



Republic of Srpska
Securities Commission



Banja Luka Stock Exchange

STANDARDS OF CORPORATE GOVERNANCE

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**STANDARDS
OF CORPORATE
GOVERNANCE**

Banja Luka, 2011.

Pursuant to Article 309 of the Company Law (“Official Gazette of the Republika Srpska”, no. 127/08, 58/09 and 100/11) and Article 260(1)(1) of the Securities Market Law (“Official Gazette of the Republika Srpska”, no. 92/06 and 34/09), Securities Commission of the Republika Srpska hereby issues:

STANDARDS OF CORPORATE GOVERNANCE

Preamble

These Standards of Corporate Governance set out more closely the mechanisms for functioning and protection of interests in interrelations among different stakeholders in a joint stock company.

The stakeholders in a joint stock company are the persons that assume certain direct or indirect risks in relation to the company and in connection with the company. Apart from its existing and potential shareholders, stakeholders of a company include its employees, customers, suppliers, creditors, lenders, management and supervisory bodies, the local community and the bodies of the state authority.

These Standards of Corporate Governance (hereinafter: Standards) are set on the basis of the following principles of corporate governance, adopted by the *Organisation for Economic Co-operation and Development (OECD)*:

1. Ensuring the Basis for an Effective Corporate Governance Framework
2. The Rights of Shareholders and Key Ownership Functions
3. The Equitable Treatment of Shareholders
4. The Role of Stakeholders in Corporate Governance
5. Disclosure and Transparency
6. The Responsibilities of the Board.

The Standards include recommendations and suggestions, as well as the provisions that are binding, as they ensue from existing regulation for specific field. These Standards are intended primarily for joint stock companies whose shares are traded in the stock exchange or other regulated public market.

The words “**should**” and “**may**” are used for the recommendations and the suggestions provided for in the Standards. Joint stock companies are not obliged

to implement them, but they are obliged in that case to disclose a rationale as to why they do not do it, in accordance with „COMPLY OR EXPLAIN“ principle.

This allows joint stock companies to either adapt their codes to the specificities of the industry that they are part of or to implement them directly. The remaining parts of the Standards include the provisions that joint stock companies are obliged to implement in accordance with the existing regulation.

Adherence to the Standards of Corporate Governance improves the company's ability to compete, establishes more conducive conditions for investment activity and enables financial markets to function more efficiently.

These standards, as a set of rules and principles, aim to enhance corporate relations among stakeholders ensuing from the existing laws and regulation and internationally accepted principles and best corporate governance practice, in order to facilitate joint stock companies' access to capital at lower cost through good and responsible governance and supervision of business and management functions, because clearly defined corporate governance procedures based on generally accepted international standards are one of the main criteria for investment decision making.

The main principles of the Standards are: transparency of operations, clearly elaborated operating procedures for the bodies taking important decisions, avoidance of conflict of interest, efficient internal controls and efficient system of accountability.

For the purpose of these Standards, „board“ refers either to, depending on the system of governance, the management board, as the body of a joint stock company with assembly and management board as its bodies, or the supervisory board, as the body of a joint stock company with assembly, supervisory board and management as its bodies.

For the purpose of these Standards, „management“ refers either to, depending on the system of governance of a company, the CEO and the executives in a joint stock company with management board, or the management in a company with supervisory board and management.

I THE RIGHTS OF SHAREHOLDERS

1. Shareholders have the right to govern the joint stock company by participating and voting in shareholder assembly meeting, the right to obtain relevant information on the joint stock company on a timely and regular basis, including the right to access legal acts and other documents and information on the company, the preemptive right to acquire new shares, the right to a share of profit of the joint stock company, the right to dispose freely with shares, the right to secure and fast registration of ownership of the joint stock company, the right to elect and remove members of the management/supervisory board and to be elected into the management/supervisory board, the right to disagree and have the company redeem the

shares, the right to file action and the right to a share in any surplus which may be left on liquidation.

2. Shareholders, owners of preferred (or preference) shares, have preference over shareholders who are owners of common (ordinary) shares in respect of priority in receipt of the dividends and upon liquidation, while they have voting rights only for the matters requiring group voting by shareholders of that class, in case when preferred (or preference) share is converted to common (ordinary) share and in case that the dividend on preferred (or preference) shares is not paid out (until such time when that dividend is paid out), in accordance with the decision on issue of the preferred (or preference) shares.
3. The company should encourage and support its shareholders to use their rights actively and responsibly.

Standard 1 – The Right to Govern the Joint stock company

- 1.1. Shareholders, owners of common (ordinary) shares, have the right to participate in governance of the company, proportionate to their shares in capital stock.
- 1.2. Shareholders shall exercise the right to govern the joint stock company by participation in proceedings of shareholder assembly meetings, on the basis of the report on the company's shareholders registered in the Central Securities Registry on the tenth day prior to the day of the shareholder assembly meeting, and that day is published in the invitation to the shareholder assembly meeting.
- 1.3. Each shareholder, irrespective of type and class of shares he owns, has the right to participate in person or by proxy in proceedings of general assembly meetings, to participate in discussions, to submit proposals, to pose questions and receive answers to them.
- 1.4. Each common share of the joint stock company entitles the shareholder to voting right in the company's assembly meeting in such a way that one share always entitles to one vote.
- 1.5. The management/supervisory board of the joint stock company is obliged to convene shareholder assembly meeting at least once a year (annual assembly meeting).
- 1.6. The shareholder assembly meeting shall be convened and held once a year (annual assembly meeting) and at the latest within six months after the end of business year.
- 1.7. If it is identified in the course of preparation of financial statements or in other instances that the joint stock company operates at a loss, the management/supervisory board of the joint stock company is obliged to

convene forthwith the shareholder assembly meeting and propose measures to protect the interests of creditors, shareholders and the joint stock company.

- 1.8. Apart from the annual shareholder assembly meeting, which is mandatory, the management/supervisory board of the company may during a year convene several meetings of this body, when it deems it to be in the best interest of the company or at the request of at least 1/3 of members of the management/supervisory board or any other person who is authorized by the articles of incorporation, the company's liquidator (if the company is undergoing liquidation) and at a written request by shareholders with at least 10% of shares with voting rights. „Extraordinary assembly meeting“ refers to each shareholder assembly meeting that the company holds during a year save for the annual one.
- 1.9. The management/supervisory board of the company is obliged to take decision on the request to convene an extraordinary assembly meeting from the above recommendation at the latest within ten days from the day of the receipt of the request and notify the requester of it within seven days from the day the decision is taken.
- 1.10. The decision denying the requester's request must include the rationale for the denial.
- 1.11. The joint stock company's assembly is competent to decide on: amendments to the articles of incorporation, i.e. the statute, the status changes, change of the legal form to another form of a company (business association), termination of the company, acquisition of and disposal with the high value assets, distribution of the profit and coverage of the losses, adoption of the financial statements, the management/supervisory board reports and independent auditor's reports relating to the financial statements, the remuneration policy and remunerations for members of the management/supervisory board of the company, election and removal of members of the management/supervisory board, internal auditor, independent auditor and audit committee, the expenses for bonuses to the company's executives or members of the management/supervisory board through issue of shares, warrants and other financial and non-financial benefits and other matters of material significance to the company's functioning.
- 1.12. The shareholder assembly meeting shall be convened by sending out a written invitation for the shareholder assembly meeting to each shareholder at the latest 30 days and at the earliest 60 days prior to the day of the annual shareholder assembly meeting, and if it is an extraordinary assembly meeting, the written invitation shall be sent out at the latest 15 and at the earliest 30 days prior to the day of the shareholder assembly

meeting. The written invitation shall be sent by mail or e-mail, if the shareholder agreed in writing to being notified by e-mail.

- 1.13. The company may regulate through its articles of incorporation or its statute that instead of sending out an individual written invitation to each shareholder, the invitation for the shareholder assembly meeting be posted without intermission on the website of the company, on the website of the stock exchange, during the time preceding the assembly meeting and in at least two daily newspapers that are distributed in the territory of the Republika Srpska, at least 30 days and at most 60 days prior to the day of the meeting for annual assembly meetings, i.e. at least 15 and at most 30 days prior to the day of the meeting for extraordinary shareholder assembly meetings.
- 1.14. The notification from the above recommendation shall mandatorily include time and venue of the meeting, proposed agenda for the assembly meeting specifying the items that will be voted on in the assembly meeting and proposed decisions that will be decided on in that meeting. The notification should specify that at the headquarters of the company, during regular business hours and at his request, each shareholder will be provided with copy of financial statements along with independent auditor's report, the management/supervisory board's report on operations of the company, the wording (text) of any contract or any other legal transaction that is being proposed for approval, as well as other acts in accordance with the articles of incorporation, i.e. the statute of the company and the law.
- 1.15. The annual assembly meeting shall be held on the day and time provided for in the articles of incorporation, i.e. in the decision rendered by the management/supervisory board.
- 1.16. The shareholder assembly meeting shall be held at the company's headquarters, unless otherwise stipulated by the articles of incorporation of the company.
- 1.17. Along with the written invitation convening the shareholder assembly meeting, the company shall send proposed decision for each agenda item that the assembly will be deciding on. Only the agenda items that have been duly announced and included in the agenda may be decided on in the shareholder assembly meeting, while other matters may be discussed.
- 1.18. The proposed agenda item should specify legal basis for the decision and prescribed majority required for the adoption of the proposed decision.
- 1.19. Should the decision that triggers the rights to disagree be subject to voting in the shareholder assembly meeting, the invitation for the meeting and

the vote must include the notification that the shareholders have or may have such rights and reference to such rights.

- 1.20. The proposed decisions and other materials that the shareholders will be voting on should be made available free of charge on the websites of the company and the stock exchange.
- 1.21. If the assembly is to decide on amendments to the articles of incorporation, i.e. the statute, the published agenda shall specify the location where the wording (text) of the decision on amendments to the articles of incorporation, i.e. the statute, that are (is) subject to revision is to be found.
- 1.22. Shareholder or shareholders who have at least 10 % of shares with voting rights for election of the management/supervisory board of the company may propose or request that maximum two new issues be included in the agenda of the assembly meeting. Such proposal shall be submitted in writing to the management/supervisory board at the headquarters of the company, within seven days from the day of announcement of annual convening of the assembly meeting, i.e. within five days from the day of announcement of convening of an extraordinary assembly meeting. The proposed amendments to the agenda must include rationale for the proposal, including the proposed decision, the names of the shareholders making the proposal and the number of the votes that they have.
- 1.23. Members of the management/supervisory board should give consideration to the proposal to include a new item in the agenda within the stipulated deadline and should provide rationale for a decision possibly denying the shareholders' proposal. Members of the management/supervisory board may deny the proposal to include an agenda item only on the grounds of the procedural reasons (e.g. lack of written form, failure to adhere to the legal deadline within which inclusion of a new item may be requested, failure to fulfill conditions in respect of number of the votes that the shareholders requesting inclusion of a new item in the agenda have or if the item whose inclusion is requested is not within the scope of the shareholder assembly). The management/supervisory board should notify the proposers of its decision on the shareholders' proposal to amend the agenda at the latest within 72 hours from the day of the receipt of the request. Should the management/supervisory board fail to decide on the shareholders' proposal to amend the agenda within the aforementioned deadline, any shareholder who proposed the amendment may within 48 hours request that competent court decide on such request in non-contentious (extrajudicial) proceedings.
- 1.24. With majority of votes of the shareholders attending the shareholder assembly meeting, the agenda may be amended in the course of the

shareholder assembly meeting save for the issues requiring adoption of decisions.

- 1.25. Shareholder should not vote in the assembly meeting when deciding: on dispensation or reduction of obligations and responsibilities of that shareholder and parties related to him; on recognition of the benefits of the shareholder at the expense of the joint stock company; on setting the requirements that the company has with respect to that shareholder; on instituting or suspension of the dispute against him and parties related to him, approval of the transactions involving conflict of interest between him and/or parties related to him and the company, exclusion of the preemptive right in a procedure of issue of shares in private offering in which he and/or party related to him is designated as a buyer who is known in advance, foundation of and association with another legal entity in which he and/or party related to him has ownership share greater than 5% in capital stock and in paying out of the dividends to employees and members of the management board in case that that person and/or party related to him has that status in that company, and in other instances when that shareholder has an interest that is in conflict with the company's interest (conflict of interest clause).
- 1.26. Minutes shall be kept of the proceedings of the assembly meeting, which shall mandatorily include: the venue and the day of the assembly meeting, the statement specifying the method in which the assembly meeting was convened and when it was convened, the proposed and adopted agenda, first names and surnames of the minutes keeper, chairman and members of the voting committee, quorum, list of the shareholders attending the assembly meeting, including number of shares / votes they have, the voting results (“voted in favor of”, “voted against” and “abstained from voting”) for each decision by individual agenda items, discussion summaries and a list of the decisions adopted in the shareholder assembly meeting. A list of participants, proof that the assembly meeting was duly convened, the inference by the president of the assembly on adoption of the decision, dissenting opinions and reasons as to why some shareholders acted in such a way and the names of the shareholders who voted „against“ or „abstained from voting“ shall form an integral part of the minutes of the shareholder assembly meeting.
- 1.27. The minutes of the shareholder assembly meeting shall be drawn up and signed at the latest within 15 days from the day it was held, and they shall be signed by the president of the assembly, the two designated shareholders (minutes verifiers) and the minutes keeper.
- 1.28. The minutes of the shareholder assembly meetings of the companies whose shares are listed on the official stock exchange should be kept by a notary public.

- 1.29. The company is obliged to keep the meeting minutes and the decisions of the shareholder assembly and to make them available to each shareholder or former shareholder for the period during which he had been the company's shareholder, for the purposes of copying and exercising the right of perusal, viz., during business hours of the company and at the premises of the company.
- 1.30. Shareholder shall exercise his voting right in person or by one proxy. Voting in person means participation in the proceedings of the assembly meeting or voting in writing.
- 1.31. Should shareholder wish to vote in writing, the management/supervisory board of the joint stock company is obliged to make this possible in a proper way (by accepting casting of written votes by mail and electronic voting in absentia).
- 1.32. Shareholder may issue a proxy authorization.
- 1.33. The authorization may be issued to a natural person of full age who has contractual capacity and to a legal entity.
- 1.34. The authorization shall be issued in writing, and it can be certified by a competent authority or an authorized person from the company.
- 1.35. The company's headquarters shall mandatorily be supplied with the authorization.
- 1.36. The authorization may be issued for one or multiple assembly meetings, for a certain limited period or until its recall. When the authorization is issued for one or multiple assembly meetings, it is valid for the repeated assembly meeting, irrespective of the reasons for repeating the meeting.
- 1.37. The proxy authorization for the shareholder assembly meeting should include particularly the following information: information on the authorizer and the proxy (their full first names and surnames, national ID numbers and home addresses), information on the number, the type and the class of the shares for which the authorization is being issued, the limitations of the authorization and the duration of the authorization). The authorization may also include the instruction on how to vote.
- 1.38. Shareholders' association may act as a proxy for the shareholder in the assembly meeting on the basis of the written contract by which the shareholder transferred to the association exercising of all or certain voting rights on his shares or on the basis of duly certified written authorization.
- 1.39. The persons acting as proxies for the shareholders shall state to the shareholders their proposals for exercising the voting right by individual

agenda items. Should the shareholders fail to furnish the person acting as their proxy with the instruction on how to exercise the voting right, that person will take account of the shareholders' interest in exercising the voting right.

- 1.40. Should the voting right be exercised by a proxy, the proxy may not be an executive, a member of the management or executive board, i.e. the management, nor may he be a candidate for a member of these bodies or related party, while, however, should the vote be cast in writing, the shareholder shall authorize the president of the assembly to read on his behalf in the assembly meeting his position by each agenda item.
- 1.41. The voting committee is obliged to verify the identity of the proxy and determine the validity of each authorization.

Standard 2 – The Right to Obtain Relevant Information on the Joint stock company on a Timely and Regular Basis

- 2.1. Shareholders should be informed about the voting rules and the voting procedures at the shareholder assembly meetings. The company should ensure implementation of this principle in a way that it will make available free of charge to each shareholder the statute and the rules of procedure of the assembly, either by posting those documents on the company's website or, at a request of the shareholder, they should be made available to him for perusal or copying by being handed or delivered to him during business hours at the company's premises and at the shareholder's expense.
- 2.2. Sufficient information on each agenda item on which shareholders are to vote should be provided to them. For the purpose of this recommendation, sufficient information means: accuracy, completeness, timeliness and easy availability of information on the basis of which the shareholders should define their positions.
- 2.3. Should there be shares with no voting rights or with limited voting rights, the company should publicly disclose information about this fact when the shareholder assembly meeting is convened.
- 2.4. Shareholders should be able to previously give consideration to all proposed decisions to undertake extraordinary transactions that would significantly change the joint stock company's position with respect to its assets or liabilities. To that effect, information on sale, investment or lease of the company's assets, status changes, planned increases and decreases of the capital stock and changes in the products/services assortment shall be disclosed separately.

- 2.5. Prior to regular shareholder assembly meeting, the company's financial statements should be made available to shareholders, together with the auditor's opinion, viz., at the latest within five days from the day of their preparation and receipt, respectively.
- 2.6. The company should ensure timely disclosure of all information on conflict of interest for all persons who are nominated to be appointed to the company's management or to the company's management/supervisory board or are participants in the transactions with the company, and, in particular, if such conflict of interest is related to the decisions on which the shareholders should vote.
- 2.7. Information on the ownership structure of the company should be public and available to the shareholders and potential investors on a daily basis.
- 2.8. Following the shareholder assembly meeting, the company should post as soon as possible the decisions adopted in the assembly meeting on its website and on the website of the stock exchange.

Standard 3 – The Preemptive Right to Acquire New Shares

- 3.1. Shareholder has the preemptive right to acquire shares from the company's new share issues, proportionate to the nominal value of the shares he holds on the cut-off date, which may not be set within the deadline that is shorter than twenty days from the day the decision on the share issue is made.
- 3.2. The deadline within which the preemptive right to acquire shares may be exercised may not be shorter than 15 days from the day of the commencement of the subscription of shares and pay-up for the issue concerned.
- 3.3. Shareholders with preferred shares have the preemptive right to acquire shares from the new issues of the shares of the same class, in accordance with the shareholder assembly's decision.
- 3.4. The preemptive right to acquire shares may be limited or excluded only by the shareholder assembly's decision on a proposal from the management/supervisory board. The management/supervisory board shall submit to the shareholder assembly a written report specifying the reasons for limitation or exclusion of this right and the rationale for the proposed asking price of the shares subject to the issue.
- 3.5. The shareholder assembly's decision on limitation or exclusion of the preemptive right to acquire shares shall form an integral part of the decision on capital increase.

Standard 4 – The Right to a Share of Profit of the Joint stock company

- 4.1. Shareholder has the right to a share of the profit determined by the assembly as the profit that is to be distributed, in shares or in cash, proportionate to the nominal value of the shares he holds on the dividend date (the cut-off date).
- 4.2. The dividend date (the cut-off date) may not be set within the deadline that is shorter than twenty days from the day the dividend payout decision is made.
- 4.3. The shareholder assembly's decision on distribution of the profits for the dividends shall mandatorily include: specification as to which shareholders are entitled to the dividend (the dividend date, i.e., the cut-off date), the manner in which the dividend will be paid out, the amount of the dividend relative to the nominal value of the shares and the dividend payout deadline (if the payout is to be made in cash).
- 4.4. Once it has rendered the decision to pay out the dividend in cash, the company should set and disclose clear procedures and deadlines for effective payments to the shareholders. The deadline should be reasonably short – not longer than 30 days, and the procedure should be the same for all.
- 4.5. The dividend policy should form an integral part of the company's general acts that are posted on the company's website or are available to public through different means, while the shareholder assembly's dividend distribution decisions should be in line with the disclosed dividend policy.

Standard 5 – The Right to Dispose Freely with Shares

- 5.1. Transactions in the capital market should be conducted fairly and transparently, in order for the rights of all shareholders to be protected.
- 5.2. The right to dispose with the shares that are traded in an organized manner in the stock exchange may not be limited save for the cases provided for by the law.

Standard 6 – The Right to Secure and Fast Registration of Ownership

- 6.1. The right to secure and fast registration of ownership of the joint stock company must be ensured to each shareholder within three days from the day the change in the ownership occurred.

- 6.2. The company is obliged to undertake all necessary actions to ensure fast and secure registration of the ownership resulting from the issue of the securities.

Standard 7 – The Right of Shareholders to Elect and Remove Members of the Management/Supervisory Board and to Be Elected into the Management/Supervisory Board

- 7.1. Each shareholder has the right to be elected into the management/supervisory board and to elect members of the management/supervisory board.
- 7.2. Persons convicted of crimes against economy and official duty and persons who have breached the provisions of the payments limitations law, for whom the legal consequences of the convictions have occurred, may not be members of the management/supervisory board for as long as those consequences last.
- 7.3. The board appointment process must be formal and transparent.
- 7.4. The company's articles of incorporation, i.e., the statute, should allow the company's minority shareholders to be able to have a member of the management/supervisory board (cumulative voting).

Standard 8 – The Right to Disagree and Have the Company Redeem the Shares

- 8.1. Should the shareholder assembly's decision change or undermine, i.e., otherwise affect the shareholders' rights, the disagreeing shareholder has the right to request the company to redeem his shares.
- 8.2. Market value of the shares from the above recommendation shall be calculated on the day the concerned company's decision was made in the shareholder assembly meeting, without taking into account any expected increase or decrease of value resulting from such decision.
- 8.3. The company's shareholder who intends to use the right to request redemption of the shares on the grounds of disagreement with the assembly's decisions is obliged to submit to the company prior to adoption of the decision in the shareholder assembly meeting a written notification of his intent to use such right should the decision concerned be adopted in the assembly meeting.
- 8.4. Upon the receipt of the shareholder's request for redemption of the company's shares, the company should pay the market value of the shares at the latest within 30 days from the receipt of the request.
- 8.5. Should the court ruling stipulate higher value to be paid out to the disagreeing shareholder relative to the value that the company has offered for the redemption, such amount shall be paid out to all disagreeing

shareholders, whereat the company is obliged to forthwith notify all disagreeing shareholders that one or multiple shareholders have filed a request for valuation of the shares to the competent court.

- 8.6. The company should set through its general act the method for definition of the market value of its own shares.

Standard 9 – The Right to File Action

- 9.1. Shareholder has the right to file individual action on his behalf against the company's controlling shareholder, the company's procurator, members of the management/supervisory board, members of the executive board, i.e., the management, members of the audit committee, the company's internal auditor, persons who have been granted under a contract the authority to manage the company's affairs, and liquidation administrator, should he deem that the aforementioned persons caused him damages by performing the aforementioned duties.
- 9.2. Shareholder who holds the shares in the company that constitute at least 5 % of the company's capital stock has the right to file action on his behalf and for the sake of the company against the company's controlling shareholder, the company's procurator, members of the management/supervisory board, members of the executive board, i.e., the management, members of the audit committee, the company's internal auditor, persons who have been granted under a contract the authority to manage the company's affairs, and liquidation administrator, for compensation of damages inflicted to the company by such persons as a result of breach of the duties they have with respect to the company (derivative action).
- 9.3. Prior to filing the action, the shareholder should request in writing from the company to file the action against the persons from the above recommendation. The request shall be addressed to CEO or members of the management/supervisory board or other persons who have authority to file the action.
- 9.4. The compensation of damages awarded pursuant to the derivative action belongs to the company, while the person who filed the action is entitled to compensation of costs.

Standard 10 – The Right to a Share in Any Surplus which May Be Left on Liquidation

- 10.1. In the company liquidation proceedings, shareholders have the right to a share in the surplus identified in the company liquidation proceedings, proportionate to their share in the company's capital stock.

II THE EQUITABLE TREATMENT OF SHAREHOLDERS

Standard 11 – The Equitable Treatment of Shareholders

- 11.1. The companies should ensure equitable treatment of all shareholders.
- 11.2. Shareholders with the shares of the same type and class are equal.
- 11.3. The shareholder assembly shall decide on the change of the rights ensuing from the ownership securities.
- 11.4. Investors should be aware in advance of all the rights, before they buy the shares from the new issue, in accordance with the prospectus that the company shall mandatorily prepare.
- 11.5. Insider share trading that is aimed at misuse of the position in the company is prohibited.
- 11.6. All effects resulting from the business transactions or the matters that impact the work and the operations of the company should be presented to the shareholders simultaneously.
- 11.7. Substitution of the shares that is carried out as part of the status changes must be performed in such a way that it does not jeopardize the shareholders' rights, nor may such rights be defined outside the established substitution relationship between the shares of the legal predecessor and the legal successor.

III THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE

Standard 12 – The Role of Stakeholders in Corporate Governance

- 12.1. Company should, in proper ways, ensure adherence to and use of legal rights of all stakeholders of the company.
- 12.2. Company should post on its website the name of the person in charge of investor relations.
- 12.3. Company should ensure active cooperation with all stakeholders with the aim of creating wellbeing, jobs and maintaining financial stability of the company.
- 12.4. Company shall have the right to compensation of damages should the stakeholders inflict damages to the functioning of the company on any basis.
- 12.5. Joint stock companies, save for financial organizations, may not participate in the legal transactions involving extension of advance payments, credits or loans, i.e., provision of advance payments, credits or

- loans by the company, with a view to acquiring the shares of that company.
- 12.6. In the relationships with other stakeholders of the joint stock company, the company should discharge its obligations precisely and reasonably, ensuring long-term prosperity of the company and its shareholders.
 - 12.7. When making decisions on the specific matters, the company should take account of the stakeholders' interests, especially of the employees' interests.

IV DISCLOSURE AND TRANSPARENCY

Standard 13 – Disclosure and Transparency

- 13.1. Company should ensure timely disclosure and transparency of all material information on the company, including its financial position, operations, ownership and governance. Material information is such information whose possession may influence economic decision-making by its user. Undisclosed material information is deemed privileged information and is subject to special regime of keeping such information.
- 13.2. Public disclosure of financial statements and other information on the company should allow for its valuation from the standpoint of legal status, financial position, business capacities and rights related to securities. The statements must include comprehensible commentary and review of the operations by the management of the company.
- 13.3. Irrespective of the information which it is obliged to disclose in accordance with the law or other regulations, the company should disclose and make available as soon as possible to all stakeholders material information on the company's operations and activities and all information on the facts and the circumstances that may have a significant impact on the price of its shares, whereat it is deemed that significant impact is likely if a reasonable investor would take into account such information as a part of his basis for his investment decision-making.
- 13.4. Company should also ensure disclosure of information on: development plans and their impact on economic and social position of the employees, movements and changes in the earnings, protection and safety at work and measures aimed at improvement of the working conditions, the company's objectives, the majority owners, members of the management and the supervisory board and their remunerations, the reasons for possible resignation or for termination of the contract, and information on: the auditor, the manner in which the profits are distributed, status changes, changes in the form of the company and foundation, i.e., the manner in which the company is incorporated, corporate governance policy, related party transaction, predictable (foreseeable) material risk

factors and risk management mechanisms (if they are not in the domain of business secret), matters pertinent to the employees and other stakeholders of the company, management structure and policy, the rights granted to the management to buy the company's share at the prices that are lower than the market prices (as variable components of their remunerations), announced takeover bid, changes in the company shares portfolios of individual members of the management/supervisory board.

- 13.5. Company is obliged to prepare and disclose its financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS).
- 13.6. Company should post its annual financial statements on its website at the latest by February 28th of the current year for the previous year; the semiannual financial statements at the latest by July 31st, and the quarterly financial statements at the latest by the end of the next month relative to the previous quarter.
- 13.7. The auditor's reports should be disclosed within 5 days from the day of their receipt, and at the latest by August 31st of the current year.
- 13.8. Annual, semiannual and quarterly statements are the most important and the most comprehensive sources of information on the company and that is why they should not be limited only to the information prescribed by legal and professional norms, but they should by all means include strategic objectives, prospective business plans, comprehensible analysis and the management's position on the performance in the previous period, the management's clarification with respect to possible significant discrepancies with regard to planned results and achieved strategic objectives.
- 13.9. Annual statement should be disclosed in English language as well, while semiannual and quarterly reports should be available for perusal to the shareholders on a daily basis at the headquarters and at the business address of the company and on the company's website.
- 13.10. Company should post on its website by the end of the business year a calendar of the important events that are expected to take place in the next business year (e.g. the date when the financial results will be disclosed, the date when the annual assembly meeting will be held, the date of acquisition of the right to dividend and the dividend payout date, etc.). The company should disclose in the same way each change with respect to the important events in the calendar at least 30 days in advance, and, if that is not possible, immediately after the occurrence of the circumstances affecting the change.
- 13.11. In case that different rumors start circulating in public with respect to performance of the company, the company should issue a public statement either confirming or denying such rumors.

- 13.12. Competences of different bodies of the company need to be clearly defined in a sense of collection, analysis, preparation and disclosure of relevant information.
- 13.13. All information on important events, major transactions and relevant material information in a sense of performance of the company should be fully disclosed in a timely fashion to make it available to all shareholders.
- 13.14. Related party transactions should be subject to particularly detailed disclosure, and especially the transactions with related legal entities in the form of consolidated financial statements prepared in accordance with the accounting standards.
- 13.15. Changes in the ownership structure are also subject to disclosure, particularly in the cases when the acquirer is exceeding 10, 25, 50 and 75 %.
- 13.16. A list of the companies in which the company holds ownership stake of over 10% is also subject to disclosure, including disclosure of the names and the principal places of business of such companies and the percentages of ownership stakes.
- 13.17. Shareholders must be made aware of the details of the transactions entered into by members of the management and the management/supervisory board directly or indirectly with the company or any of its organizational units.
- 13.18. Different affiliations and arrangements that allow individual shareholders a degree of control which is not proportionate to their equity should be disclosed.
- 13.19. Information that is disclosed in case of public offering of the company's shares must be such to enable investors to fairly assess legal status, financial position, business capacities and the prices of the shares.
- 13.20. Company and its employees are obliged to prepare and adhere to the procedures aimed at protecting from the competition the information that is relevant to maintaining market position.
- 13.21. The manners in which the information is disclosed should allow its users to have fair, timely and cost-effective (cheap) access to relevant information.
- 13.22. Company should use media (daily press, electronic media, website) to disclose the aforementioned information, allowing for equal conditions to be put in place for the investors who are involved in the securities trade. There has to be a decision on selection of the specific medium and it has to be specified in the general acts of the company.
- 13.23. Company should not divulge to third parties any information from the public statement before it is publicly disclosed save for authorized persons from relevant authorities and the company's consultants who may not breach the principle of confidentiality either.
- 13.24. Company that discloses any information abroad should disclose such information in the domestic market as well.

- 13.25. Company should include in its annual business report a statement of compliance with the corporate governance standards and principles, while it should clarify in detail conformity of its activities with the corporate governance standards and principles and clarify and state the reasons for possible departures from the principles and the standards.
- 13.26. Use of privileged information (information of precise nature, which is not publicly available and which would likely have significant impact on the prices of the issuer's shares or on the prices of the related derived financial instruments if it were publicly available) is fully prohibited to all persons to whom such information is available (insiders), as that could give rise to illicit advantage when the company's financial instruments are traded, irrespective of whether the privileged information is used by an insider directly or by a third party who received such information from an insider.
- 13.27. The ban to use privileged information applies to all shareholders, members of the management/supervisory board, executives, i.e., the management, members of the audit committee, the company's external consultants and all persons who are deemed as persons to whom privileged information is available due to their position inside or outside of the company.
- 13.28. Company is obliged to set up the mechanisms that will ensure that those persons who have at their disposal or who come in contact with privileged information are informed about the nature and significance of such information and restrictions with respect to their use and company is also obliged to ensure oversight of privileged information flows and of their possible misuses.
- 13.29. Company is obliged to include (disclose) in its annual report information on the shares whose holders are individual members of the management/supervisory board, executives, i.e., members of the management or members of the audit committee. In addition to disclosure of such information in the annual report, the company is obliged to publicly disclose through its website and through the Stock Exchange any change in the quantity of the company's securities held by an individual member of the management/supervisory board or an executive, i.e., member of the management, within 24 hours from learning of such change.
- 13.30. Company is obliged to disclose information on the transactions with members of the management/supervisory board or legal entities or natural persons related to them participating in them at one end and the company or parties related to the company participating in them at the other end.
- 13.31. Company is obliged to identify in a timely fashion the main risks that the company is exposed to (e.g. political risk, economic risks, business risk, etc.) and to disclose in a proper manner information on such risks and an estimate of likelihood of the potential risks being realized.

V THE RESPONSIBILITIES OF THE BOARD

Standard 14 – The General Duties and Responsibilities of the Board

- 14.1. Implementation of the standards should facilitate strategic management of the company, as well as ensure an efficient system of management oversight by the board and the board's accountability to the company and the shareholders.
- 14.2. Members of the management and the board shall perform their functions in the best interest of the joint stock company and conduct the business with the care of a prudent businessman, while adhering to the confidentiality requirements.
- 14.3. The boards should ensure proper controls and risk monitoring systems, financial control and compliance with laws.
- 14.4. Duties, competences and authorities of the board and the management should be clearly defined and separated.
- 14.5. The boards should ensure integrity of the company's financial accounting and reporting system based on an independent auditor's report.
- 14.6. The boards should oversee the process of disclosure of information on the company and the communication with the company's stakeholders.
- 14.7. The boards should ensure control of potential conflicts with respect to realization of the interests of the management, members of the board and the shareholders, including misuses of the company's assets and execution of related party transactions.
- 14.8. The management and the boards shall cooperate closely to maximize the company's performance.
- 14.9. During and after their terms of office, all members of the boards should adhere to the confidentiality principles with respect to the company's operations. The management must ensure that the company's employees also adhere to this principle. The management should adopt confidentiality rules and methods for protection of confidential information and sanctions in case that such rules are breached.
- 14.10. All members of the company's board shall be liable for the damages that they inflict on the company and the shareholders in accordance with legal regulations.
- 14.11. Relevant authority or a stakeholder may institute proceedings before the competent court against members of the board who render a decision, resulting in infliction of damages on the company, the creditors or the owners.
- 14.12. Information on remunerations and economic benefits of any kind that may be earned by members of the board, employees or members of the

management on the basis of their position and work in the company must be provided in full to the board, and in the cases when such information involves members of the board, it should be provided to the management and the shareholders. Information on additional income resulting from the position of some person in the company, even when the company does not pay such additional income, should also be provided to the relevant bodies of the company.

Standard 15 – The Responsibilities of the Company's Management

- 15.1. The company's management is responsible for management of the company and it should ensure compliance with all laws and other regulations and it should take account of all interests of the company's stakeholders in accordance with the business risk to which the company is exposed.
- 15.2. The company's management is obliged to ensure transparent and quality relationships between the company and its stakeholders and to make sure that the company complies with all rights of the stakeholders ensuing from the law and good business customs.
- 15.3. No one who informs relevant state authorities or bodies of the company about shortcomings in implementation of the regulations or ethical norms within the company must not suffer negative consequences.
- 15.4. The management shall draw up business strategy of the company and ensure its implementation.
- 15.5. The management should set up a proper internal controls and risk management system in the company.
- 15.6. In addition to a regular submission of annual financial statements, consolidated financial statements and auditor's reports, the management should provide to the management/supervisory board within reasonable time regular, timely, reliable and detailed information on the events that may significantly impact future performance of the company and/or financial situation of the company. Should such information be incomplete, members of the management/supervisory board may request additional information.
- 15.7. The management must not sanction or threaten with loss of job an employee who is at the same time a shareholder for his actions with respect to exercising the rights he has as the shareholder.

Standard 16 – The Responsibilities of the Company's Management/Supervisory Board

- 16.1. The management/supervisory board shall control whether the company conducts its business in accordance with the law and other regulations, good business customs and business ethics.

- 16.2. The management/supervisory board should control the company's conduct of business in an objective manner and independently from the company's management.
- 16.3. In order to discharge their responsibilities, members of the management/supervisory board must have access to accurate and timely information.
- 16.4. The management/supervisory board should comprise members who understand business of the company and have abilities, knowledge and expertise required for discharge of their duties.
- 16.5. President of the management/supervisory board should coordinate the operations of the board and encourage other members to work actively and efficiently. In case that some members do not attend the meetings or are inactive in the meetings of the board, that should be disclosed in the shareholder assembly meeting.
- 16.6. President of the management/supervisory board should ensure that all members of the board are informed prior to the meeting of the board in a proper manner about the issues that will be discussed during the meeting of the management/supervisory board.
- 16.7. When making decisions, no member of the management/supervisory board may put his personal interests and interests of persons related to him ahead of the company's interests, nor may he by his decisions seize for himself and persons related to him the business opportunities intended for the company.
- 16.8. No member of the management/supervisory board may through secret activities reap personal benefits on the basis of his position in the company.
- 16.9. The management/supervisory board must not tolerate unjustified use of the company's assets and misuse of authority, including issue or redemption of the company's securities at inadequate prices.
- 16.10. Responsibilities of the management/supervisory board should be to: manage development and oversee implementation of the company's strategy and business plans, supervise the management and annual budget execution, define general risk management policy; monitor implementation of plans and performance of the company and point to departures from planned values; approve and oversee major capital expenditures, acquisitions and sales; ensure compliance with the procedures and transparency of the board nomination and selection process; monitor and undertake proper action in the situations when the management, members of other boards (committees) and the shareholders are in conflict of interest, including misuse of the company's assets and misuse in transactions with third parties; ensure integrity of the company's accounting and financial reporting systems, including external, independent audit and existence of adequate controls systems, especially risk management system, financial and business controls system, and ensure compliance with laws and

relevant standards; oversee processes involving disclosure and dissemination of financial and non-financial information on the company's business operations; issue opinion on the bid made for takeover of the company before the shareholder assembly and the takeover bid so as to enable the shareholders to make a decision on such bid; approve extension of loans by the company to members of the management/supervisory board or persons related to them; convene forthwith a shareholder assembly meeting if it is identified in the course of preparation of financial statements or in other instances that the company operates at a loss.

- 16.11. The management/supervisory board should adopt its own code of conduct which should include as a minimum professional and independence standards for the management and members of the management relations, ethical standards with respect to their conduct, responsibilities, including attendance in the meetings, prudence in decision-making, rules for disclosure and perusal of potential conflicts of interest with the company, remuneration policy for the management and members of the management board and other matters deemed as relevant.
- 16.12. The management/supervisory board should define and adopt internal corporate governance principles and standards, including the principles of exemption, disclosure of conflict of interest and transparency of information on remunerations, and it should implement them on the basis of its own procedures.
- 16.13. Each member of the management/supervisory board must ensure and dedicate sufficient time to his duties and his activities in the board.
- 16.14. If a member of the management/supervisory board participated in less than a half of the meetings of the management/supervisory board during the year, that must be disclosed in the report on the operations of the management/supervisory board.
- 16.15. President of the management/supervisory board shall coordinate operations of the board and chair its meetings.
- 16.16. President of the management/supervisory board shall maintain contacts with the management on a regular basis and it shall consult the management with respect to the issues pertaining to business strategy, development and risk management in the company.
- 16.17. The management/supervisory board shall meet on a regular basis, at least once every two months. All decisions shall be made in the meetings.
- 16.18. All members of the management/supervisory board shall be invited to the meetings in the same manner, ensuring simultaneity, equal awareness and equal access to all relevant information. In case of large number of members of the management/supervisory board or their physical distance, the meetings may be held allowing for the possibility of voting by using modern technology.

- 16.19. At least one meeting of the management/supervisory board during the year should be held without the presence of members of the management, in order to discuss their work.
- 16.20. The management/supervisory board must submit a report on its operations and inform the shareholder assembly about its operations accurately and comprehensively at least once every year. The report shall include detailed information on the operations of the management/supervisory board and the company as a whole, description and assessment of the cooperation with the management and with the auditor and the position with respect to the auditor's opinion and assessment of the auditor's opinion.
- 16.21. The annual report of the management/supervisory board shall show in detail performance of the management and the company and performance with respect to implementation of these standards and cooperation with the management and the independent auditor. The management/supervisory board must provide to the shareholders a detailed analysis of the company's annual report, irrespective of whether it approves of it or has certain comments on it.
- 16.22. The management/supervisory board may set up special committees or commissions, which will be able to render qualified, technical and professional analyses of specific issues, resulting in increase of efficiency of its own operations.
- 16.23. There should be continuous contacts between the management and the management/supervisory board, whereat existence of adherence to confidentiality of information exchanged between them is of extreme importance.

Standard 17 – The Conflict of Interest in the Company's Bodies

- 17.1. Member of the management, member of the management/supervisory board of the company and the procurator may conclude a legal transaction with the company in which they have that capacity only if such legal transaction is approved in good faith by majority of votes of the members of the management/supervisory board who have not interest in that transaction, and in case that such majority does not exist, by majority of votes of the members who have no personal interest. The person who has personal interest may not vote in the management/supervisory board when it is deciding on approval of the legal transaction with the company. The shareholders shall be informed about the approval and the legal transaction in the first next assembly meeting.
- 17.2. Member of the management/supervisory board is in conflict of interest if he or a member of his family is: contracting party in a legal transaction with the company; in financial relationship with a person from a legal transaction or an action who is concluding the contract with the company

or who has financial interests in that transaction or the action based on which it may reasonably be expected that they will impact his actions; under controlling influence of a party from a legal transaction or an action or a person who has financial interest in the legal transaction or the action so it may reasonably be expected that they impact his actions in a way which is in conflict with the company's interest.

- 17.3. Family members of member of the management/supervisory board shall be deemed to be: his spouse, parents, brother or sister of the spouse; relative in the first degree of lineal consanguinity (parents, children and their descendants) and to the second degree of collateral consanguinity (brother, sister) or a spouse of any of these persons; adopter, adoptee and other persons who live in the common household with that person.
- 17.4. The financial interest or the controlling influence for which it may reasonably be expected to impact actions of member of the management/supervisory board in a way which is in conflict with the company's interest shall in particular be deemed to be: if he is a majority shareholder or a shareholder with the stake that makes him a qualified (eligible) shareholder of the company; if he is someone who has business, financial or close family relationships with a majority shareholder or a shareholder with the stake that makes him a qualified (eligible) shareholder of the company; if he is an important supplier/buyer of goods and services (including advisory and audit services); if he is in any other way related to the aforementioned groups and categories of persons, so that such relationships impact his independent and unbiased decision-making.
- 17.5. All members of the management and members of the management/supervisory board should report presence of conflict of interest to the management/supervisory board.
- 17.6. The management and the management/supervisory board are obliged to ensure that the person who has conflict of interest with the company is either not involved in decision-making on certain matters or does not deal at all with such matters on behalf of the company.
- 17.7. Should a person face conflict of interest in his work, he must, in accordance with the procedures and the deadlines that are clearly defined by a general act of the company, notify about it the relevant body that is not in such conflict of interest.
- 17.8. Members of the management/supervisory board should not decide on or resolve on behalf of the company the matters with respect to which they have conflict of interest with the company. A higher body or an equal member who does not have such conflict of interest will instead resolve such matters. In the cases where it is not practicable, a higher body that has no such conflict of interest must be fully notified about the nature and importance of the matter and about the details of the conflict of interest.

- 17.9. Each decision rendered by a person who has conflict of interest should be reviewed in accordance with the strictest standards of equity and independence.
- 17.10. Material conflict of interest or conflict of interest which is not temporary in nature and which a member of the management/supervisory board has found himself to be in should result in termination of the term of office of that member.
- 17.11. Those persons who are in potential conflict of interest should not be elected into the management/supervisory board.
- 17.12. The company's employees may not misuse the knowledge acquired with respect to business operations of the company contrary to the shareholders' interests and business reputation of the company. The contents of the aforementioned knowledge must be precisely defined by a decision of the company's management.
- 17.13. No member of the management/supervisory board, no employee or no member of the company's management may receive cash, gifts or other benefits for himself or any other person, nor may they give any unlawful benefits to third parties.
- 17.14. The management and the management/supervisory board shall inform through their reports the shareholder assembly about situations involving conflict of interest and their activities and actions with respect to those situations.
- 17.15. When making decisions, no member of the management and the management/supervisory board may put his personal interests and interests of persons related to him ahead of the company's interests, nor may he by his decisions seize for himself and persons related to him the business opportunities intended for the company.
- 17.16. When performing their duties, members of the management and the management/supervisory board may not request or accept from third parties payments or any other types of benefits for themselves or for any other person, nor may they give to third parties unlawful advantages based on which those third parties could acquire benefits.
- 17.17. Members of the management and the management/supervisory board may not either directly or indirectly (through related parties) be engaged in another company with competitive business activities, unless they are granted permission for that by other members of the company's management, i.e., the management/supervisory board, to whom they are not related.
- 17.18. Members of the management and the management/supervisory board may have additional activities in the domain of affairs of management and management/supervisory boards in other companies only with permission

of other members of the company's management, i.e., the management/supervisory board, to whom they are not related.

- 17.19. Each member of the management and the management/supervisory board is obliged to notify the management/supervisory board of the changes in his portfolio of the company's shares no later than 24 hours from the day the transaction is concluded.

Standard 18 – The Independence of Members of the Management/Supervisory Board

- 18.1. Majority of members of the management/supervisory board should be independent from the company and free of any business and other relationships and associations that may significantly impact their objective and professional judgment when they make their decisions.
- 18.2. Company should disclose a list of independent members of the company's bodies.
- 18.3. The management/supervisory board should review on a regular basis independence of its members and it should request from each member to provide relevant information required for the review of their independence.
- 18.4. The following are the criteria for determination of independence of members of the management/supervisory board: he is not a shareholder of the company, nor is he related business wise or in some other way with the company's majority or controlling shareholder; he was not a member of the company's management in the last three years; he or members of his family were not employed in the company in the last two years; he does not directly or indirectly hold more than 10 % of shares or stake in the entity that either paid out or received payouts from the company; he is not receiving any financial compensation from the company save for the remuneration for his membership in the management/supervisory board; he was not in the last three years a chief counsel, consultant or lead person of an entity that was hired as the company's consultant; he is not a significant supplier or a client of the company and he is not an employee or member of the governing body of such supplier or such client or some other company from the same industry; he did not act as the company's independent auditor; he has no other material contractual relationships with the company; he has no any interest or business and other relationships that could be deemed to have a significant impact on his capacity to act in the best interest of the company.
- 18.5. When reviewing the independence of a member of the management/steering board, his family relationships, membership in other governing bodies in the same company and relationships with other persons who are not deemed independent, other associations, interests and circu-

mstances that could have an impact on the independence of that person should be taken in consideration.

- 18.6. Company should ensure compliance with the principles according to which members of the management and the management/supervisory board cannot have that capacity, nor be employed, i.e., be procurators, in any other company, i.e., other legal entity, from the same or related industry (i.e. performing the same business activities), which could be competition, nor can they be entrepreneurs who perform such business activities.
- 18.7. Those persons who perform the functions of CEOs, members of the management/supervisory board or the board of executive directors in other legal entities (which perform business activities that are different from the business activities that the company is performing) are obliged to notify the company about that.
- 18.8. Those persons who perform the functions of CEOs, members of the management/supervisory board, the board of executive directors or members of the management and who hold shares in other legal entities are obliged to notify the company about that.
- 18.9. For the reasons of potential conflict of interest, the same person may not be CEO in two separate, yet related, legal entities. Also, in related companies, CEO of a parent company may not be president of the management/supervisory board of the daughter company, while CEO of a daughter company may not be president of the management/supervisory board of the parent company.

Standard 19 – The Remunerations of Members of the Management/Supervisory Board and the Management

- 19.1. The remunerations for members of the management/supervisory board and the management of the company should be determined on the basis of clear and publicly disclosed principles and procedures, whereat the remunerations do not have to be set only as fixed amounts, but instead different forms of incentives may be determined in a form of remunerations that are based on performance, which shall be disclosed separately in the financial statements.
- 19.2. In determining amounts of the remunerations, the company's performance, its financial results, the scope of responsibilities of each member of the management/supervisory board and the management, the functions with which they have been entrusted and the levels of the remunerations of members of the management/supervisory board and the management in comparable companies that are operating in the market should be taken in consideration.

- 19.3. All types and the amounts of the remunerations or other economic benefits that members of the company's bodies have from the company should be disclosed to the relevant bodies that elected those individuals.

Standard 20 – The Internal Audit and the Audit Committee

- 20.1. A natural person who is employed in the company and who has necessary qualifications provided for in the company's acts shall perform internal audits.
- 20.2. The company's internal auditor shall: carry out controls of the company's financial statements and report to the audit committee whether they meet the requirements of veracity and completeness, carry out controls of the financial reporting and other types of reporting to the shareholders and report to the audit committee whether they meet the requirements of veracity and completeness, carry out controls of the contracts made between the company and members of the management/supervisory board, as well as of the contracts made between the company and related parties, and report on those to the audit committee, carry out controls of compliance of the company's organization and operations with the code of conduct and carry out controls of the procedures to address grievances filed by the company's shareholders, members of the company's bodies or other persons with respect to the company's activities and carry out controls of the company's other activities and report on them in accordance with the activity plan and the company's needs.
- 20.3. The internal auditor may peruse all documents of the company, check their veracity and the information contained in them, request reports and explanations from the management/supervisory board and the employees and review the condition of the company's assets.
- 20.4. The shareholder assembly shall appoint the audit committee, comprising three persons who are not in conflict of interest with the company and who meet the independence criteria.
- 20.5. The audit committee shall: render internal audit work plans, consider internal audit reports and issue recommendations with respect to the audit reports, report to the management board on implementation of the recommendations issued with respect to the audit reports, report to the company's shareholder assembly on accounting, statements and financial operations of the company and its associates, comment on proposed profit distribution decisions to be adopted by the assembly, report on compliance of the company's business operations with legal and other regulatory requirements and propose to the assembly selection of the independent auditor if the company is obliged to have its financial statements audited.
- 20.6. The audit committee shall provide to the shareholder assembly special reports on the contracts concluded between the company and the related parties.

- 20.7. Members of the audit committee should have appropriate professional and moral characteristics that warrant independence in their work, such as: independence from the management/supervisory board, capacity to make objective judgments, understanding of the purpose and the responsibilities of the audit committee, availability of sufficient time to be able to devote themselves to the duties of the committee, broad professional knowledge, knowledge of the company's activities, sufficient knowledge in the field of finance and the accounting standards and the standards on auditing.
- 20.8. President of the audit committee should be someone who has appropriate expertise and experience in accounting, finance and auditing.
- 20.9. The authorities, duties and responsibilities of the audit committee should be clearly prescribed by the job descriptions in the general acts of the company.
- 20.10. President of the audit committee should not be someone who, going back at least 5 years, was a member of the company's management/supervisory board.
- 20.11. The audit committee should meet periodically on a regular basis, viz., at least once every month, and it shall keep the management/supervisory board informed about its activities.
- 20.12. The audit committee should monitor and review the scope of the audit that is performed in the company and its results and it shall submit reports with recommendations to the management/supervisory board and monitor subsequently their implementation, about which it shall also keep the management/supervisory board informed.
- 20.13. The audit committee shall cooperate with the appointed independent auditor of the company and ensure continuous and efficient exchange of opinions and information required for the work of the committee.
- 20.14. The audit committee should participate in definition of the accounting policies and other issues in the field of accounting.

Standard 21 – The Independent Auditor

- 21.1. Financial statements should be audited in accordance with professional and ethical principles and standards applicable in the Republika Srpska.
- 21.2. The audit committee shall make the proposal for selection of the independent external auditor.
- 21.3. The independent auditor may not be from the legal entity that is already providing consultancy services to the company or, in case that the audit firm generates more than 30% of its revenues from doing business with the company, save for the first year of its operation.
- 21.4. Before the independent auditor is appointed at the shareholder assembly meeting, the shareholders should be informed about whether the audit

firm had been hired already in the past to perform audits. The company should not appoint the same auditor for more than 5 years.

- 21.5. The shareholders should be informed about whether there are any circumstances or facts that may give rise to conflict of interest.
- 21.6. The appointed independent auditor should be present in the shareholder assembly meeting during which adoption of the financial statements is considered.
- 21.7. The company's independent auditor should be notified at the same time when the company's shareholders are notified about the upcoming shareholder assembly meeting or the upcoming decision-making without the meeting, in order to take part in the work of the assembly in accordance with the general acts of the company and the law.

Standard 22 – The Internal Controls

- 22.1. In order to put in place the mechanisms for protection of the shareholders' interests and the company's assets, the management should establish and ensure functioning of an adequate and efficient internal controls system.
- 22.2. Those persons who are responsible for the internal controls shall be directly accountable to the company's management and must be independent and unbiased in their work.
- 22.3. The main task of the persons who are responsible for this field is to warn of the risks that could potentially impact the performance. Their work shall include review of the procedures for the efficient business operations of the company, identification and reduction of financial and other risks, prevention of realization of unlawful benefits, in order to facilitate the company's business operations and successful risk management.

Standard 23 – The Relationships with Other Stakeholders

- 23.1. Active cooperation between the company and its other stakeholders needs to be encouraged in order to create wellbeing, jobs and viability of financially sound companies.
- 23.2. In its relationships with other stakeholders (employees, creditors, clients, suppliers), the company shall exercise its rights on the fair principles of market transactions and fulfill responsibly its obligations, enabling long-term prosperity of the company and its shareholders.
- 23.3. If other stakeholders participate in the governance process, they should have access to the relevant, precise and reliable information in a timely fashion and on a regular basis.
- 23.4. Other stakeholders, including individual employees and their representative bodies, should be able to express freely their positions to the manage-

ment/supervisory board and to the management, without having their rights jeopardized for doing that.

VI FINAL PROVISIONS

Upon entry into force of these Standards, the Standards of Governance of Joint stock companies („Official Gazette of the Republika Srpska“, number 3/06) shall no longer apply.

The listed companies (whose shares are traded in the official stock exchange) that did not render their written codes are obliged to implement directly these Standards. It is recommended that other joint stock companies adopt these Standards and incorporate them in their general acts.

These Standards shall enter into force on the eighth day after their publication in „Official Gazette of the Republika Srpska“.

Number: 01 – CCXXXIV – 2921/11

Date: October 31st, 2011

President of the Securities Commission
of the Republika Srpska
Miodrag Jandric, MS