

**REPUBLIC OF SRPSKA SECURITIES COMMISSION
BANJA LUKA STOCK EXCHANGE
IFC – INTERNATIONAL FINANCE CORPORATION**

**THE STANDARDS
OF CORPORATE
GOVERNANCE**

Banja Luka, 2006.

Pursuant to Article 254.a. of the Law on Enterprises (RS “Official Gazette”, No. 24/98, 62/02, 38/03 and 97/04) and Article 100. of the Law on Securities – consolidated text (RS “Official Gazette”, No. 4/02), the Securities Commission of the Republic of Srpska, adopts:

THE STANDARDS OF CORPORATE GOVERNANCE

Introduction

The Standards of corporate governance for joint stock companies (hereinafter: Standards) determine detailed mechanisms for functioning and protection of interests in mutual relationships of various stakeholders in the joint stock company.

Stakeholders of the joint stock company are all existing and potential shareholders, creditors, employees, management, supervisory board and the state/government.

Compliance with standards of corporate governance in joint stock companies ensures improvement in the competitive capacity of the company, achievement of more favorable circumstances for investment activity, and it enables more efficient functioning of financial markets.

The Standards of corporate governance are determined on the basis of the following principles of corporate governance endorsed by the Organization for economic cooperation and development (OECD):

1. Ensuring the basis for an efficient implementation of corporate governance Standards
2. The rights of shareholders and key ownership functions
3. The equitable treatment of shareholders
4. The role of stakeholders – interest-holders in corporate governance
5. The disclosure and transparency of information
6. The role and responsibilities of the Board.

The Standards comprise recommendations and suggestions, as well as some binding provisions that are derived from positive legislation regulating particular areas.

Recommendations and suggestions in the text of the Standards are given with use of words “**should**” and “**may**”. The joint stock companies are not legally responsible to apply them, but are in that event liable to publish explanation for failing to do so. This enables joint stock companies to harmonize their standards with specifics of the industry to which they belong. Other parts of the Standards contain provisions that joint stock companies are legally responsible to apply in accordance with the regulations in place.

I THE RIGHTS OF SHAREHOLDERS

1. Shareholders rights include the right to: take part in the management of the joint stock company through participation and voting in general shareholder meetings; obtain relevant information on the joint stock company on a timely and regular basis; share in profits of the joint stock company; convey or transfer shares; secure and fast methods of ownership registration in the joint stock company; elect and remove members of the board; and share in the bankruptcy estate.
2. The company should encourage and support its shareholders to exercise their rights actively and responsibly.

Standard 1 – Right to take part in the management of the joint stock company

- 1.1. Shareholders, owners of common (ordinary) shares have right to participate in management of the company proportionately to their equity ownership.
- 1.2. Shareholders attain the right to participate in the management of the joint stock company by effective participation in general shareholder meetings, based on the report on company's shareholders registered in the Registry of Securities on the date GSM convening decision.
- 1.3. Each shareholder is entitled to participate in general shareholder meetings, to express his or her opinions and to propose solutions for each item on the agenda, as well as to ask questions relating to the agenda to the board members and other participants in the general shareholder meeting.
- 1.4. Joint stock companies should respect the principle "one share – one vote", and accordingly they should harmonize the face value of shares they issued.
- 1.5. The management of the joint stock company is liable to convene the general shareholder meeting at least once per annum (ordinary general shareholder meeting).
- 1.6. The management should convene the shareholders meeting every time when it is considered to be in the best interest of the company or upon request by shareholders holding or representing at least 10% or lower percentage of the equity capital which is determined by the Statute.
- 1.7. Regular annual shareholder meeting should be held latest within three months following the date on which financial reports are submitted to the managing board.

- 1.8. General shareholder meeting: adopts the Statute, Rules of Procedure (rule book), determines business policy, adopts annual financial statements and business report (consolidated reports – should the company be liable to prepare and submit these reports); makes decisions on: distribution of annual profits and coverage of loss, increase and decrease in the equity capital of the company, amendments to the statute, changes in the legal form and termination of company, incorporation of new companies, election and removal of managing and supervisory board members, auditors and liquidators, their remuneration, changes and amendments in the rights attached to particular classes and types of shares, joint stock company's demands imposed on members of management, supervisory board or shareholders in relation to the damage sustained in the course of incorporation or operations of the company, and representation of the company in court proceedings brought against members of the management.
General shareholder meeting should also decide on the sale or investment of more than 10% of the company's assets.
- 1.9. Convening notice for the general shareholder meeting is issued at least 21 day prior to the date of the meeting.
- 1.10. Convening notice and the agenda for the general shareholder meeting should be published in the daily newspapers that is available in the whole territory of the RS in the circulation over 5.000 copies, as well as in the company's head office and possible organizational units outside its head office.
- 1.11. Convening notice of the general shareholder meeting should not be published more than 45 days prior to the date of the meeting.
- 1.12. Company should undertake all available measures and actions to provide shareholders with information concerning location, time and agenda of general shareholder meetings, as well as to furnish them with equal opportunity to participate effectively in the general shareholder meetings.
- 1.13. Shareholders holding at least one tenth of voting rights, should be invited to the general shareholder meeting by separate invitation.
- 1.14. Institutional investors should hold shareholder meetings in the head office of the company or in the place of residence of the majority of shareholders.
- 1.15. For each item on the agenda on which the general shareholder meeting is to decide, the management encloses the proposal of the resolution.
- 1.16. Proposal of the item for agenda should also comprise the indication of the legal basis for adoption of the resolution, as well as indication of stipulated majority required for adoption of the proposed resolution.

- 1.17. Draft resolutions to be proposed for approval and other materials on which shareholders will vote should be available at the meeting, free of charge for all shareholders, regardless the number of votes they hold.
- 1.18. If the general shareholder meeting is deciding on the changes and amendments of the statute, the published agenda also indicates the location of the statute's text that is to be changed or amended.
- 1.19. Latest 8 days following the date of the convening notice for the general shareholder meeting, the management of the company is obliged to inform about it all individuals representing shareholders (proxy holders or shareholders' association) who exercised voting rights at the last session of the GSM, as well as those shareholders who placed an prior request for it.
- 1.20. Within 8 days following the date of the convening notice for the general shareholder meeting, shareholder holding or representing at least one tenth or lower percentage of the equity capital that is defined by the Statute, can in written demand from the managing board to place/include any particular issue to the meeting's agenda, elaborating reasons for doing so.
- 1.21. Management of the company should, in written form, inform proposers on acceptance or refusal of shareholder's proposal for amendment and proposal regarding existing item of the agenda.
- 1.22. Majority of votes of shareholders attending the general shareholder meeting is required for the amendments of the meeting's agenda, with the exception of issues requiring adoption of resolutions.
- 1.23. Shareholder may not vote at the general shareholder meeting on the following decisions: on that shareholder's release from liabilities and responsibilities; recognition of shareholder's privileges on account of the joint stock company; definition of company's claims regarding that shareholder; initiation or waiving the dispute against that shareholder and in other events when that shareholder has interest contrary to the interest of the company (clause on the conflict of interest).
- 1.24. Minutes of the general shareholder meeting will be kept, compulsorily containing: location and date of the general shareholder meeting, statement on the manner and date on which the convening notice for the GSM was issued, proposed and approved agenda, name and surname of the GSM's secretary, names and surnames of members of the verification committee, list of shareholders who attended the general shareholder meeting with the number of shares / votes they hold, brief contents of the discussion, voting results as per each item of the agenda ("for", "against")

and “abstained”), GSM Chairperson’s statement on passing resolutions and distinct opinions of individual shareholders.

- 1.25. Minutes of the general shareholder meeting are signed by the Chairperson of the GSM and by the Secretary of the GSM (i.e. individual keeping the minutes), latest within 7 days after the date of the meeting.
- 1.26. Shareholders and other individuals holding legal interest are entitled to review the Minutes of meeting, in the manners determined by the Rules of Procedure established for general shareholder meetings.
- 1.27. Shareholder shall exercise his or her voting rights in person or by appointing a proxy. Personal voting entails attendance and participation in the general shareholder meeting or voting by mail.
- 1.28. In the event of shareholder’s desire to vote by absentee vote (in written), the management of the joint stock company is obliged to suitably enable such voting for the shareholder (by accepting the delivery of voting ballot by mail and by electronic absentee voting).
- 1.29. Shareholder may issue the power of attorney / proxy for representation.
- 1.30. Power of attorney / proxy may be granted to the corporately eligible and mature physical or legal entity.
- 1.31. Power of attorney / proxy is issued in written form, and may be verified by relevant legal body or by authorized individual in the company.
- 1.32. One copy of the Power of attorney / proxy is compulsorily submitted to the company.
- 1.33. Power of attorney / proxy may be granted for one or several general shareholder meetings, for the limited period of time or until revoked.
- 1.34. Power of attorney / proxy for representation in the general shareholder meeting should in particular contain following data: particulars on shareholder and his/her agent (full name and surname, personal identification number and place of residence), data on number, type and class of shares for which the proxy is issued, limitations of authorization, and duration of the proxy. Power of attorney / proxy may also contain instructions for voting.
- 1.35. Association of Shareholders may represent its member at the general shareholder meeting provided they signed written contract by which shareholder is transferring his/her exercise of all or particular voting rights deriving from his/her shares, or on the basis of appropriate notarized Power of attorney/proxy.

- 1.36. Agents/proxy holders representing shareholders shall inform shareholders about their proposals regarding exercise of voting right as per each individual item on the agenda. Should shareholders fail to give the instructions regarding exercise of voting rights to their agents, agent shall exercise voting rights taking into account best interests of shareholders.
- 1.37. In the event of voting rights being exercised through agent/proxy holder, such agent/proxy holder may not be company's director, member of managing or supervisory board or board of directors, whereas in the event of absentee voting in written form, shareholder authorizes the Chairperson of the general shareholder meeting to act on his/her behalf and to read shareholder's decision for each item of the agenda.
- 1.38. Company should provide for the opportunity to verify whether or not the agent/proxy holder voted as per each item of the agenda in compliance with contents of the power of attorney/proxy by which shareholder authorized the agent to vote.

Standard 2 – Right to obtain relevant information on joint stock company on a timely and regular basis

- 2.1. Shareholders need to be informed of rules and procedures for voting in general shareholder meetings. Company should ensure compliance with this principle by making the Statute and Rules of Procedure governing general shareholder meeting freely available to each shareholder or these documents should be handed over or delivered upon shareholder's request.
- 2.2. Shareholders need to be furnished with sufficient information concerning all agenda's items to be voted about at the meeting. In the sense of this recommendation, sufficient information would entail: accuracy, comprehensiveness, timeliness and undemanding availability of information on basis of which shareholders should form their views.
- 2.3. In the event that non-voting or limited voting shares have been issued, joint stock companies should publicly disclose such information.
- 2.4. Shareholders should have opportunity to review in advance all proposed draft resolutions on acceptance of extraordinary business activities that would significantly change the status of company's property or liabilities. In that sense, particularly disclosed are information on: sales of company's property, status changes, planned capitalization and reductions in general equity capital, changes in product ranges, and information on changes in the management structure.

- 2.5. Company's financial report with auditor's statement should be made available to all shareholders prior to the ordinary general shareholder meeting.
- 2.6. Company should ensure consistent disclosure of all information on conflict of interest concerning all individuals nominated for election in company's managing or supervisory board or individuals participating in business transactions with the company, particularly if such conflict of interest is related to resolutions on which shareholders should vote.
- 2.7. Data on company's ownership structure should be public and daily available to shareholders and potential investors.
- 2.8. Following the general shareholder meeting, managing board should, as soon as possible, publish resolutions adopted at the meeting, in the manner defined by the company's Statute.

Standard 3 – Right to share in profits of the joint stock company

- 3.1. Shareholder is entitled to share in company's undistributed profit allocated for distribution by the general shareholder meeting, whether in shares or in currency, in proportion to face value of shares.
- 3.2. General shareholder meeting's resolution on distribution of undistributed profits for dividends must compulsorily contain: list of shareholders who are entitled to receive dividends (dated), method for payment of dividends, amount of dividends in relation to face value of shares and deadline for dividend payment (in case that payment is made in cash).
- 3.3. When resolution is adopted to pay out dividends in cash, general shareholder meeting should establish and publicly disclose clear procedures and deadlines for effective payment to shareholders. Deadline should be reasonably short – not longer than 30 days, and same procedure is applied to everyone.

Standard 4 – Right to convey or transfer shares

- 4.1. All transactions in capital markets should occur under fair and transparent conditions that protect the rights of all shareholders.
- 4.2. Right to dispose with shares that are methodically traded on the stock exchange may not be limited, with the exception of cases determined by the law.

Standard 5 – Right to secure and fast methods of ownership registration

- 5.1. Each shareholder must be furnished with right to secure and fast method for registration of ownership in the joint stock company, latest within three days after the change in the ownership occurs.
- 5.2. Company is liable to undertake all necessary activities required for fast and secure registration of ownership deriving from the issue of securities.

Standard 6 – Shareholders' right to elect and be elected members of managing board

- 6.1. Each shareholder is entitled to be elected for the managing board as well as to elect members of the managing board.
- 6.2. Individuals convicted of criminal acts against economy and official functions for which legal consequences of conviction have come into effect, may not be members of the management or supervisory board, as long as these consequences are in effect.
- 6.3. Process of electing the board must be formal and public.
- 6.4. Statute of the company should provide for shareholders holding minority proportion in the company's capital to have its member of the managing board.

Standard 7 – Right to share in the bankruptcy estate

- 7.1. In the procedure of company's bankruptcy/liquidation, shareholders are entitled to share in the bankruptcy estate as determined in the bankruptcy procedure, in proportion to share in company's equity capital.

II THE EQUITABLE TREATMENT OF SHAREHOLDERS

Standard 8 – The equitable treatment of shareholders

- 8.1. Companies should ensure equitable treatment of all shareholders.
- 8.2. Shareholders with shares of the same type and class, of equal face value are equal in their rights.

- 8.3. Any changes in voting rights are subject to voting in the general shareholder meeting.
- 8.4. In the event of new issues of shares, existing shareholders should be granted pre-emptive rights.
- 8.5. Prior to purchasing shares from the new issue, investors should be beforehand informed about all rights, in compliance with the prospectus that is compulsorily prepared by the company.
- 8.6. Trading in shares that is based on internal information and activities with aim of misusing the official function is forbidden.
- 8.7. Shareholders should be simultaneously notified about all effects deriving from business transactions or issues having influence on company's activities and operations.
- 8.8. Exchange of shares in the course of company's status changes must be performed in the manner that is not jeopardizing shareholders' rights, whereas those rights could not be defined outside determined exchange-relation of shares held by legal predecessors and legal successors.

III THE ROLE OF STAKEHOLDERS – INTERESTS IN COMPANY MANAGEMENT

Standard 9 – The role of stakeholders in company management

- 9.1. Companies should ensure respect and utilization of legally established rights of all companies' stakeholders.
- 9.2. Companies should ensure active cooperation with all stakeholders, with the aim of creating well-being and new jobs, and maintenance of company's financial stability.
- 9.3. Company is entitled to receive a damage reimbursement, should stakeholders on any ground inflict the damage to company's functioning.
- 9.4. Joint stock companies, exclusive of financial organizations, may not participate in legal activities that entail granting of advance payment, credit or loan, i.e. ensuring advance payment, credit or loan by the joint stock company for the purpose of acquiring company's shares.
- 9.5. In dealings with other company's stakeholders, company should execute its responsibilities precisely and reasonably, which will ensure long-term prosperity of the company and its shareholders.

- 9.6. When adopting resolutions on certain issues, company should take into consideration interests of all stakeholders, in particular those of its employees.

IV DISCLOSURE AND TRANSPARENCY OF INFORMATION

Standard 10 – Disclosure and transparency of information

- 10.1. Company should ensure timely disclosure and transparency of information on all material issues concerning the company, including its financial situation, corporate operations, ownership and management.
- 10.2. Public disclosure of company's financial statements and other information should enable assessment of issuer's value from the aspect of legal status, financial position, business opportunities and rights attached to securities. Reports must contain comprehensible comments and business analysis prepared by the company's management.
- 10.3. Information on material issues is such information possession of which may have influence on making business decision by its holder.
- 10.4. Company should also ensure disclosure of information on non-material issues, such as: development plans and their influence on economic and social status of employees, progress and fluctuations in profits, occupational protection and safety with measures for improvement of working conditions, company's goals and objectives, major owners, members of managing and supervisory boards and their reimbursements, reasons for possible resignation or cancellation of contract, information on auditor, distribution of profits, changes in company's status, changes in the company's form and incorporation, company's management policy, transactions of related parties, foreseeable material risk factors and mechanisms for risk management (unless in domain of business secret), material issues concerning employees and other company's stakeholders, management structure and policy, rights granted to the management to buy company's shares at prices more favorable than market prices (as variable components of payment for their work), published take-over bid, changes in company share portfolios belonging to individual members of managing and supervisory board.
- 10.5. Financial information must be disclosed on the basis of report prepared by authorized auditor, latest within 15 days after the date of their approval by the general shareholder meeting.

- 10.6. In the event of various public rumors concerning company's business operations, company is required to issue a public announcement/statement confirming or denying such rumors.
- 10.7. Jurisdictions of company's distinct bodies concerning collection, analysis, preparation and disclosure of relevant information should be clearly defined.
- 10.8. All relevant information on significant events, major transactions and relevant material information concerning company's business operations should be fully and timely disclosed, so as to be available to all shareholders.
- 10.9. Subject to specifically detailed disclosure of information are all transactions with related parties, in particular those with related legal entities, in form of consolidated financial reports that are prepared in accordance with accounting standards.
- 10.10. Disclosure includes changes in the ownership structure, particularly in cases when acquirer gains over 10, 25, 50 and 75 %.
- 10.11. Disclosure also includes the list of enterprises in which company holds ownership share over 10%, with statement of enterprises' names and seats, as well as ownership percentage.
- 10.12. Shareholders must be informed of details concerning transactions entered into by members of managing and supervisory boards, directly or indirectly with the company or company's organizational part.
- 10.13. Various links and arrangements that enable particular shareholders to obtain the extent of control disproportionate to their share capital should be disclosed.
- 10.14. Information that are disclosed in cases of public offering of company's share must be such to enable investors to attain fair assessment of the legal status, financial position, business opportunities and share prices.
- 10.15. Company and company's employees are responsible to create and respect procedures for safeguarding information that are significant for preservation of market position from the competition.
- 10.16. Information should be prepared and disclosed in accordance with accounting standards and standards governing disclosure of financial and other information.
- 10.17. Methods of information disclosure should provide shareholders with fair, timely and favorable (low-price) access to relevant information.

- 10.18. For disclosure of above-mentioned information, company should use media (daily newspapers, electronic media, WEB-site) that facilitate provision of equitable conditions for investors trading in securities. Selection of particular media must be approved by relevant resolution, which is listed in general enactment of the company.
- 10.19. Company should not issue information to third parties, if information contain any of information from public announcements prior to their public disclosure, excluding individuals authorized by the Government and individuals acting as company's advisors, with the emphasis on their obligation not to breach the principle of confidentiality of information.
- 10.20. Company disclosing any type of information abroad is obliged to disclose such information in domestic market as well.
- 10.21. In its annual financial reports, company should include the statement on compliance with principles and standards of corporate governance, explaining in details compliance with principles and standards, as well as explain and list all reasons for possible deviations from principles and standards of corporate governance.

V THE ROLE AND RESPONSIBILITIES OF THE BOARD

Standard 11 – The Role and Responsibilities of the Board

- 11.1. Members of the management and supervisory board act in the best interest of the joint stock company, with due diligence and care, and fully respecting the requirement of data confidentiality.
- 11.2. Boards should ensure appropriate systems for control, risk monitoring, financial control and law enforcement.
- 11.3. Duties, jurisdictions and authorizations of different board and management levels should be clearly defined and separated.
- 11.4. Boards should ensure the integrity of financial accounting system and company's reporting based on statement prepared by independent auditor.
- 11.5. Boards should oversee the process of disclosure of company's information, as well as communication with company's related parties.
- 11.6. Boards should ensure the control of potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and related party transactions.

- 11.7. Managing and supervisory board closely cooperate in order to maximize company's performance.
- 11.8. During and after the mandate, all members of the supervisory board should respect the principle of corporate information confidentiality. Managing board must ensure that company's employees also respect this principle. Managing board should adopt confidentiality rules and methods for protection of such information, as well as sanctions for breach of these rules.
- 11.9. All company's board members are responsible for damage they cause to the company and shareholders, in accordance with legal regulations.
- 11.10. Competent authority or related party may initiate proceedings before the competent court against board members who made decision harmful for the company, creditors or owners.
- 11.11. Information on remunerations and economic benefits of any type, which can be attained by members of the supervisory board, employees or managers on the basis of their function and activities, must be in their entirety submitted to the supervisory board; in cases concerning members of the supervisory board, information are to be submitted to the management and shareholders. Information on additional incomes deriving from position in the company, even if not paid by the company, should also be submitted to the appropriate bodies in the company.

Management of the Company

- 11.12. Company's management is responsible for independent running of the company and should ensure enforcement of all laws and regulations, as well as take into account all interests of company's related parties, in accordance with business risk to which the company is exposed.
- 11.13. Managing board should protect shareholders' rights, ensuring compliance with all contracts, laws and by-laws, as well as standards of corporate governance.
- 11.14. In adoption of resolutions, members of the management must not favor personal interests before the interests of the company, nor in its decisions may personally use business opportunities that are intended for the company.
- 11.15. In performance of their duties, members of the managing board must not demand or accept from third parties any payments, or some other type of benefits, neither for themselves nor for another party, nor can they give to third parties illegal preferences on the basis of which those parties may gain profit.

- 11.16. Members of the managing and supervisory board may engage in additional activities in domain of managing and supervisory boards in other companies, only upon approval issued by the company's supervisory board.
- 11.17. Each member of the managing board is obliged to report to the company's supervisory board on any change in his or her corporate share portfolio, latest within 24 hours after the transaction date. Company must publicly disclose this information.
- 11.18. Chairperson of the managing board informs without any delay the chairperson of the supervisory board on issues and facts significant for assessment of company's business situation, as well as for possible consequences that may have influence on corporate governance.
- 11.19. Management prepares company's business strategy, coordinates its creation with supervisory board, and ensures its enforcement.
- 11.20. Company's management should establish appropriate systems for internal control and risk management.
- 11.21. In addition to regular submission of annual financial reports, consolidated financial reports and auditor's reports, management should, within reasonable period of time, provide the supervisory board with regular, timely, reliable and detailed information on events that may have significant influence on company's future corporate operations and/or financial situation. In case that such information is incomplete, members of supervisory board may request additional information.
- 11.22. Management must not sanction or threaten to sack employee who is also a shareholder, as a consequence of his or her actions in exercising shareholder's rights.

Supervisory Board

- 11.23. Supervisory board controls whether company is operating in compliance with the law and other regulations, quality and business customs and moral.
- 11.24. Supervisory board should, objectively and independently from the management, control company's business operations.
- 11.25. In order to fulfill their responsibilities, members of the supervisory board must have access to accurate and timely information.

- 11.26. Supervisory board should be composed of members who adequately understand operations of the company, who possess necessary abilities, skills, knowledge and competences required for carrying out their duties.
- 11.27. Chairperson of supervisory board should coordinate activities of the board, and encourage other board members to be active and efficient in their performance. In case that any of board members is absent from board meetings or is inactive, such information should be disclosed at the general shareholder meeting.
- 11.28. Chairperson of supervisory board should ensure that all board members are in advance appropriately informed of all issues to be discussed at the supervisory board session.
- 11.29. Members of supervisory board must not in their decisions put personal interests before interests of the company, nor may their decisions enable them to take advantage of business opportunities that were intended for company.
- 11.30. Members of supervisory board must not secretly act on the basis of their position in the company in order to attain personal benefits.
- 11.31. Supervisory board must not tolerate any unjustified use of company's property or misuse of authorizations, including issue or buy-out of company's securities at inadequate prices.
- 11.32. Competences of supervisory board should include:
- a) participation in creation and evaluation of company's business strategy and business plans, annual budget, as well as definition of general policy for risk management;
 - b) monitoring implementation of plans and corporate performance, as well as pointing out deviations from planned values;
 - c) approval and monitoring of major capital expenditures, acquisitions and divestitures;
 - d) ensuring compliance with formal and transparent procedure in board nomination and election process;
 - e) monitoring and managing appropriate activities in events of potential conflict of interests involving members of management, members of other boards/committees and shareholders, as well as monitoring of any misuse of corporate assets and abuse in related party transactions;
 - f) ensuring integrity of the company's accounting system and financial reporting system, including external, independent audit and that appropriate systems of control are in place, in particular,

- systems for risk management, financial and operational control, as well as enforcement and compliance with relevant standards;
- g) overseeing the process of disclosure and distribution of financial and non-financial information on company's operations;
 - h) exercising objective judgment before general shareholder meeting on take-over bids, to enable shareholders to form a resolution on such bids;
 - i) approval of loans by the company to members of managing and supervisory board or their related parties.
- 11.33. Supervisory board should define and adopt company's internal principles and standards of corporate governance, including principles of exemptions, disclosure of conflict of interest, and transparency of information on remunerations, and should apply them on the basis of its own procedures.
- 11.34. Each member of supervisory board must ensure and dedicate sufficient time to duties and activities in the supervisory board.
- 11.35. If any of the members of supervisory board participated in less than half of board's sessions in the course of year, such information must be disclosed in supervisory board's activity report.
- 11.36. Chairperson of the supervisory board coordinates all board's activities and chairs at its sessions.
- 11.37. Chairperson of the supervisory board keeps regular contacts with the management and consults the management on issues concerning corporate strategy, business development and risk management in the company.
- 11.38. Supervisory board convenes regularly, at least once in two months. All resolutions of the supervisory board are approved at its meetings.
- 11.39. All members of the supervisory board are invited to the meetings of the supervisory board in the same manner, which ensures simultaneousness, equal level of information and equal access to all relevant information for all members of the supervisory board. In case of large number of supervisory board's members or their geographic dispersion, supervisory board may hold its meetings with possibility of voting by use of modern technology.
- 11.40. Meetings of the supervisory board should be held without attendance of members of managing board.
- 11.41. Supervisory board must submit its activity report, and accurately and comprehensively report to the general shareholder meeting on its progress, at least once per annum. Report contains detailed information on overall activities of the supervisory board and the company,

description and evaluation of cooperation with managing board and auditor, as well as views and assessment prepared by the auditor.

- 11.42. Supervisory board's annual report specifies in details successful accomplishments of the management and company's operations in compliance with these standards, supervisory board's cooperation with management and external auditor, and supervisory board's opinion regarding audit report. Supervisory board must prepare and submit to company's shareholders company's annual report and its detailed analysis, whether approving or commenting it.
- 11.43. Each member of the supervisory board is obliged to report to the company on changes in ownership of company's share, not later than 24 hours after the transaction's date. Company must publicly disclose this information.
- 11.44. Supervisory board should establish separate committees that are competent to conduct qualified, expert, independent and professional analyses of concrete problems, hence increasing the efficiency of its own operations.
- 11.45. Continuous contact should be established between managing and supervisory board, providing exceptionally important confidentiality principle in exchange of information between two boards.

Conflict of Interest

- 11.46. Member of the company's management, supervisory board and board of executives, and procurator may sign with that company a contract on credit, warranty, guarantee, bill of exchange and pledge, as well as on other legal activity determined by company's Articles of Incorporation or Statute, upon approval by other members of managing and supervisory board. Such approval is also required for legal activity entered into by other parties, in which there is an interest of party involved. Interested party cannot vote in managing or supervisory board while ruling on approval. Approval and information on legal activity are reported to shareholders at first general meeting. Articles of Incorporation or Statute may envisage that granting of approval is not required for dealings carried out under ordinary circumstances.
- 11.47. Member of supervisory board has conflict of interest, in following cases:
 - a) If person had or still has major business associations with the company or other companies in the same industry/branch;
 - b) If person is a member of management in other company or group of companies;

- c) If member of management is his or her spouse or a direct relative to the third degree of relationship or a collateral relative to the second degree of relationship;
 - d) If person is a major shareholder or shareholder with ownership making him/her a qualified company's shareholder;
 - e) If person has business, financial or close family relations with any of major shareholders or a shareholder with the role making him/her a qualified company's shareholder;
 - f) If person is an important supplier/buyer of goods and services (including consultancy and audit services);
 - g) If, in any other way, person is connected to the above-mentioned groups and categories of persons, in the manner influencing his/her independent and impartial judgment.
- 11.48. All members of management, as well as members of the supervisory board should report occurrence of conflict of interest to the supervisory board.
- 11.49. Management and supervisory board are obliged to ensure that individual in conflict of interest with the company shall not judge on particular issues or shall not deal with that issue on behalf of the company.
- 11.50. If person encounters any conflict of interest in the course of its activities, he or she must inform the competent authority which is not in such conflict, in accordance with clearly determined procedures and deadlines as defined by the general enactment of the company.
- 11.51. Members of the supervisory board should not judge on or deal with any issue on behalf of the company if conflicting interest related to that issue exists between the individual and the company. Issue in question will instead be dealt with by senior body or equal member without conflict of interest. In event where that is not practically possible, senior body without conflict of interest must be fully informed of the nature and details concerning conflict of interest.
- 11.52. Each judgment made by person with conflict of interest should be assessed by strictest standards of fairness and impartiality.
- 11.53. If member of supervisory board has material conflict of interest, or conflict of interest that is not of temporary nature, his or her mandate in the board should be revoked.
- 11.54. Due to potential conflict of interest, following individuals may not be elected for the supervisory board: members of the managing board, direc-

tor, procurators and other company employees, as well as their relatives to the third degree of relationship.

- 11.55. Company's employees must not abuse acquired knowledge related to corporate activities of the company, nor use it against interests of company's shareholders and business standing. Contents of such knowledge must be precisely determined by resolution approved by the company's management.
- 11.56. Member of the supervisory board, employee or member of company's management must not receive money, gifts or other offerings, personally or for any third party, nor can offer to third party any illegal benefits.
- 11.57. Majority of supervisory board members should be independent from management, and should be free of any business or other relations that may significantly influence their objective and professional judgment, including the requirement that former members of the managing boards may not be elected to supervisory boards.
- 11.58. Supervisory board should conduct regular assessment of impartiality for its members, and require from each member to submit relevant information necessary for assessment of his or her impartiality.
- 11.59. Criteria for determining impartiality of supervisory board members are:
 - a) he or she is not a shareholder of the company, nor is in any other way related to major or qualified shareholder of the company;
 - b) in last three years, he or she was not a member of the company's management;
 - c) he or she is not receiving any financial reimbursement from the company, apart from the remuneration for the membership in the supervisory board;
 - d) in the course of last three years, he or she was not a principal advisor, consultant or leader of any legal entity that is hired as company's consultant;
 - e) he or she is not company's significant supplier or client, employee, nor member in managing body of such supplier or client or any other company from the same industry/branch;
 - f) has no other, materially significant contractual relations with the company;
 - g) has none whatsoever interest or corporate and other relations that could be considered as having significant influence on his/her ability to act in the best interest of the company.

- 11.60. In assessment of supervisory board members' impartiality, following factors should be taken into consideration: his/her family relations, memberships in other managing bodies of the same company, relations with other individuals who are not considered to be impartial, as well as other links, interests and circumstances that could influence impartiality of the individual.
- 11.61. Companies should ensure compliance with the principle according to which members of the management and supervisory board may not act in that capacity, nor be employee or procurator in any other company, i.e. other legal entity with the same or similar scope of work that could be competitive, nor can they be entrepreneurs conducting same type of activity.
- 11.62. Persons acting in capacities of director, members of managing board, members of board of executives or members of supervisory board in other legal entities (which conduct activities different to the activities of company) are obliged to report that fact to the company.
- 11.63. Persons acting in capacities of director, members of managing board, members of board of executives or members of supervisory board, who are also shareholders of other legal entities, are obliged to report that fact to the company.
- 11.64. Due to potential conflict of interest, one person cannot be a director of two separate but related legal entities. Also, in related enterprises, director of proprietary company cannot be a chairperson of the managing board in subsidiary company, and director of subsidiary company cannot be a chairperson of the managing board in proprietary company.
- 11.65. While acting in their capacity, members of the management cannot request or accept from the third party any payment or other personal benefits or benefits for another individuals, neither can they offer to a third party any illegal advantages.
- 11.66. In its report, supervisory board informs the general shareholder meeting of situations of conflict of interest, and of its activities and dealings related to these situations.

Remuneration for management and supervisory board

- 11.67. Setting of remuneration for members of management and supervisory board should be based on clear and publicly disclosed principles and procedures, while remuneration might not only be fixed, but can entail

various types of inducements in form of performance-based awards, that are separately disclosed in financial reports.

- 11.68. In setting of the remuneration amounts, following factors should be taken into consideration: company's business performance, its financial results, scope of competences of each board member and their functions, and the level of board remuneration in comparable companies operating in the market.
- 11.69. All types and amounts of remuneration or other economic benefits awarded by the company to its board members should be disclosed to competent bodies that elected those individuals.

Audit board (if existing in the organizational structure of the company)

- 11.70. Audit board is dealing with: issues of accounting and risk management, impartiality and objectivity of external auditor and external audit team members, defining a mandate of external auditor, directing external auditor to definition of key points, and definition of audit remuneration.
- 11.71. Supervisory board appoints the audit board, which is composed of individuals without conflict of interest and fulfilling criteria of impartiality.
- 11.72. Members of the audit board should have appropriate expert and moral characteristics which ensure impartiality in work, such as: independence from managing board, ability of objective judgment, comprehensive understanding of purpose and responsibilities of audit board, availability of sufficient time to be dedicated to board duties, broad professional knowledge, acquaintance with company's activities, sufficient knowledge in the field of finance, accounting and audit standards.
- 11.73. Chairperson of the audit board should be an individual of appropriate expertise and experience in accounting, finance and audit activities.
- 11.74. Authorizations, duties and jurisdictions of the audit board should be clearly defined, with written task descriptions.
- 11.75. Chairperson of the audit board should not be an individual who was a member of the managing board in last five years.
- 11.76. Audit board should meet in regular intervals, at least twice a year, and should report on its activities to the supervisory board.

- 11.77. Audit board should monitor and analyze the extent and results of the audit conducted in the company, and should give relevant proposals to the general shareholder meeting.
- 11.78. Audit board cooperates with appointed external auditor of the company and ensures continuous and efficient exchange of views and information required for board's functioning.
- 11.79. Audit board should report to the supervisory board on issues concerning selection of accounting policies.

Audit and internal control system

External auditor

- 11.80. Audit should be conducted in compliance with professional and ethical principles and standards that are in use in Republic of Srpska.
- 11.81. Nominations for election of independent external auditor are given by the supervisory board.
- 11.82. External auditor cannot be from the firm that is already providing consultancy services for the company or in case where more than 30% of the audit firm's income is realized in dealings with that company, except in its first year of operation.
- 11.83. Prior to the appointment of external auditor in the general shareholder meeting, shareholders should be informed whether audit firm had earlier been engaged in audit activities. Firm should not appoint the same auditor for the period longer than five years.
- 11.84. Shareholders should be informed if there are any circumstances or facts that may cause conflicts of interest.
- 11.85. Appointed external auditor should attend general shareholder meeting, when approval of financial report is under consideration.

Internal control

- 11.86. In order to establish mechanisms for protection of shareholders' rights and company's assets, management should institute and ensure functioning of adequate and efficient internal control system.
- 11.87. Individuals responsible for internal control are directly accountable to the management of the company and must be independent and impartial in their work.

11.88. Main task of officers responsible in this field is to call attention to risks that might have possible influence on business performances and successful fulfillment of corporate plans. Their functions include inspection of procedures established for efficient corporate activities, as well as detection and reduction of financial and other risks with prevention of illegal behavior, aiming for facilitation of optimal corporate activities of the company and successful risk management.

Relations with other stakeholders

- 11.89. It is required to encourage active cooperation between the company and other stakeholders of the company, in order to create well-being, new jobs, and sustainability of financially healthy companies.
- 11.90. In dealings with other company's stakeholders (employees, creditors, clients, suppliers), company exercises its rights according to fair principles of market economy and fulfils its responsibilities conscientiously, ensuring long-term prosperity of the company and its shareholders.
- 11.91. If other stakeholders participate in managerial processes, they should have regular and timely access to relevant, precise and reliable information.
- 11.92. Other stakeholders, including individual employees and their representative bodies, should have opportunity to freely express their views to the supervisory board and management, without fear of their rights being jeopardized.

VI CLOSING PROVISIONS

Standards of corporate governance in joint stock companies shall come into effect on the eighth day after their publishing in the RS Official Gazette.

Companies with shares quoted on the stock exchange are obliged to apply these Standards. It is recommended that other joint stock companies accept these standards and incorporate them in their general enactment.

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Date: 29th of December 2005

President of the RS Securities Commission
Miodrag Jandric, *economist*