Laško, d.d.	19.01.2012
60	Resolutions 2 through to 5 of the Statute of Mercator d.d.	no date on document
61	Resolution of the Securities Market Agency relating to the request for permission for the take-over bid of Mercator d.d	20.01.2012
62	Resolution of the Securities Market Agency relating to the request of Mercator d.d to issue consent to withdraw from the take-over intent dated January 19, 2012	20.01.2012
63	The take-over bid including the take-over prospectus for acquisition of shares of the target company Pivovarna Laško, d.d. pursuant to the Securities Market Agency	21.01.2012

Number	Document title	Document date
64	E-mail for the withdrawal of the notification of concentrations relating to the intended take-over bid of Mercator d.d. for acquisition of all shares of Pivovarna Laško d.d.	23.01.2012
65	Certificate of payment made by Mercator d.d. to the Securities Market Agency (SMA)	24.01.2012
66	E-mail from the financial advisors to the Management of Mercator concerning the take-over bid for Pivovarna Laško	25.01.2012
67	Securities Market Agency decision relating to the request of Mercator d.d. for the issue of consent to withdraw from the take-over intent dated January 19, 2012	26.01.2012
68	Brief description of how transactions associated with the take-over intent for the acquisition of all shares of Pivovarna Laško, d.d. were managed, including list of appendices or material that provided the basis for the decision.	27.01.2012
69	Appeal against the Decision No.40201-19/2001-11 of the Securities Market Agency dated January 26, 2012	01.02.2012
70	Sample of loan contracts for most relevant and significant contracts of Mercator d.d. at December 31, 2011	
71	E-Mail from a Mercator Management Board member describing the process of take-over intention and take-over bid	28.05.2012

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