



**«VIKTOR LENAC» SHIPYARD d.d.
Corporate Governance Code**

Rijeka, April 11, 2003

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1. INTRODUCTORY PROVISIONS

1.1. By introducing the Corporate Governance Code (hereinafter referred to as «the Code»), «Viktor Lenac» Shipyard d.d. will make a priority to reach its mission, especially the following objectives:

- In order to secure the profitable business operation, the Code hereto will provide a framework for responsible, value-oriented management and control of “Viktor Lenac” Shipyard d.d. (hereinafter referred to as: “the Company” or “the Shipyard”) and its group of companies, implementing the applicable provisions of the Law on trade companies (hereinafter referred to as: “the Law”), the Company’s Articles of Association and its other By-laws;
- Make the work of the Company’s Management and Supervisory Boards understandable and transparent;
- Reinforce the confidence of shareholders, investors, clients, business partners, employees and public in general, in the leadership of the Company;
- Secure an overall transparency of the Company, as a public stock-company, whose shares are listed in Tier I of the Zagreb Stock-Exchange
- Secure effective management of the quality, safety and environmental protection

1.2. The Supervisory Board and the Management Board of the Company have adopted the Code hereto at the meeting held on April 11, 2003 and are charged with the responsibility of ensuring that the provisions and the spirit of this Code are respected throughout the group.

2. SHAREHOLDERS AND GENERAL ASSEMBLY

2.1. Rights of the Shareholders

2.1.1. Subject to the Law, the Company's Articles of Association and Regulations of the Zagreb stock-exchange, the Company will observe the rights of its shareholders and ensure that those rights are given effect. In this context, the essential rights of shareholders include:

- Right to vote at the General Assembly on principle one share-one vote;
- Right to be informed about the issues to be decided during the Company's General Assembly meetings;
- Right to participate equitably in the Company's profits.

2.1.2. Every shareholder has the right to receive comprehensive information in a timely manner about the issues decided about at the General Assembly, provided that, under the provisions set forth in the Company's Articles of Association, he is entitled to participate and vote during the meeting of the General Assembly. The right to participate relates to the right of each shareholder to discuss all the items of the Agenda, right to ask relevant questions in relation to the items of the Agenda, as well as the right to propose counter-motions to the resolutions proposed to be adopted by the General Assembly by the Management and/or Supervisory Board.

2.1.3. Equal voting rights for every share, to be respected according to the principle "one share – one vote". Based on this provision, every shareholder will be entitled to participate in approving all the Resolutions resulting out of the competence of the Company's General Assembly.

The Company will be responsible to secure that every shareholder be entitled to a right to vote. The Company's Management Board is to help its shareholders to secure their voting rights. The Management Board will do so by providing the shareholders with the form of Power of Attorney, based upon which the shareholder will have an opportunity to instruct his proxy how to vote about every item of the Agenda. The shareholders will receive such form of Power of Attorney together with the invitation for the General Assembly and the Participation form. The Company and the Management Board will have no responsibility for ensuring that any party present and voting at a General Assembly pursuant to such Power of Attorney has, in fact, acted in accordance with the instructions of the party issuing the proxy.

2.1.4. In order to enable shareholders to reach timely decision on the issues that will be discussed at the General Assembly, respecting the equal treatment of each Company's shareholder considering the right to be informed about major events in the Company, the Company's Management Board will be responsible to perform the following actions:

- To publish appropriate information in the Company's newsletter and in daily press, and to provide each shareholder at his correspondence address with the following material:
 - Invitation for participation in General Assembly, together with the Agenda and motions of resolutions, together with all relevant documentation necessary for the General Assembly;
 - Quarterly and semi-annual consolidated financial reports and business reports.
 - Annual consolidated and non-consolidated financial reports and consolidated business reports.

The shareholders, either the foreign legal or physical entities, will receive the above documentation translated in English.

- To inform the public through publishing of invitation written in Croatian and English language, at web pages of the Company. The information will consist of the following data:
 - Prior to General Assembly's taking place: invitation with the Agenda, motions of Resolutions, explanatory circular letters approved by the Zagreb stock-exchange;
 - After the General Assembly has taken place, the Company will publish all the adopted resolutions and voting results;
 - Key business results reached in the previous trimester, semester or calendar year, after the consolidated quarterly, semi-annual and annual business reports and financial reports were adopted and approved by the Management and Supervisory Boards.
 - Press releases to be provided by the Company to Zagreb stock exchange.

2.1.5. Where equity is increased, the shareholders will be entitled to preemptive subscription reflecting the size of their holding. The General Assembly may decide to increase the Company's equity in manner that the above described preemptive right is excluded, either partially or entirely, always considering the fact that such doing is necessary in the interest of the Company and therefore in the interest of the Company's shareholders. The Management Board is to diligently ascertain if these preconditions are met in the circumstances of each particular case, and

to state to the Company's General Assembly all reasons for partial or complete exclusion of share subscription preemptive right.

2.2. General Assembly scope of action

- 2.2.1. The Company's General Assembly decides about adoption, changes and amendments of the Articles of Association, as well as about fundamental issues of the Company, such as increase or decrease of equity, issue of shares of new emission, type and gender of shares, their nominal amounts, changes in status of the Company and appointing the Supervisory Board members.
- 2.2.2. Based on the motion presented by the Management and Supervisory Board, the General Assembly will ratify the profit & loss statement, decide about the use of the Company's profit and bring about the approval of manner in which the Company's Management and Supervisory Board performed their duties during the calendar year.

2.3. Calling for the General Assembly

- 2.3.1. At the end of the business year, the Company's Management Board will organize the Regular General Assembly.
- 2.3.2. If not otherwise decided by the General Assembly, the shareholders disposing together with more than 3% of all the votes in the General Assembly will be entitled to ask the Management Board to call for the General Assembly, explaining the reason for that. Such shareholders are entitled to ask for change or amendment of the proposed Agenda of the General Assembly that has already been called for, immediately after convocation of the General Assembly.
- 2.3.3. The President of the General Assembly will preside the sessions of the General Assembly, and will also be responsible to take care how does the General Assembly's work progress.
The Company Secretary is responsible for timely calling and undertaking of all preparations connected with the General Assembly, and keeping the minutes of meetings of the General Assembly recorded and authorised by public notary.

2.4. Acquiring of the own shares

- 2.4.1. The Company may acquire own shares only in cases and under conditions provided for by the Law.

3. MANAGEMENT BOARD

3.1. Authorizations and attention to duties of the Management Board

- 3.1.1. Subject to the requirements of the Law, the Company's Articles of Association and its other By-laws, the Management Board members are committed to the corporate interest by performing diligently their commercial duties for proper management, in order to secure that the Company's interests are well taken care for, in any time.
- 3.1.2. The Company's Management Board, subject to the Supervisory Board's approval, will be responsible to define the Company's strategy and monitor that such strategy is being implemented.
- 3.1.3. The Company's Management Board will be responsible to secure an appropriate risk management and risk control inside the Company.

3.2. Management Board members and terms of reference

- 3.2.1. The Management Board will be made of 3 to 7 members. The Supervisory Board on the basis of proposal given by the Management Board President will define this number. The Management Board members will be elected for the term of office of four years, with the possibility to be re-elected. Before nominating the President and the Management Board member, and latest 30 days prior expiry of the term of office of active Management Board, the Supervisory Board shall nominate a candidate for the Management Board president and entrust him a duty to propose the other Management Board members. Within 14 days from receiving such duty, the candidate for the Management Board President shall present to the Supervisory Board a written list of possible Management Board members.
The Management Board members may be dismissed based on the Management Board President's proposal, or upon the Supervisory Board's initiative, only in cases supported by important reasons. The Management Board's President may be dismissed by the Supervisory Board, based on the proposals of the Management Board, or upon its own initiative, only in cases supported by important reasons."
- 3.2.2. The Management Board will manage the Company's business activities in general, and each member will be responsible for each particular activity, in way that all major activities of the Company will be represented in the Board. The resolutions of fundamental importance for the Company will be enacted by the Company's Management Board, at their meetings, by majority of votes of all the members, and based on analysis of the expected benefits and risks and open discussion. Every Management Board member will be entitled to one

vote. In case the votes “pro” and votes “con” are equal, the Management Board President’s vote shall prevail. Generally, meetings will be held once in a month with necessary quorum. The Company Secretary will be responsible for timely preparation of Management Board meetings and for recording and keeping of minutes of meetings.

3.2.3. The manner in which the Management Board will perform their activities will be defined in details, in the Management Board terms of reference, to be enacted by the Supervisory Board.

3.3. Remuneration paid to the Management Board members

3.3.1. The remuneration to be received by every Management Board member, proposed by the Management Board President, will be defined by the Supervisory Board, in an amount in accordance with the law provisions. The criteria for fixing the appropriate amount of remuneration will be based on:

- Responsibility and capacity for work of the individual member;
- Business situation of the Company;
- Company’s perspectives in the future.

3.3.2. The Management Board members shall receive their remuneration in its fixed and variable part. The variable part will be paid once a year depending upon the fact whether the Company’s long-term programs were met. Meeting the long-term plans set in former phase will be measured by Company’s profit growth defined in advance and share market price.

3.3.3. The Company’s Management Board members’ remuneration, both the fixed and variable part, will be published in the notes to the consolidated financial reports. As provided for in the Standing orders on listing at the Tier I of the Zagreb stock exchange d.d., the management contracts, signed with the Management board members, will be provided to the Zagreb stock-exchange.

3.4. Conflict of interests

3.4.1. While performing their regular work duties, the Management Board members will be obliged to respect the following major guidelines:

- When performing their duty, they will not regard their personal interests, nor will use the opportunities aimed for the Company for their own account;
- When performing their duties, they will not seek, nor accept from the third parties any benefits and/or opportunities for themselves or any other person, nor shall they promise or offer such

- benefits and/or opportunities to these persons on behalf or for the account of the Company;
- The Management Board members will not perform any job which enters within the scope of the Company's business operation, neither on their or other's behalf. The Management Board members will also not be the Management or Supervisory Board members in another company, without the approval of the Company's Supervisory Board;
 - Although permitted under current Croatian company law, it is the Company's policy not to make loans or credits to members of the Management Board or their families. Any exceptions to this general policy will be made only with Supervisory Board approval in each case, and full and timely disclosure to the shareholders of the purposes, terms and conditions of any such loans or credits. Management Board members will take care to ensure that any such loans or credits granted by the Company to them, or members of their families, are used exclusively for the purposes stated in the corresponding resolution of the Supervisory Board.
 - The Management Board members will be obliged to inform the Management Board members, without hesitation, in case when they have interest in certain business opportunity, either for their account, or for the account of a third person, and when such business opportunity might be contrary to the interests of the Company;
 - The Management Board members will constrain against taking any measure contrary to the forbidden presentation or use of any information of confidential nature ("inside information");
 - The Management Board members will duly inform the Company Secretary about every transaction by which the Management Board member or his first-line relative, acquire or release, either directly or indirectly, any share or other securities of the Company. Such disclosure should be made latest within the end of office hours of the calendar day following the day when such transactions have been made or when a fact occurred presenting the basis for transfer of shares or any other securities of the Company.
 - The Management Board members shall constrain from acquire or sale of shares and other securities of the Company two months prior to publication of annual, semi-annual and quarterly reports (due to the prohibition to use reserved information).

3.5. Responsibility of the Management Board members

- 3.5.1. The Management Board members will be responsible to run the Company's business operations, pursuant to the provisions of the Law on trade Companies.

3.5.2. The Management Board members will have a solidary debtor responsibility for any damage sustained by the Company and caused by their failed respect of any of their obligations resulting out of running of the Company's business operations. The Supervisory Board's approval of certain actions does not imply that the Management Board's responsibility will thereby be eliminated.

4. COOPERATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

- 4.1. The Company's Management and Supervisory Board will be bound to closely cooperate in the best interest of the Company.
- 4.2. The Management Board shall periodically discuss with the Supervisory Board the degree of reaching the strategic objectives set forth.
- 4.3. The Management Board will regularly and timely inform the Supervisory Board about all issues vital for the Company, which concern the strategy and planning, development, business results, income and situation of the Company, exposure to risks and risk management in the Company. The Management Board will inform the Supervisory Board about any discrepancy of the business result or exposure to risk relating to previously defined plans and objectives, without delay.
As a part of regular and timely reporting to the Supervisory Board, the Management Board shall:
 - Prepare and submit to the Supervisory Board the consolidated and non-consolidated financial statements, consolidated business report, auditor's report and proposal of resolutions either on allocation of the profits or on covering the losses, within 90 days counting from the end of the calendar year,
 - Prepare and submit quarterly and semi-annual consolidated financial and business reports within 45 days counting from the last day of the trimester.

The Management Board President shall verbally inform the Supervisory Board President without delay about any event that may influence the solvency and/or liquidity of the Company, development or governance of the Company, as well as about any other event that the Supervisory Board may consider important for the business and the overall situation in the company.

- 4.4. The reports to be provided by the Management Board to the Supervisory Board, will be made in written (including the digital form). The documents necessary to be approved by the Supervisory Board's Resolution including the annual, semi-annual and quarterly business reports, consolidated and/or non-consolidated financial reports and auditor's reports, will be timely submitted to the Supervisory Board members, prior to the date on which the meeting has been called for.

- 4.5. Diligent and efficient management of the Company demands an open discussion between the Management and Supervisory Board. Respecting of principle of confidentiality and secrecy is of utmost importance.
- 4.6. In case where an acquirer informs the Company about his acquiring of shares, which makes him/her responsible to publish a tender to take-over the Company, or when he/she informs the Company about his/her intention to place a tender for take-over of the Company, the Management Board will constrain of any action out of the regular business activities of the Company, which might significantly change the Company's ratio of assets or payables, or which might endanger the success of the tender. In the above situation, the Management Board will closely follow the responsibilities provided for by the Law on take-over of joint-stock companies.
After the publication of public tender to take-over the Company, the Supervisory Board will publish, in an appropriate manner, their explanatory opinion about the subject tender, all in accordance with the Law on take-over of the joint-stock companies, making the shareholders possible to take their decisions. Besides publishing of their opinion, The Company's Management and Supervisory Board members will do no action which might influence the tender to take-over the Company.
- 4.7. Once a year, and within the scope of annual business report and the Report on performed audit on how the Company's business was run in subject calendar year, the Management and Supervisory Boards will submit the General Assembly the report on how the managing of the Company has been performed. Such report will also contain possible explanations for non-conformities to the Code hereto, if any.
- 4.8. The Company Secretary shall be responsible for coordination of implementation of the Code.

5. ACTIVITIES REQUIRING THE SUPERVISORY BOARD'S PREVIOUS CONSENT

- 5.1. In governing the business and in representing the Company, the Management Board will be authorized to undertake the below activities only after it has received the Supervisory Board's previous consent:
- a) define the Company's strategy,
 - b) define the annual investment plan or any other coherent investment program,
 - c) conclude Contracts standard for the normal running of the Company's business operation, being: contracts on the repair or conversion of vessels, newbuilding contracts, contracts on building and reconstruction of off shore units, contracts on purchase of the equipment, materials and supply of the subcontracting manpower, which value exceeds 50% of the Company's capital stock,
 - d) conclude Loan Agreements, Credit Agreements, Bank Guarantee Contracts, Contracts on Letters of Credit, Contract on repurchase of payables, Contract on securing the payment of the creditors' receivables, issue bills of exchange and other means of securing the payment of the creditors' receivables resulting out of the above contracts, in case their value exceeds 50% of the Company's capital stock,
 - e) conclude contracts on founding, purchase and/or sale of the share in third entities, which value exceeds 25% of value of the Company's capital stock,
 - f) conclude Contracts on Audit of the Company's business activities.
- 5.2. In cases foreseen in the item 5.1., the Management Board will timely provide the Supervisory Board with the written Report, which will consist of:
- Data about the other Contract party
 - Short description of the job which is the subject of the Contract
 - Data on important Contract elements, such as: deadline, price and/or amount of the credit, payment and/or credit conditions, and similar
 - Risk management analysis
- 5.3. The Management Board will endeavor to provide the Supervisory Board with the earliest possible notice of the likelihood that an activity is contemplated that would require the Supervisory Board's previous consent pursuant to items 5.1., or its notification pursuant to item 5.4. The Supervisory Board will meet (in person or by permitted electronic or written means) within five [5] business days

from the day of receipt of the Report described in item 5.2 to consider whether to consent to such activity. At the conclusion of the meeting, the Supervisory Board shall inform the Management Board that consent is granted or denied (in either case it will issue a formal board resolution), or, if such is the case, that the Supervisory Board will require additional information and/or time to reach a determination and will meet again at a later specified date.

- 5.4. In cases when the value of contracts described under the item 5.3.c) exceeds the 25% of the capital stock, the Management Board will be obliged to provide the Supervisory Board with the written Report, as described in the item 5.2., prior to the conclusion of the defined contract. In this case, if requested by at least two members of the Supervisory Board, the Supervisory Board President will call for the meeting, or will request the Resolution about the approval of such a Contract to be enacted via correspondence, without organizing a meeting.
- 5.5. In case the Supervisory Board comes to a decision that it is necessary to allocate the previous consent to such a Contract, the Resolution on allocating the consent will have to be enacted in accordance with the procedures defined in the item 5.3.

6. SUPERVISORY BOARD

6.1. Authorizations and due attention to duties of the Supervisory Board

6.1.1. Subject to the requirements of the Law, the Company's Articles of Association and its other By-laws, the Supervisory Board members are committed to the corporate interest by performing diligently their commercial duties for proper supervision, in order to secure that the Company's interests are well taken care for, in any time.

6.1.2. In order to duly perform their duties, the Supervisory Board members will take care to dispose with enough time to perform their duty of the Supervisory Board member, and to attend the Supervisory Board meetings.

6.1.3. The specific Supervisory Board duties are:

- Appointment and dismissal of Management Board members,
- Supervision of Company governance,
- Giving approvals to the Management Board resolutions in accordance with the Code and Company's Articles of Association,
- Providing the General Assembly with written report about the supervision of the Company governance,
- Setting up of Audit and Risk Management Committee and issuing of Terms of Reference of such a Committee.

6.2. Supervisory Board members

6.2.1. When appointing the candidates proposed to enter into the Supervisory Board, that will consist of 7 members, the General Assembly will take care about the following:

- The proposed candidates should possess the necessary knowledge, abilities and expertise essential for the Company's business activities.
- The proposed candidates are not members of the Management Board, or are procurists, proxies or Supervisory Board members of the Company which is the Shipyard's competition company, nor can the persons performing consultancy services for a competition company be members of the Supervisory Board.
- Not more than two persons, who previously performed the duty of the Company's Management Board member, may be elected in the Supervisory Board.

6.3. Supervisory Board manner of work

- 6.3.1. The Supervisory Board shall regulate their manner of work with the terms of reference, to be adopted by the Supervisory Board.

In order to increase the effectiveness, the Supervisory Board will form permanent Audit and Risk Management Committee. As necessary, there shall also be formed the ad hoc committees, which will follow the preparations and undertaking of Resolutions enacted by the Supervisory Board within their competence.

- 6.3.2. The Supervisory Board President will coordinate the Supervisory Board work and will also preside its meetings. The Company's Secretary will be responsible for timely performance of all preparation actions, connected with organization of the Supervisory Board meeting. The Legal secretary will also write and archive the minutes of the Supervisory Board meetings.

- 6.3.3. The Supervisory Board regular meetings will be held after the expire of every trimester, within 45 days counting from the last day in the trimester, or within 90 days counting from the end of the calendar year. There will be obligatory to adopt the consolidated Business report and basic financial reports for the previous trimester, semester or the entire year.

The plan of holding the regular meetings will be determined by the Supervisory Board President, latest till January 15 for the current year. When determining the plan, the Supervisory Board President will take into account that the dates fixed are appropriate with the responsibilities of the Supervisory Board members.

- 6.3.4. Out of the dates established in the previous paragraph, the Supervisory Board may hold extraordinary meetings always when the Company's interests demand so. Extraordinary Supervisory Board meetings shall be convened by the Supervisory Board President. Every Supervisory or Management Board member may ask the President to call for an extraordinary meeting, stating the reason and purpose of his doing so. In case the request to call for a meeting, made by at least two Supervisory or Management Board members is not approved, these members will be entitled to call for such a meeting by themselves and publish an agenda for such a meeting.

6.4. Remuneration paid to the Supervisory Board members

- 6.4.1. The remuneration to be received by every Supervisory Board member, will be determined by the General Assembly, in an appropriate monthly amount. The General Assembly will take care

that the criteria for fixing the appropriate amount of remuneration are based on:

- Responsibility and scope of their duties, with separate valuation of the Supervisory Board President and his deputy;
- Business situation of the Company.

6.4.2. The Company's Supervisory Board members' remuneration will be published in the notes to the consolidated financial reports. Other payments the Company effected in favor of any Supervisory Board member, based on his/her consulting or other service, if any, will be separately stated in the notes to the consolidated financial reports.

6.5. Conflict of interests

6.5.2. When performing their duties, the Supervisory Board members will respect the following main guidelines:

- When performing their duties, the Supervisory Board members will not promote their personal interests, neither will they use the business opportunities aimed for the Company for their own account.
- The Supervisory Board members will take care not to announce publicly their membership in the Supervisory Board, in order to acquire non allowed, personal or professional benefits which might harm the Company's reputation and interests.
- In cases when the Supervisory Board members, in performing their professional activities come in business relations with the Company, they will be bound to act with the increased attention in performing their duties resulting out of the business relations with the Company. In the same time, when instituting such business relations, the member will not be allowed to use his Supervisory Board member authorities to acquire special benefits which do not result out of such contacts
- The Supervisory Board members will not perform tasks of competition to the Company neither for his/her, or for the account of a third person.
- The individual Supervisory Board member will take care to inform, without hesitation, all other Supervisory Board members in case he/she has an interest which might be contrary to the Company's interests, either for his own or for the account of a third person. In such cases, the Supervisory Board member will constrain of the voting for such matter.
- Although permitted under Croatian company law, it is the Company's policy not to make loans or credits to members of the Supervisory Board or their families. Any exceptions to this general policy will be made only with *unanimous* Supervisory Board approval in each case, and full and timely disclosure to the shareholders of the purposes, terms and conditions of any such loans or credits. Supervisory Board members will take

care to ensure that any such loans or credits granted by the Company to them, or members of their families, are used exclusively for the purposes stated in the corresponding resolution of the Supervisory Board.

- The Supervisory Board member will constrain against undertaking of any action contrary to non-allowance of publishing and use of information of confidential nature, he will inform the Company's Legal secretary about every transaction by which the Supervisory Board member or his first-line relative acquired or released shares or other Company's securities, either directly or indirectly, not later than the end of working day following the day of concluding the legal transaction or about the appearance of the fact which makes a base of transfer of shares or other Company's security.
- The Supervisory Board member will not buy or sell shares or other securities of the Company two months before the disclosure of annual, semi-annual and quarterly reports of the Company.

6.6. Audit and Risk Management Committee

6.6.1 In order to assist the Supervisory Board in the oversight of:

- the preparation and presentation of the Company's financial statements;
- the adequacy of internal systems and controls;
- the independent external audit process; and
- the Company's policies and practices with respect to operational and financial risk management (including with respect to activities whose consent by the Supervisory Board is required pursuant to Chapter 5),

the Supervisory Board shall constitute an Audit and Risk Management Committee of three of its members with appropriate training and technical competence. The Supervisory Board will issue a resolution to serve as a charter of the Committee, setting forth in greater detail the workings of the Committee, including periodicity of meetings, formalities of reporting to the full Supervisory Board, inter-action with the Management Board, etc.

6.6.2 In the performance of its duties, the Audit and Risk Management Committee will pay due attention to and consider information provided in the following documents:

- Annual consolidated and unconsolidated financial reports and business reports;
- Semi-annual and quarterly financial and business reports;
- The Management Board's proposals on the use of profit or coverage of loss;

- Reports made by the Management Board concerning internal audits of the Company;
- Any reports of the internal audit function or of independent experts requested by the Audit and Risk Management Committee, the full Supervisory Board or the Management Board; and
- Any other materials the Committee deems relevant to the performance of its functions.

6.6.3 In the performance of its duties, the Audit and Risk Management Committee will be entitled to review and consider the Company's business books and documentation, its treasury securities and similar. The Management Board will ensure timely access to these materials, and the materials described in item 6.6.2, by the Supervisory Board and the Audit and Risk Management Committee.

6.6.4. The Audit and Risk Management Committee will provide the Supervisory Board with a written report about the Company's independent external audit performed. In their report, the Audit and Risk Management Committee will state whether the Company meets the Laws and by-laws, whether the financial reports were written in accordance with the situation presented in the business books and whether they correctly reflect the Company's situation in real-assets and business itself. The Audit and Risk Management Committee's report will also contain their opinion about the proposal made by the Management Board, which relate to the use of profit or coverage of the losses, as well as about the functioning of the internal control system.

6.6.5. The President of Audit and Risk Management Committee will coordinate the work of the Committee and will preside its sessions. The Company's Secretary will be responsible for timely performance of all the preparations connected with the organization of the Audit and Risk Management Committee meetings, for making the Minutes of the meetings and archiving the same.

6.7. Analysis of Supervisory Board's efficiency

6.7.1. The Supervisory Board regularly considers and discusses the efficiency of its activities.

6.8. Supervisory Board's reporting to the General Assembly

6.8.1. When writing the annual report on performed auditing of manner in which the Company was managed, the Supervisory Board will also inform the General assembly, not only about the provisions called for by the Law, but also about the following issues:

- Implementation of Corporate Governance Code and about every non-conformity in application and respecting of the same;
- Any conflict of interests occurred during the work of the Supervisory Board;
- Eventual failed participation of certain Supervisory Board member in more than 50% of the Supervisory Board meetings held throughout the year.

6.9. Responsibility of the Supervisory Board members

6.9.1. The Supervisory Board members will be responsible to supervise the manner at which the Company's business operations are led, pursuant to the Law on trade companies.

6.9.2. As provided under Croatian law, the Supervisory Board members will be responsible to the Company for any damage which is the result of their knowing or their being bound to know that certain Management Board's action will damage the Company, including in cases where prior consent to the Management Board's resolutions, as described in items 5.1. and 5.4. is granted by the Supervisory Board. However, Supervisory Board members who voted against the granting of such prior consent shall not be responsible for the damage.

7. PRESIDING OFFICERS OF THE GENERAL ASSEMBLY, MANAGEMENT BOARD, SUPERVISORY BOARD AND AUDIT AND RISK MANAGEMENT COMMITTEE

7.1. President of the General Assembly

7.1.1. The General Assembly will be presided by the President. The General Assembly President will be nominated by the General Assembly, for the term of office of four years, with the possibility of re-election.

7.1.2. The President of the General Assembly shall:

- Preside the meetings of General Assembly and defines the sequence of discussing about the individual items of the Agenda, decides about the sequence of voting about the individual proposals, as well as about the manner of voting about the certain Resolutions.
- Sign the Memo of meetings and the Resolutions enacted by the General Assembly,

7.2. President of the Management Board

7.2.1. The President of the Management Board presides the Management Board Sessions. The Supervisory Board shall nominate the Management Board President for the term of office of four years, with the possibility of re-election.

7.2.2. The Management Board President shall:

- prepare, organize and lead the Management Board meetings
- coordinates the Company's business activities among the Management Board members, as per individual areas of business.
- Signs Minutes of the Management Board meetings and the Resolutions enacted by the Management Board,
- Coordinates business activities in the field of relations with the external institutions and public itself.

7.3. President of the Supervisory Board

7.3.1. The Supervisory Board President presides the Supervisory Board Meetings. The Supervisory Board shall nominate the Supervisory Board President for the term of office of four years, with the possibility of re-election.

7.3.2. The Supervisory Board President shall:

- Make permanent contacts with the Company's management Board President,
- Take care about the preparation of the Supervisory Board meetings,
- Organise and manage the Supervisory Board meetings,
- Sign Minutes of meeting and Resolutions enacted by the Supervisory Board.

7.4. President of the Audit and Risk Management Committee

7.4.1. The Supervisory Board will nominate the President of Audit and Risk Management Committee for a term of office of four years, with the possibility of re-election.

7.4.2. The President of Audit and Risk Management Committee shall:

- Keep permanent contacts with the Supervisory Board President,
- Take care about the preparation of the Audit and Risk Management Committee meetings,
- Organize and manage the Audit and Risk Management Committee meetings,
- Sign minutes of meeting and reports enacted by the Audit and Risk Management Committee

8. PARTICIPATION OF EMPLOYEES IN DECISION MAKING PROCESSES

- 8.1. Participation of employees in decision making processes refers to their economic and social rights and interests in conformity with Labor Act. Such employees' rights are to be realized through the Workers' Council. With reference to all issues relevant for position of the employees and in accordance with the Labor Act, the Management Board shall:
- comprehensively inform the Workers' Council without delay,
 - consult the Workers' Council before enacting any such resolution,
 - enact resolutions referring to relevant important issues after having obtained the Workers' Council approval.
- 8.2. The Management Board shall, in good faith, negotiate with the Unions about stipulation of Corporate Agreement defining all rights and liabilities of employees arising from their employment in the Company. The Management Board shall also comply with provisions of the Corporate Agreement.
- 8.3. The Management Board shall take into account the social situation, health and safety of the workers. The Management Board will also promote purchase of the Company's shares by the employees, and will make every endeavor to create possibility for the workers' acquiring of the shares.

9. TRANSPARENCY

- 9.1. The Management Board will disclose without delay and in accordance with the Law on securities market, Zagreb Stock Exchange Regulations and eventual instructions of the Company disclose all new facts which have arisen within the Company's field of activity and which are not known publicly, if such facts could, owing to their impact on the asset and financial situation or general business development, substantially influence the price of the Company's securities listed in Tier I of Zagreb Stock Exchange.
- 9.2. Further to provisions of the Law on securities market and/or Zagreb Stock Exchange Regulations, the Management Board shall:
- as soon as the Company becomes aware of the fact that an individual or legal entity acquires, exceeds or falls short of 5, 10, 25, 50 or 75% of the voting rights in the Company by means of a purchase, sale or any other manner, disclose this fact without delay,
 - in each Annual Report include the information about shareholders with more than 5% of the voting rights in the Company and report on the shareholdings held by individual Management Board and Supervisory Board members,
 - without delay disclose the purchase of treasury shares by the Company.
- 9.3. Further to provisions of Law on securities market, Zagreb Stock Exchange Regulations and eventual instructions of the Company, members of the Management Board and of the Supervisory Board shall disclose to the Company's Legal Secretary, without delay any activity through which the member or his/hers immediate relative, directly or indirectly, acquires or sales shares or other securities issued by the Company. The subject members will disclose such activity in a manner prescribed by the Law, not later than the expire of working day which by calendar follows the day in which the legal transaction was made, or when the fact which is a base of transfer of share or other Company's security, occurred. The Company will disclose such information without delay, latest till the expire of the second working day which by calendar follows the day when the Company received an information. The disclosure will be made in a prescribed manner, with the simultaneous publishing at the Company's web page. The Company's Secretary will be responsible for such a disclosure.
- 9.4. Information disclosed by the Company to the Stock Exchange and/or daily newspapers shall be also made available via the Company's Internet site for prompt and uniform disclosure of information to the shareholders and investors. The Internet site shall be clearly structured. Publications should also be in English.

- 9.5. Any information which the Company discloses abroad shall also be disclosed domestically without delay.
- 9.6. As part of regular information policy, the dates of publishing annual, semi-annual and quarterly reports as well as the dates of general assemblies shall be published in advance and in adequate manner.

10. ACCOUNTING PRINCIPLES AND AUDIT OF ANNUAL FINANCIAL REPORTS

10.1. Accounting

- 10.1.1. The Company's Management Board will make sure that the accounting evidence is properly and correctly led, the appropriate accounting policies applied and Internal financial control system introduced and functioning.
- 10.1.2. In accordance with the International Accounting Standards, the Company shall prepare and regularly publish annual, semi-annual and quarterly consolidated financial and business reports,
- 10.1.3. Annual consolidated and non-consolidated financial and consolidated business report shall be published within 90 days of the end of the respective financial year.
- 10.1.4. Semi-annual and quarterly financial and business reports shall be published within 45 days of the end of the reporting period.
- 10.1.5. Consolidated financial statements shall contain information on stock option programs and similar securities based incentive systems of the Company.
- 10.1.6. Consolidated financial statements shall contain a list of third party companies in which it has a shareholding that is not of minor importance for the company. In this connection the statements shall contain: name and headquarters of the company, the amount of shareholding and the amount of equity of the company. Notes on the relationship with shareholders considered to be «related parties» pursuant to the applicable accounting regulations shall be provided in the consolidated financial statements.

10.2. Audit of Annual Financial Reports

- 10.2.1. Prior to submitting a proposal for election, the Supervisory Board or, respectively, the Audit and Risk Management Committee shall obtain a statement from the proposed auditor stating whether, and where applicable, which professional, financial and other relationships exist between the auditor and the Company, that could call its independence into question. This statement shall include the extent to which other services were performed for the Company in the past year or which are contracted for the following year, especially in the field of consultancy.

- 10.2.2. The Management Board shall, with previous approval of the Supervisory Board, stipulate a contract with elected auditor and agree the amount of compensation.
- 10.2.3. The contract shall arrange for the auditor to report without delay the Supervisory Board on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit.
- 10.2.4. In accordance with the law provisions, the auditor takes part in deliberations on the annual financial statements and consolidated financial statements and reports on the essential results of its audit.

Managing director

Damir Vrhovnik, B.Sc.Mech.Eng.

Supervisory board President

Giancarlo Zacchello