

Pursuant to the provisions of Article 258 of the Companies Act (hereinafter ZGD) the Supervisory Board of Krka, tovarna zdravil, d. d., Novo adopted at its 29<sup>th</sup> regular meeting held on 7 April 2010 the following

## RULES OF PROCEDURE OF THE SUPERVISORY BOARD

### 1. General provision

#### Article 1

The issues involved in the operations of the Supervisory Board shall be regulated by these Rules of Procedure in accordance with the ZGD, the Corporate Governance Code and the company's Articles of Association.

### 2. Composition of the Supervisory Board

#### Article 2

The Supervisory Board of Krka, d. d., Novo has nine members. One-third of members are worker representatives. The term of office of the Supervisory Board members is five years. By adopting a resolution on electing the Supervisory Board members or by informing the Supervisory Board about the decision of the workers' council on electing worker representatives into the Supervisory Board, the General Meeting sets the starting dates of the Supervisory Board's term of office. The Supervisory Board members may be re-elected after expiry of their term of office.

#### Article 3

A Supervisory Board member may not be:

- a member of another management or supervisory body of the company,
- a member of the Management Board of a subsidiary of the company,
- a proxy or an authorised representative of the company,
- a member of the Management Board of another company with share capital whose Supervisory Board includes a Management Board member of the company,
- a person who was found guilty, with a judgement in full force, of a criminal offence committed against the economy, against employment relations and social security, against legal transactions, against property, against the environment, space and natural resources. This person shall not be eligible for Supervisory Board membership for five years after the final court verdict, and not before two years have elapsed after he/she has served a prison term,
- a person whom a precautionary measure of the professional practice prohibition has been pronounced, who shall not be eligible during the validity of the measure,
- a person who was, as a member of the company's management or supervisory body, against which a bankruptcy procedure was instituted, finally convicted to pay damages to creditors in accordance with the provisions of the Financial Operations of Companies Act related to damage liability; namely for two years after the final judgement,

- a person who is already a Supervisory Board member in three companies.

A Supervisory Board member should not be employed in any other company or be an entrepreneur performing any activity that might represent competition to the company's activity.

### **3. Appointment and discharge of the Supervisory Board members representing the shareholders**

#### Article 4

The Supervisory Board members who represent the shareholders' interests are elected by the company's General Meeting.

New Supervisory Board members must enclose to the application for register entry a written statement that there are no circumstances that would be against their nomination according to the valid ZGD.

The General Meeting may discharge the elected Supervisory Board members before the expiry of their term of office. The decision on the discharge shall be valid if voted for by at least a three-quarters majority of the votes cast.

If the Supervisory Board has no quorum the Management Board has to send a petition to the Court for appointing the lacking number of members of the Supervisory Board. This petition should be sent immediately upon establishing that the quorum does not exist.

If valid reasons exist, the Court may discharge a Supervisory Board member upon petition by the Supervisory Board or shareholders whose shares account for at least 10% of the share capital.

### **4. Appointment and discharge of the Supervisory Board members representing the employees**

#### Article 5

There are three employee representatives in the Supervisory Board, elected and discharged by the workers' council. The company's General Meeting should be informed accordingly.

The criteria for election, manner of election and discharge of the Supervisory Board members, employee representatives, are defined in the Rules of Procedure of the workers' council.

If the workers' council appoints a Supervisory Board member from among the expanded management team, this shall be publicly announced by the company.

If the company does not find any adequate candidates from among its employees to act as Supervisory Board members, the workers' council may nominate independent candidates from outside the company.

## **5. Nullity of election and/or appointment of the Supervisory Board members**

### Article 6

The elections and/or appointment of the Supervisory Board members shall be null and void:

- if the composition of the Supervisory Board is in violation of the law or the Articles of Association,
- if the General Meeting elects a person whose nomination was not in conformity with law or the Articles of Association,
- if more members were elected than regulated by law or the Articles of Association.

## **6. President of the Supervisory Board**

### Article 7

At their first meeting the Supervisory Board members elect from among the members – shareholders’ representatives, the President of the Supervisory Board. The Deputy President is also elected at the same time.

The President of the Supervisory Board and the Deputy President are elected for the entire term of office of the Supervisory Board, unless the Supervisory Board adopts a different decision.

It is recommended that the persons who were, in the last year, members of the Management Board of the company or members of the Management Board of associated companies are not appointed as President of the Supervisory Board.

Deputy President has the powers of the President of the Supervisory Board if the President is temporarily absent.

### Article 8

The President of the Supervisory Board shall convene and conduct the meetings and represent the company in relation to the Management Board.

### Article 9

The name of the President and Deputy President of the Supervisory Board is registered in the competent Court.

The petition for registration in the Court is filed by the Management Board.

### Article 10

If the President of the Supervisory Board ceases to be a member in the Supervisory Board, a new president has to be elected immediately by the Supervisory Board.

## **7. Obligations of Supervisory Board members**

### Article 11

The Supervisory Board members shall carry out their duties effectively, and should be encouraged to do so by the President of the Supervisory Board.

A Supervisory Board member should strive for independent analysis, decision-making and actions under all circumstances.

A Supervisory Board member should act, throughout the duration of his/her term of office, according to the highest standards of integrity and competence.

In performing his/her duties a Supervisory Board member should not depend on the opinions or instructions of those who elected him/her, nominated or appointed him/her; he/she should assume full personal responsibility for performing his/her function. All Supervisory Board members should have equal rights and duties independently of the body that elected, nominated or appointed them.

## **8. Informing the Management Board and the public on Supervisory Board resolutions**

### Article 12

The President of the Supervisory Board and, in his/her absence the Deputy President, informs the Management Board, other bodies and the public on the decisions taken by the Supervisory Board.

## **9. Competencies of the Supervisory Board**

### Article 13

The Supervisory Board has the following competencies:

- supervises the activities of the Management Board,
- appoints and discharges the Management Board,
- proposes to the General Meeting the appointment of an auditor,
- proposes to the General Meeting the appointment of the Supervisory Board members,
- may convene the General Meeting,
- approves potential pay-out of interim dividends,
- proposes to the General Meeting, together with the Management Board, the appropriation of the accumulated profit,
- decides about amendment of the Articles of Association if so authorised by the General Meeting and if the amendment refers only to harmonisation of its contents with valid decisions made,
- gives consent for the issue of new shares,
- gives consent for the issue of shares for tangible property contributions,
- accepts and/or confirms the company's annual report and carries out other duties in conformity with law, related to the annual report,
- gives its opinion to the Management Board related to the formation of the company's business strategy,
- upon request of the Management Board, gives its opinion about the management of the

- company's business operations,
- decides about other questions under its competency according to the regulations, unless explicitly defined that the General Meeting is the relevant decision-making body for certain issues.

#### Article 14

To perform its supervisory function, the Supervisory Board may inspect and verify the company's books and documentation, its treasury, the deposited securities, inventories and other.

The Supervisory Board may request from the Management Board any information necessary for performing the supervision. The Management Board sends the required information to the Supervisory Board, as a supervisory body.

A Supervisory Board member may require that the Management Board sends to him/her the materials for the General Meeting, within 12 days from the General Meeting convocation notice, and informs him/her in writing of the adopted General Meeting resolutions after conclusion of the General Meeting.

#### Article 15

The management of business operations may not be transferred to the Supervisory Board.

### **10. Supervisory Board committees**

#### Article 16

To prepare draft proposals for resolutions and attend to their implementation, the Supervisory Board sets up two special committees, which improve the Supervisory Board's effectiveness and help solve more demanding tasks.

The Supervisory Board committees may not decide independently about the issues which fall under the competency of the Supervisory Board, however they may prepare draft proposals and materials for the Supervisory Board and offer advice to the Supervisory Board members.

The Supervisory Board of Krka, d. d., Novo mesto has set up two committees:

- Audit Committee and
- Human Resource Committee, including potential Nomination Committee as subcommittee.

The Audit committee is a permanent working body of the Supervisory Board and is composed of 5 (five) members; three of them shareholder representatives, and two employee representatives.

The Nominations and Remuneration Committee is a permanent three-member working body of the Supervisory Board. Two members of the committee are shareholder representatives, and one is employee representative.

The term of office of the committees is the same as the term of office of the Supervisory Board members.

The presidents of the committees are appointed by the Supervisory Board from its members. The president of the committee shall report to the Supervisory Board about the committee's activities.

Committee members appointed by the Supervisory Board may also be experts who are not members of the Supervisory Board of Krka, however its president and at least one committee member should be members of the Supervisory Board. The regulation of the conflict of interests, valid for members of the Supervisory Board will apply also for external committee members who are not Supervisory Board members. Remuneration for external members and for committee members who are also the Supervisory Board members, is identical.

While performing their function all committee members have to consider the company's goals exclusively.

The company should ensure that the committees have adequate funds and powers needed for the performance of their duties, including the access to all necessary information and the access to an independent expert opinion related to the issues under its competency.

As a rule, the President of the Management Board and the President of the Supervisory Board are invited to attend the meetings of the committees, except if the committee decides differently. Other Management Board members are invited, if necessary.

## **11. Competencies of the Supervisory Board in relation to the annual report**

### Article 17

The Supervisory Board shall verify the annual report and the proposal for the accumulated profit appropriation, submitted by the Management Board. Each member of the Supervisory Board and/or Audit committee has the right to review and verify the bases for the annual report, which the Management Board has to present upon his/her request, unless differently decided by the Supervisory Board.

The Supervisory Board has to draw up a written report for the General Meeting, on its observations of the relevant verification. This report should include the manner and the scope of verification related to the company's management during the financial year. If the auditor's report is enclosed to the annual report, the Supervisory Board has to take the position on it. At the end of the report it should be stated whether, after final verification of the annual report, the Supervisory Board had any remarks and whether the annual report would be confirmed. If the Supervisory Board confirms the annual report, it is deemed adopted.

The Supervisory Board has to submit its report to the Management Board within one month from presentation of the annual report; otherwise the Management Board has to immediately set an additional deadline, which may not exceed a period of one month. If after this additional period the Supervisory Board still does not submit the annual report, it is deemed unconfirmed.

## Article 18

The annual report is null and void:

- if the contents of the report is in opposition to the provisions of the ZGD, which are used exclusively or mostly to protect the company's creditors, or are otherwise in the public interest,
- if the report should have been audited, but the audit was not performed or was performed contrary to the manner and conditions defined by auditing regulations, or
- if after adoption of the annual report, the provisions of the ZGD or the Articles of Association on formation (increase) or release (decrease) of capital reserves and revenue reserves, were violated.

The annual report adopted by the Supervisory Board is null and void if during its adoption the Supervisory Board did not act in accordance with the previous Article of this Rules of Procedure.

## **12. Competencies of the Supervisory Board in relation to the company's Management Board**

### Article 19

The Supervisory Board appoints and may dismiss the Management Board members, whereby it endeavours to ensure continuity of their work, by carefully and timely selecting the successors to individual members of the Management Board. The Management Board should cooperate in this. The President of the Management Board should propose the successors to the Management Board and notify the Supervisory Board at least one year before the end of the term of office.

The Supervisory Board may delegate the responsibility for preparation of the proposal for the candidates for new Management Board to the Nominations and Remuneration Committee. In selecting the candidates special criteria, determined in advance, should be considered and the candidates should meet these criteria. The President of the Management Board may, by authority conferred by the Supervisory Board, propose candidates for other members of the Management Board. The Supervisory Board may accept or completely reject his/her proposal.

### Article 20

The Supervisory Board may define with a resolution, besides legal also other additional requirements for the Management Board members.

It is recommended that the President of the Management Board not only complies with the conditions defined by law and by the Supervisory Board's resolution, but also has the management and organisational skills and enjoys the reputation of a successful businessman within broader business environment of the company.

### Article 21

The Supervisory Board defines the remuneration of the Management Board members such as payments, compensations and other benefits (salary, participation in profit), reimbursement

of expenses, insurance premiums, commissions, other additional fringe benefits, (e.g.. loans, use of company car, etc.)

Criteria and the manner of defining the remuneration for the Management Board members are defined in the Rules on Management Board Remuneration and Rules on determination of variable compensation.

The Supervisory Board evaluates once annually the activities performed by the Management Board, which has an impact on deciding on the bonus for the Management Board members.

If after determination of the remuneration, the company's business performance deteriorates, resulting in company's financial position deterioration and potential damages, the Supervisory Board may reduce the remuneration of the Management Board. The remuneration reduction will not have any effect on other provisions of the contract.

#### Article 22

The Management Board shall inform the Supervisory Board of allocation of the responsibilities and tasks among the Management Board members and the method of their cooperation.

#### Article 23

The Supervisory Board concludes a relevant contract with the Management Board members on behalf of the company. It should contain the specification of tasks and competencies of the Management Board members, the remuneration system and criteria of variable remuneration, duties of the Management Board members related with the loyalty to the company and severance pay in case of discharge for non-criminal reasons. The discharge of a Management Board member for other business reasons does not automatically imply in itself, according to the valid ZGD, a discharge for reasons due to a fault. Reasons for the discharge due to a fault should be explicitly listed in the contract signed with each member of the Management Board.

#### Article 24

A member of the Management Board should immediately disclose to the Supervisory Board the existence of any potential conflict of interest and inform other Management Board members accordingly.

#### Article 25

During the performance of his/her function a member of the Management Board should respect the prohibition on competition, which means he/she has to obtain the Supervisory Board's consent for any possible performance of additional profit-making activities in the same field of activities performed by the company or any business transactions for his/her own or someone else's account.

#### Article 26

A member of the Management Board may accept membership in supervisory boards of companies that are not associated with the company, when he/she informs the President of

the Supervisory Board of the company accordingly and obtains the Supervisory Board's consent.

### **13. Cooperation between the Management Board and the Supervisory Board**

#### *Article 27*

The Management Board and the Supervisory Board closely cooperate in the company's best interests. The Articles of Association and the Rules of Procedure of the Management Board and of the Supervisory Board should determine the division of responsibilities between the Management Board and the Supervisory Board and the method of their cooperation.

In adopting the company's key decisions, which could have a material impact on the company's business, financial or legal position, the Management Board and the Supervisory Board should endeavour to act by mutual agreement.

The Supervisory Board is being informed in writing or orally during the Supervisory Board meetings.

The President of the Supervisory Board should be in regular contacts with the President of the Management Board and consult with him/her about the company's strategy, business development and risk management. The President of the Management Board shall immediately notify the President of the Supervisory Board of significant events, which are of key importance for assessing the company's position and any consequences that could arise and affect the company's management. The President of the Supervisory Board should notify the Supervisory Board of significant events and, if necessary, convene an extraordinary meeting.

#### *Article 28*

The Management Board and the Supervisory Board are jointly responsible for providing timely and comprehensive information to the Supervisory Board. The Management Board shall regularly, timely and comprehensively inform the Supervisory Board of all significant issues referring to the company's business operations, its strategy, risk management, etc. The Management Board's reports shall be delivered to the Supervisory Board at least on quarterly basis. The Management Board is obliged to draw the Supervisory Board's attention to any deviations from projected targets. The Supervisory Board is entitled and obliged to demand from the Management Board additional explanations and reports on any ambiguities related to business operations of the company and its subsidiaries.

The Management Board shall report to the Supervisory Board, at least on quarterly basis, on:

- the planned business policy and other matters of principle concerning business operation,
- the profitability of the company and, in particular, the return on equity,
- the course of business and, in particular, the turnover and the financial position of the company, and
- transactions which might significantly influence the profitability or liquidity of the company.

The Management Board shall inform the Supervisory Board of any issues relating to the operations of the company and associated companies.

The Management Board shall report to the Supervisory Board of all important risk factors and risk management mechanisms. In particular, the Supervisory Board shall be informed of operational risks, regional risk, dependence on raw materials, of financial risks, off-balance sheet risks and strategy execution risks.

The Supervisory Board may also ask for reports on other issues.

The Supervisory Board may at any time request from the Management Board a report on matters relating to the company's business operations that exert, or may reasonably be expected to exert, a significant influence on the position of the company.

#### **14. Competencies of the Supervisory Board when proposing candidates for Supervisory Board members**

##### Article 29

Upon proposal of the Nominations and Remuneration Committee, the Supervisory Board forms proposals for new Supervisory Board members, on whose election the decision will be made by company's General Meeting. Before reaching the decision at the General Meeting, the Supervisory Board shall obtain the candidates' consent about their nomination.

##### Article 30

To ensure the Supervisory Board's independence and its effective supervision of the Management Board, at least half of Supervisory Board members should be independent. Independence of a Supervisory Board member means that there is no influence on his/her impartial, professional, objective, fair and comprehensive assessment in carrying out his/her duties or in his/her decision-making. A Supervisory Board member is deemed dependent if he/she has a business relationship with the company, is personally or in any other way closely connected with the company or its management board.

##### Article 31

In selecting the candidates for the Supervisory Board, the Nominations and Remuneration Committee and the Supervisory Board should consider the criteria, determined in advance:

- comprehensive business knowledge and appropriate expertise for effective performance of the function (whereby the company's specifics should be taken in account, such as the company's industry, international activities, etc.),
- potential conflict of interest,
- business ethics and personal integrity,
- sufficient time available,
- candidates do not perform management, supervisory, advisory or consultancy tasks for competing company and are not major shareholders or owners of competing companies active in the core business activity of the company,
- exclusion of potential conflicts of interests.

It is recommended that knowledge, experience and qualifications of individual members are well balanced.

At least one member of the Supervisory Board should be an expert in the field of finance or accounting, one in the field of economy and one in the field of management.

When selecting the candidates, the Nominations and Remuneration Committee and the Supervisory Board should pay regard to the limitations quoted in Article 3 of these Rules of Procedure.

The Nominations and Remuneration Committee should ask a candidate to present appropriate evidence demonstrating that he/she is qualified for being a Supervisory Board member.

If the Supervisory Board has formed permanent or temporary Nomination Committee, the Supervisory Board shall disclose in the General Meeting materials whether it has considered the Nomination Committee proposals when nominating the Supervisory Board member candidates.

#### Article 32

To ensure the continuity of work and facilitate the exchange of experience between the members of the Supervisory Board, it is recommendable that election or re-election of Supervisory Board members is not held simultaneously for all members, or that they are not elected for the same term of office.

A candidate with pre-existing conflict of interest, which could materially influence his /her decision-making and activities, should not be proposed for Supervisory Board membership.

#### Article 33

Prior to the General Meeting at which shareholders are to elect Supervisory Board members, the Supervisory Board should properly introduce the candidates to the shareholders and disclose any potential conflicts of interest.

### **15. Competencies of the Supervisory Board related to the nomination of auditor**

#### Article 34

The Supervisory Board shall propose an independent auditor, who will conduct the audit independently, impartially and in line with accepted auditing standards. The proposed auditor should not already be providing other advisory services to the company or auditing services rendered to the company should not represent 30 per cent or more of its total revenues.

Before appointing the auditor at the General Meeting, shareholders shall be informed of any other services relating to the auditing area that the auditor provides or has provided to the company. Shareholders shall also be made aware of any other fact that could cause a conflict of interest to the proposed auditor.

The company should change the auditing house or the auditor-partner at least after five successive years.

## **16. Convocation of the Supervisory Board meeting**

### Article 35

The Supervisory Board should meet regularly, at least on quarterly basis. All the decisions of the Supervisory Board should be adopted at these meetings.

A written invitation with the materials for the Supervisory Board meeting of the company shall be sent by the President of the Supervisory Board at company's costs, at least seven days before the meeting.

The President of the Supervisory Board coordinates the activities performed by the Supervisory Board and chairs the meetings.

If for objective reasons, the President of the Supervisory Board cannot convene or chair the Supervisory Board meeting, this function is performed by the Deputy President.

The President of the Supervisory Board calls the Supervisory Board meeting at his/her own initiative. Any member of the company's Supervisory Board or Management Board may ask the President to convene a meeting immediately, upon presentation of reasons and a purpose for the meeting. The meeting shall be held within two weeks from receiving the relevant request.

If the request from the previous paragraph of the Article has not been granted, at least two Supervisory Board members may convene the Supervisory Board themselves and propose an agenda.

The Supervisory Board can use information technology for distributing the materials and convening the meetings. All Supervisory Board members shall be invited to the meeting in the same manner. If it is deemed fit, due to the size of the Supervisory Board or geographical distance of the members' locations, it is recommended that the Supervisory Board uses information technology also for holding its meeting and voting on proposed resolutions. At least once a year the Supervisory Board members should attend a meeting in person.

The materials proposed or prepared by the Management Board, shall contain at the end, the proposed resolution, which the Management Board submits to the Supervisory Board for adoption.

## **17. Agenda of the Supervisory Board meetings**

### Article 36

The agenda of the Supervisory Board meeting is prepared by the President of the Supervisory Board on the basis of information about the position and the business performance of the company. The Management Board of the company shall submit information to the Supervisory Board as regulated by law, the Articles of Association and these Rules of Procedure.

Each member of the Supervisory Board and the Management Board may submit to the President of the Supervisory Board, an initiative and/or a draft proposal for placing an individual item on the agenda of the forthcoming meeting and/or submits proposal for adoption of a relevant resolution by the Supervisory Board.

The agenda and/or any modification of the agenda are put to the vote and the voting is carried out by the Supervisory Board at the beginning of the meeting.

## **18. Decision-making by the Supervisory Board**

### Article 37

Each member of the Supervisory Board has one vote.

The Supervisory Board shall be considered to have a quorum, if at least half of its members are present at the meeting, three shareholder representatives and at least one worker representative. The Supervisory Board may reach valid decisions even without any members – worker representatives present, if the President of the Supervisory Board establishes by a resolution they were all properly and timely invited to the meeting.

In any case, the President of the Supervisory Board or Deputy President shall be present at the meeting, unless determined otherwise in 6<sup>th</sup> paragraph of Article 35 of these Rules of Procedure.

The Supervisory Board members vote individually with an open vote, unless determined otherwise by the Supervisory Board.

The proposed resolution is adopted if voted for by the majority of the votes cast by the present Supervisory Board members.

In case of a draw in voting, the matter should be put to the vote once again, if the decision has to be urgently adopted at that particular Supervisory Board meeting. If the voting still results in a draw, the vote cast by the chairperson is decisive.

A Supervisory Board member does not make any decision in the matters that refer to him/her and in case of the conflict of interest proceeding from Article 43 of these Rules of Procedure.

Voting on the Supervisory Board members should be open within the Supervisory Board, however, information about the votes of individual members should not be revealed to the public. The Supervisory Board member shall clearly express his/her disagreement, with a record of it entered in the minutes, when he/she thinks that a particular resolution adopted by the Supervisory Board could jeopardise the achievement of company's goals or could damage the company.

### Article 38

The Supervisory Board members may participate in the decision-making process also by handing over the ballot papers to another member of the Supervisory Board.

Resolutions may be passed in writing, by telephone, by telegraph or by using any similar technical media, only if none of the Supervisory Board members objects it.

A two-third majority of votes cast by the Supervisory Board members is required for reaching any decisions based on paragraph 2 of this Article.

The minutes shall be kept of such decision-making, which shall be sent to all Supervisory Board members.

## **19. Minutes of the Supervisory Board meeting**

### Article 39

The minutes shall be kept at the Supervisory Board meetings.

The minutes of the meeting contain the reference number, place, date and hour, data on all the participants and their function, proposed and adopted agenda, the course of the meeting with a brief summary of debates, proposals of decisions, results of voting, observations on adopted decisions and possible separate opinions. The minutes of the Supervisory Board meeting are confidential and marked as such.

The resolutions adopted by the Supervisory Board are properly numbered.

Upon request of an individual Supervisory Board member, who does not agree with a particular decision adopted by the Supervisory Board, his/her opinion and the justification are entered in the minutes.

Only the decisions stated in the minutes of the Supervisory Board have legal grounds.

The draft proposal of the minutes and the confirmed minutes are signed by the President of the Supervisory Board and the minutes keeper.

The draft proposal of the minutes of the Supervisory Board meeting shall be sent by President of the Supervisory Board at company's cost to each member of the Supervisory Board, the Management Board and other participants within fifteen days after the meeting.

The Minutes of the Supervisory Board meeting are confirmed at the first next Supervisory Board meeting. The Supervisory Board members may submit their oppositions and/or remarks, prior to confirmation.

The Management Board reports at each Supervisory Board meeting on implementation of the resolutions adopted by the previous Supervisory Board meeting.

All the papers have to be enclosed to the archive copy of the minutes, which served as the basis for the Supervisory Board's decision-making as well as the list of all the participants at the meeting with their handwritten signatures.

## **20. Supervisory Board secretary**

### Article 40

The Supervisory Board secretary performs professional administrative and technical tasks for the Supervisory Board. He/she also participates in the meetings, takes the minutes and keeps the archive copies, and also performs other tasks upon the order and according to the instructions given by the President of the Supervisory Board.

The tasks of the Supervisory Board secretary are performed by the company's professional associate appointed, upon the petition of the Management Board, by the Supervisory Board.

## **21. Participation in the meetings**

### Article 41

The Supervisory Board members shall personally participate in the meetings.

If a member cannot participate in the meeting, he/she has a duty to inform the President and the secretary of the Supervisory Board of his absence and state the relevant reasons.

If a Supervisory Board member can, for any reasons, not perform his/her task on temporary or permanent basis, he/she has to immediately inform the President of the Supervisory Board accordingly.

The Supervisory Board meetings may not be attended by non-members of the company's Management Board or Supervisory Board, unless the Articles of Association define otherwise. The secretary of the Supervisory Board also participates in the meeting. Experts or rapporteurs may be invited to the meeting to discuss certain issues on the agenda.

The participation of other persons is decided upon the convocation by the President of the Supervisory Board, and in controversial cases by the majority of votes at the Supervisory Board meeting.

The Supervisory Board may convene a meeting without any Management Board members present, particularly in cases deciding about appointment of the President of the Management Board, remuneration of the Management Board and assessment of its performance.

If an individual member does not attend the Supervisory Board meetings and/or is not active while performing his/her function, this shall be clearly stated in the written report to the General Meeting. Once a year the Supervisory Board should evaluate the performance of Supervisory Board as a whole and of individual members. The Supervisory Board should determine the measures for improving its efficiency (composition, education, dynamics and attendance at meetings, acquisition of information, preparation for meetings, etc.).

## **22. Conflict of interest of the Supervisory Board members**

### Article 42

A Supervisory Board member's activity and decision-making should primarily observe the company's goals, so that any other personal interests or interests of third parties, the

Management Board, shareholders, the general public or the state, should be subordinated to them.

The Supervisory Board members shall not perform any managerial or executive functions or advisory duties for competitive companies, and should not be substantial shareholders or partners/owners of such companies.

A Supervisory Board member shall take all necessary precautionary measures to avoid conflicts of interest which could influence his/her judgement. A conflict of interest exists when a Supervisory Board member's impartial and objective performance of duties or decision-making is jeopardised because personal economic interests are involved, or the family interests, his/her emotions, political or national (un)favourable disposition or any other related interests with other natural or legal persons.

A Supervisory Board member has a conflict of interest if:

- he/she has, or has had, within the past years, an important business relationship with the company or its associated company,
- he/she is a member of the expanded management team of the associated company,
- he/she is the person who participated in drafting a proposal for the company's annual report,
- he/she is the company's substantial shareholder,
- he/she has a business relationship, is personally or in some other way closely connected with a substantial shareholder or its Management Board,
- he/she is a major supplier of goods or services (including advisory or auditing services),
- he/she has received, within the last three years, or currently receives major additional payments from the company or an associated company, excluding the remuneration received as a Supervisors Board member,
- he/she has been, within last three years a partner or employee of the existing or former external auditor of the company or associated company,
- he/she has been on the Supervisory Board for over 12 years,
- he/she is an immediate family member of another member of the company's Supervisory Board or the Management Board.

#### Article 43

A conflict of interest could be an impediment to voting and the person disclosing it shall clarify it. In well-grounded cases the President of the Supervisory Board may, prior to voting, demand from the Supervisory Board members to declare whether they have any conflicts of interest related to the subject-matter of voting. If a Supervisory Board member, for whom a conflict of interest exists, fails to abstain from voting, the Supervisory Board should decide on the impediment by the votes of all present members, prior to the voting on the matter in question. If the voting establishes that a conflict of interest exists, the relevant Supervisory Board member should not vote. It is then deemed that the non-voting member is not present at the meeting and the votes are counted accordingly, as is the adoption of the resolution.

#### Article 44

A Supervisory Board member should inform the Supervisory Board of any conflict of interest, which arises or could arise in performing or with reference to the performance of

his/her function. In addition, each Supervisory Board member should inform the Supervisory Board of any memberships in the supervisory boards of other companies.

Any agreements and contracts on consultancy and other services made between a Supervisory Board member and the company shall require the Supervisory Board's approval.

#### Article 45

The existence of material conflict of interest or the existence of an evident conflict of interest, which is not temporary, should, in relation to a Supervisory Board member, be ground for termination of his/her term of office.

The provisions on the conflict of interest and independence of Supervisory Board members apply to all members, irrespective of who nominated, elected or appointed them.

In its report the Supervisory Board should, at least once a year, inform the General Meeting, of any existing conflicts of interest and of the measures taken in this respect.

### **23. Payments, refunds and ownership of the company's shares**

#### Article 46

For their work the members of the Supervisory Board are entitled to the:

- payment for participation in the meetings of the Supervisory Board and the committees (attendance fees), and
- reimbursement of costs.

#### Article 47

A Supervisory Board member is obliged to deliver to the Finance division of the company, in the prescribed manner, data about any changes in the ownership of stake in the company's capital, at the latest on the next succeeding day after the transaction - acquisition or disposal of relevant securities, issued by the company in which he/she performs his/her function or its associated company - was concluded. The company shall appropriately disclose this information to the public.

### **24. Business secrets**

#### Article 48

The Supervisory Board members shall consistently observe, throughout the duration of their term of office and after its expiry, the duty to protect confidentiality and business secrets.

They shall treat all decisions adopted by the Supervisory Board, proposed resolutions and papers of the Supervisory Board as business secrets until the company makes them available to the public.

A Supervisory Board member shall not take advantage of the company's business opportunities for personal gain or the gain of third parties.

In case of disclosure or abuse of business secrets the Supervisory Board members bear responsibility for damages under civil law and responsibility under criminal law.

## **25. Compliance with corporate governance principles**

### Article 49

Members of the Supervisory Board individually and the Supervisory Board as a body of the company, should respect the corporate governance principles and ensure that they are applied in the company.

The Supervisory Board should publish every year in its annual report, a Corporate Governance Code Compliance Statement and explain any deviations from its provisions.

## **26. Damage liability of the Supervisory Board members**

### Article 50

While performing his/her duties, a Supervisory Board member shall act with reasonable care and due diligence for the benefit of the company.

The Supervisory Board members shall be jointly and severally liable for any damage resulting from the violation of their duties, unless they provide evidence they performed their duties honestly and scrupulously.

Supervisory Board members shall not be obliged to recover damages if an action which caused damage to the company, was based on a legitimate resolution adopted by the General Meeting. Damage liability is not excluded, although the Supervisory Board approved the action. The company may only renounce a damage claim or settle it three years after the claim was made, on condition that the General Meeting agrees to it and there is no written objection filed by minority shareholders, with total holding of at least one tenth of the share capital.

The company's damage claim on any member of the Supervisory Board may be enforced by its creditors if the company is unable to settle its debt to creditors.

### Article 51

A person who through his/her influence on the company deliberately persuades the Supervisory Board members into acting to the detriment of the company or its shareholders, shall be bound to indemnify the company for damage arising from such action. He/she shall be bound to recover the damage inflicted to the shareholders, if shareholders suffered any damages, irrespective of the damage inflicted on them through the damage inflicted on the company.

In addition to the Supervisory Board members, any person who benefited from the damaging action shall be held liable as a joint and several debtor if his/her action was performed intentionally. The company's damage claim may be enforced by its creditors if the company is unable to settle its debt to creditors.

The provisions of the preceding paragraph shall not apply if the Supervisory Board member was misled to commit a harmful action in exercising:

- the right to vote in the General Meeting,
- the authorisation to manage under a contract on control, or
- the authorisation to manage the controlling company in which the company is included.

## **27. Liability insurance for the Supervisory Board**

### Article 52

The company concludes a contract for liability insurance to protect the company's interests related to the activity of its supervisory and management bodies.

## **28. Training of Supervisory Board members**

### Article 53

The President of the Supervisory Board consults with the President of the Management Board about the training of the Supervisory Board members and introduction of new members.

A Supervisory Board member should, during the term of his/her office, refresh and upgrade his/her knowledge for quality and effective execution of his/her duties. Education and training of Supervisory Board members should be encouraged, organised and financed by the company in line with assessed needs of the company and the Supervisory Board.

## **29. Final provisions**

### Article 54

On the day when the present Rules of Procedure of the Supervisory Board come into force, the Rules of Procedure of the Supervisory Board adopted at the Supervisory Board meeting on 2 April 2008 shall cease to be valid.

### Article 55

These Rules of Procedure of the Supervisory Board shall be made accessible to all shareholders and to the Workers' Council, which is provided for by publication on the company's website.

Dr. Gregor Gomišček  
President of the Supervisory Board

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