
REPORT OF THE SUPERVISORY BOARD OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Supervisory Board Activities

Pursuant to the legislation and company Articles of Association and Bylaws, operation of the company Poslovni sistem Mercator, d.d., as the controlling company of the Mercator Group was supervised in 2009 by the Supervisory Board which met at seven regular meetings in the course of the year.

Until October 30th 2009, the Supervisory Board included the following members: Robert Šega, Chairman, and the members: Matjaž Božič, Ksenija Bračič, Jože Cvetek, Dragica Derganc, Dušan Mohorko, Kristjan Sušinski (deputy Chairman), Mateja Vidnar, Jelka Žekar, and Ivica Župetić. At its regular meeting held on July 20th 2009, the Shareholder's Assembly appointed the following new Supervisory Board members representing shareholders: Robert Šega, Jadranka Dakič, Stefan Vavti, and Kristijana Verbič. The Council of Employees elected the following Supervisory Board members representing employees: Jože Cvetek, Janez Strniša, Mateja Širec, and Ivica Župetić.

Newly appointed members of the Supervisory Board held their first meeting on November 19th 2009 to elect Robert Šega as the Supervisory Board Chairman and Jadranka Dakič as Deputy Chairwoman. Furthermore, members of the new Audit Committee were appointed at this meeting.

Supervisory Board meetings in 2009 took place on February 26th, May 7th, June 16th, August 25th, October 29th, November 19th, and December 15th. At these meetings, the Supervisory Board discussed predominantly the current business performance and issues related to the property of the company and the Mercator Group, Quarterly and Annual Reports, the work of the Management Board, investment activities, progress of major projects, financing policy and financial position, annual business plans, and implementation of the adopted resolutions of the Supervisory Board.

Major resolutions of the Supervisory Board

In 2009, the Supervisory Board discussed the audited financial statements for 2008 for the company Poslovni sistem Mercator, d.d., and the Mercator Group; furthermore, the Supervisory Board was informed of the business performance of the company Poslovni sistem Mercator, d.d., and the Mercator Group in the periods I – III 2009, I – VI 2009, I – IX 2009, and I – XII 2009.

In addition, the Supervisory Board discussed other current affairs and adopted the following notable resolutions:

- Supervisory Board discussed and adopted the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2008, and confirmed the wording of the Supervisory Board Report on the Annual Report audit, and the opinion on the proposal for allocation of distributable profit for 2008.
- pursuant to the legislative provisions, Supervisory Board appointed the Audit Committee and monitored its operations and resolutions;

- the Supervisory Board adopted the reports on the merger of the companies Pekarna Grosuplje, d.d., Evolution, d.d., and Interior, d.o.o., to the company Mercator, d.d.;
- the Supervisory Board confirmed the convocation of the 15th regular Shareholders Assembly, including the proposed resolutions;
- the Supervisory Board was regularly informed of the progress of proceedings instituted against the company by the Competition Protection Office of the Republic of Slovenia, and of the decisions on the acceptance of commitments proposed in these proceedings;
- the Supervisory Board was informed of the new macro-organizational structure of the Mercator Group;
- the Supervisory Board was informed about the comparative analysis of the competition in the FMCG (food and related products) industry in the region and in Europe;
- the Supervisory Board adopted the Business Plan of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2010.

Activities of the Audit Committee

The Audit Committee, operating as a part of the company pursuant to the relevant legislation in order to improve the quality of company in-house supervision, held six meetings in 2009.

Until October 30th 2009, the Audit Committee of the company Poslovni sistem Mercator, d.d., consisted of the president Mrs. Mateja Vidnar, (Supervisory Board member) and two members: Mr. Jože Cvetek (Supervisory Board member) and Mr. Peter Ribarič (independent expert on accounting and auditing). As of November 19th 2009, the Audit Committee consists of the president Mrs. Jadranka Dakič (Supervisory Board member) and two members: Mr. Jože Cvetek and Mr. Peter Ribarič.

In 2009, meetings of the Audit Committee were held on January 13th, February 24th, May 5th, August 25th, October 29th, and December 15th. At these meetings, the Audit Committee discussed mostly current affairs and adopted the following notable resolutions:

- the Audit Committee was informed of the internal audits conducted in 2008, and the plan for 2009;
- the Audit Committee was informed of the report on long-term provisions as at November 30th 2008;
- the Audit Committee was informed of the report on reducing the risk of fraud at the company Mercator, d.d.;
- the Audit Committee discussed the report of the independent certified auditor on the progress and findings of the audit carried out at the company Poslovni sistem Mercator, d.d., and the Mercator Group in 2008;
- the Audit Committee discussed the Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2008;
- the Audit Committee discussed quarterly performance of the company Poslovni sistem Mercator, d.d., and the Mercator Group;
- the Audit Committee proposed to the Supervisory Board to appoint the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o., as the certified auditor for the company Poslovni sistem Mercator, d.d., and the Mercator Group;
- the Audit Committee discussed the report on the risks at Mercator Group for the year 2008 and the periods I-VI and I-IX 2009; in addition, it was informed of the report on

- the independent review / audit of the risk management process at the Mercator Group, conducted and compiled by the auditing company Deloitte revizija d.o.o.,
- the Audit Committee discussed the report on tax audit of transactions with associated entities, conducted and compiled by the consulting company KPMG poslovno svetovanje, d.o.o.;
 - the Audit Committee was informed of the report on the compliance with the Employee Code of Conduct at the company;
 - the Audit Committee was informed of the decisions on the commitments, issued by the Competition Protection Office of the Republic of Slovenia in the proceedings against the company on the grounds of alleged abuse of dominant position and alleged concerted action with two other retail companies;
 - the Audit Committee confirmed the agreement on auditing the company Poslovni sistem Mercator, d.d., signed with the auditing company KPMG Slovenija, podjetje za revidiranje d.o.o.;
 - the Audit Committee was informed of the recommendations for Audit Committees, as issued by the Slovenian Association (Institute) of Auditors.

Semiannual and Annual Report for 2009

The Supervisory Board was informed of the non-audited Semiannual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the period I – VI 2009 at its regular meeting held on August 25th 2009. The company published the Summary of the non-audited Semiannual Report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange, d.d.

At its regular meeting held on February 25th 2010, the Supervisory Board discussed the audited nonconsolidated and audited consolidated Annual Report for the year 2009. Both reports were audited by the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o., Ljubljana. The Annual report was previously discussed by the company's Audit Committee, during its meeting held on February 23rd 2010. Also present at this meeting was the certified auditor who provided the Audit Committee with all additional explanations required by the Committee members. On February 18th 2010, the auditing company issued a positive opinion on the nonconsolidated and consolidated Annual Report. The Supervisory Board did not have any objections to the certified auditor's reports and concurred with both.

The Supervisory Board did not have any objections with regard to the presented Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for 2009, and confirmed it unanimously at its meeting on February 25th 2010.

Proposal on the allocation of distributable profit

Simultaneously with the confirmation and adoption of the 2009 Annual Report, the Supervisory Board also confirmed the proposal for the allocation of distributable profit, which is to be proposed to the Shareholders Assembly by the Management and Supervisory Board.

The proposal for the allocation of distributable profit amounting to EUR 27,153,424.38 as at December 31st 2009 is as follows:

- a part of the distributable profit in the amount of EUR 27,110,599.20 shall be allocated for the payment of dividends, with the gross value of EUR 7.20 per ordinary share;

- remaining part of the distributable profit in the amount of EUR 42,825.18 shall remain undistributed.

The Supervisory Board agrees with the proposed allocation of distributable profit. In drafting the proposal on the allocation of distributable profit, the company Management Board and Supervisory Board agreed that given the economic and other circumstances, the currently effective dividend policy is no longer appropriate. Such view is based on the following starting points:

- Throughout the period from 1998 to 2009, the company allocated less than one third of total generated profits for dividend payments as the shareholders agreed to waive their income in the form of dividend in favor of retained earnings which were in turn allocated by the company for its development. Thus, the company holds over EUR 238 million of retained earnings in the form of revenue reserves as at December 31st 2009.
- To shareholders, both major and minor, dividend income is more important during economic and general crisis when availability of financial sources is restricted.
- Total amount proposed for dividend payment, from the aspect of amount and share capital composition and composition of all financing sources, shall not bear any negative effects on company solvency and liquidity, nor shall it significantly affect the development power and capacity of the company in the following medium term period.
- Given the strenuous circumstances in the capital markets, low liquidity of the share at the Ljubljana Stock Exchange, d.d., general economic conditions, and the characteristics of the company ownership composition, the proposed changes in the dividend policy are likely to bear a positive impact on the shareholder interest in Mercator share, which will contribute to the stability of the ownership structure – in turn a very important aspect in given economic conditions.

The Supervisory Board feels that given the extremely strenuous economic environment, global financial crisis, and economic recession, providing stability of Mercator Group operations and managing risks, were the key and priority goals which were successfully pursued and attained.

This Report was issued by the Supervisory Board pursuant to the provisions of Article 282 of the Companies Act. The Report is intended for the Shareholders Assembly.

Robert Šega
Supervisory Board Chairman



Ljubljana, February 25th, 2010