

## **CORPORATE GOVERNANCE RECOMMENDATIONS**

## INTRODUCTION

In November 2004 The Tallinn Stock Exchange and Financial Supervision Authority conducted a roundtable of so called wise men, during which people associated with various economic sectors came together collectively as a group of experts. The purpose of the roundtable was to point out the principles of corporate governance necessary to be fixed as a matter of good practice from the vantage point of issuers, (minority) shareholders, managers, auditors and other interested parties. The purpose of this roundtable was also to formulate these principles of corporate governance into established Corporate Governance Recommendations. Presently, the proper and appropriate principles are assembled in these Corporate Governance Recommendations.

These Corporate Governance Recommendations are to be carried out primarily by companies whose shares have been admitted to trading on a regulated market operating in Estonia ("**Issuers**"), except for investment funds registered as public limited companies. Other companies may also choose to comply with these Corporate Governance Recommendations and shareholders and partners of such companies are encouraged to follow these principles upon organizing their management and management control of the company.

The principles described in these Corporate Governance Recommendations are recommended to be carried out by Issuers and each Issuer shall decide whether or not they will adopt these principles as a basis for organizing their management. Issuers shall describe, in accordance with the "Comply or Explain" principle, their management practices in a Corporate Governance Recommendations Report and confirm their compliance or not with the Corporate Governance Recommendations. If the Issuer does not comply with Corporate Governance Recommendations, it shall explain in the report the reasons for its non-compliance. The Corporate Governance Recommendations Report shall be a separate chapter of the Management Report contained in the Annual Report.

The Corporate Governance Recommendations describe conduct, which contributes to better and more transparent of management and management control of companies:

- From one side, the Corporate Governance Recommendations must be a model for Issuers to organize their management, above all taking into account the Issuer's interests, and provide adequate opportunity for investors and other interested parties to supervise the management.
- From the other side, adherence to Corporate Governance Recommendations contributes to harmonization of disclosure and management requirements of Issuers, which is directed towards equality of treatment of investors and shareholders.

Based on these objectives, the Corporate Governance Recommendations will help structure the work of the management board, supervisory board, general meeting and also the disclosure of information related to the management and management control

These Corporate Governance Recommendations are prepared on the basis of Estonian legislation, structure of shareholders of Issuers acting in Estonia and taking into account the main problems that arise in company management. In rare cases,

behavior has been described where the requirements of Issuers are higher than those arising in legislation. The bases of these exemptions lie in the principle that an Issuer whose shares have been admitted to trading on a regulated market must be guided by increased diligence in organization of management of itself and ensure the equality of treatment of all shareholders.

Issuers must comply with the “Comply or Explain” principle as of 1 January 2006. For example, if an Issuer’s next financial year begins in 01 January 2006, it shall prepare a Corporate Governance Recommendations Report concerning the 2006 year. In this Report the Issuer shall reflect the compliance with the Corporate Governance Recommendations upon organization of the general shareholders’ meeting conducted in 2006 or upon resolving other issues related to company management. However, the Issuer may choose to comply with the Corporate Governance Recommendations before this deadline.

## I GENERAL MEETING

### 1.1 Exercise of shareholders rights

- 1.1.1. Every shareholder shall be ensured the right to participate in the general meeting, to speak in the general meeting on themes presented in the agenda, and to present reasoned questions and make proposals.

The exercise of shareholders’ rights shall be ensured in such a way that it is not hindered by unreasonable formalities or made inconvenient for shareholders in any other way, meaning above all the time and place of holding the General Meeting, data availability and conducting of the General Meeting. The General Meeting shall be conducted at the location of the Issuer and at a reasonable time and place, ensuring that a majority of shareholders have the possibility to participate in the General Meeting.

Issuers shall enable shareholders to present questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting the Issuer shall include the address or e-mail address to which the shareholders can send questions. Issuers shall guarantee a response to reasoned questions on the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.

A controlling shareholder<sup>1</sup> (stakeholder) shall refrain from unreasonably harming the rights of other shareholders, both at the General Meeting and upon organizing the Issuers management, and shall not abuse his position.

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<sup>1</sup> Hereinafter “controlling shareholder” signifies a person specified in § 10 subsection. 1 of the Securities Market Act.

1.1.2. Under the articles of association of the Issuer, it shall not be allowed to grant different types of shares with rights which would result in unequal treatment of shareholders in voting (e.g., requiring agreement from holders of a particular type of shares for purposes of passing a resolution at the General Meeting).

1.1.3. Issuers shall facilitate the personal participation of shareholders at the General Meeting, but shall not make it difficult for representatives to participate in and vote at the General Meeting. The Issuer shall notify shareholders as precisely as possible regarding the date, time and address of the General Meeting.

If an Issuer itself or by his employees/representatives organizes the representation of a shareholder at a General Meeting, it shall do so in such a manner that the orders given by the shareholder with regard to voting are executed.

The representative of the Issuer shall participate in the General Meeting and shall be accessible to the shareholders during the holding of the General Meeting.

## 1.2. Calling of a General Meeting and information to be published

1.2.1. Notice calling the General Meeting shall be sent to shareholders and/or published in daily national newspaper concurrently with making it available on the Issuer's website.

The Issuer shall notify shareholders regarding the calling an extraordinary General Meeting immediately after deciding to call the General Meeting. The notice shall indicate the reason for calling the Extraordinary Meeting and who made the proposal to call it (e.g., management board, supervisory board, shareholders or auditor). Information concerning the Extraordinary Meeting shall be immediately published on Issuer's website.

1.2.2. The Management Board and Supervisory Board shall deliver all information available to them or essential information provided to them necessary for passing a resolution at the General Meeting to shareholders concurrently with the notice of calling the General Meeting.

Issuers shall provide the reasons for calling the General Meeting and explanations for items included on the agenda, determining changes essential to shareholder (for instance changing the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions the content of which is the sale of all or a majority of the assets or the company or which are concluded with a person related to the Issuer). If the General Meeting is called by shareholders, the Supervisory Board or auditor or if an item has been entered on the agenda at the request of the Management Board or a shareholder, the bodies or persons requesting the calling of General Meeting or entering an item on the agenda shall provide their reasons and explanations.

The shareholders shall be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if this information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Board has the right to withhold this information, if this is in contravention of the Issuer's interests. In such case, the Management Board and Supervisory Board shall justify the withholding of the information.

Information to shareholders must also be provided in Estonian.

- 1.2.3. The Management Board shall publish on the Issuer's website the essential information connected with the agenda provided to it or otherwise available concurrently with compliance with the General Meeting calling requirements provided by law.

Depending on the General Meeting agenda the essential information shall be deemed the profit distribution proposal, draft articles of association together with an indication of the proposed amendments; essential conditions and agreements or draft contracts issuance of securities or other transactions connected with the company (e.g., merger, sale of property etc.), information regarding candidates for Supervisory Board members or auditors etc.

Information shall be published concerning a Supervisory Board member candidates' participation in supervisory boards, management boards or the management of other companies.

- 1.2.4. Within a reasonable period of time prior to holding a General Meeting the Supervisory Board shall publish its proposed agenda items on the Issuer's website.

If shareholders make substantive proposals to items on the agenda or proposals diverging from those of the Supervisory Board prior to the General Meeting the Issuer shall publish the proposals on its website.

### 1.3. Procedure of the General Meeting

- 1.3.1. The Chair of the General Meeting shall ensure that the General Meeting is conducted in a smooth manner, i.e. swift while considering the interests of all interested parties. The General Meeting shall be conducted in the Estonian language.

The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting

- 1.3.2. Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

Supervisory Board member candidates who have not formerly been a Supervisory Board member and candidates for auditor shall participate in the General Meeting.

- 1.3.3. Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

Profit distribution shall be considered in General Meeting as a separate agenda item and a separate resolution shall be passed regarding it.

## II Management BOARD

### 2.1. Duties

- 2.1.1. The Management Board shall make independent day-to-day decision without favoring personal and/or controlling shareholder's interests.

The Management Board shall make decisions based on the best interests of the Issuer and all shareholders and it obliges to ensure reasonable development of the Issuer according to goals and strategy set.

- 2.1.2. The Management Board shall use its best efforts to ensure that the Issuer and all companies belonging to Issuer's group shall comply in their activities with current legislation in force.

- 2.1.3. The Management Board shall ensure that it undertakes proper risk management and internal audit controls in the activities of the Issuer and those proceeding from its activities.

To guarantee proper risk management and internal audit the Management Board shall:

- analyze risks connected with the purpose of the activities and financial objectives of the Issuer (incl. environmental, competitive and legal risks);
- prepare adequate internal control provisions;
- elaborate forms for drawing up financial reports and instructions for drawing up these reports; and
- organize the system of control and reporting.

### 2.2. Composition and charge

- 2.2.1. The Management Board shall have more than one (1) member and a Chairman elected by its members.

The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The

principles for co-operation between members of the board shall also be established.

The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions

2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.

2.2.3. The bases for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the bases for Management Board remuneration.

Upon determination of the Management Board remuneration, the Supervisory board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.

Remuneration of members of the Management Board, including bonus schemes, shall be such that they motivate the member to act in the best interest of the Issuer and refrain from acting in their own or another person's interest.

2.2.4. The use of long-term bonus systems (for example options, pension programs) shall be connected with the activities of the Management Board member and shall be based on explicit and comparable pre-determined factors. The factors, which are the basis for determining the bonus scheme shall not be changed retroactively.

The Supervisory Board can limit the bonus scheme granted earlier in exceptional cases not foreseeable at the time of determining the bonus scheme.

2.2.5. The bonus scheme of a Management Board member that is connected with the securities of the Issuer, as well as changes in such bonus schemes shall be approved at the General Meeting of the Issuer. The exercise date for share option shall be determined at the General Meeting of the Issuer.

When granting share options, the Issuer shall comply with the rules and regulations of the Tallinn Stock Exchange.

- 2.2.6. Severance packages of a Management Board member are connected with their prior work performance and shall not be payable if doing so would harm the interests of the Issuer.
- 2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.

### 2.3. Conflict of interests

- 2.3.1. Members of the Management Board shall avoid conflicts of interests in their activity. Member of the Management Board shall not make decisions on the basis of their own interests or use business offers addressed to Issuer in their own interests

Members of the Management Board shall inform the Supervisory Board and other members of the Management Board regarding the existence of a conflict of interests before the conclusion of a contract of service and immediately upon arising of it later. Members of the Management Board shall promptly inform other Management Board members and the Chairman of the Supervisory Board of any business offer related to business activity of the Issuer made to them, a person close to them or a person connected with them.

Persons close to members of the Management Board include spouses, children who are minors and persons having shared a household with them for at least one year. Persons connected with members of the Management Board include civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or persons close to them or which is made for the benefit of them or persons close to them and which economic interests are to a significant extent similar with their economic interests or economic interests of persons close to them.

- 2.3.2. The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its



Management Board or another person connected/close to them and shall determine the terms of such transactions

Transactions approved by Supervisory Board between the Issuer and a member of the Board, a person close to them or a person connected to them shall be published in the Corporate Governance Recommendations Report.

- 2.3.3. A member of the Management Board shall strictly adhere to the prohibitions of competition prescribed by the Commercial Code (*Commercial Code § 312*) and shall promptly inform the Supervisory Board of their intention to engage directly or indirectly in an enterprise in the same field of activity as the Issuer.

Members of the Management Board may engage in other duties alongside their duties as members of the Management Board only on approval of the Supervisory Board.

- 2.3.4. A member of the Management Board or employee of the Issuer shall not demand or take money or other benefits from third parties in connection with their work and shall not provide unlawful or ungrounded advantages to third parties in name of the Issuer.

### III SUPERVISORY BOARD

#### 3.1. Duties

- 3.1.1. The duty of the Supervisory Board is to manage internal control of the Management Board activities. The Supervisory Board shall participate in making important decisions relating to the activities of the Issuer. The Supervisory Board shall act independently and in the best interests of the Issuer and all shareholders.
- 3.1.2. The Supervisory Board shall determine and regularly review the Issuers strategy, general plan of action, principles of risk management and annual budget. The Supervisory Board shall together with the Management Board ensure long-term planning of the Issuer's activity.

The Chairman of the Supervisory Board shall maintain regular contact with the Management Board, in particular with the Chairman of the Management Board and shall discuss with them the issues related to the Issuer's strategy, business activity and risk management.

The Chairman of the Management Board shall promptly inform the Chairman of the Supervisory Board of any significant event, which may affect the Issuers development and management. The Chairman of the Supervisory Board shall inform the Supervisory Board of it and call an Extraordinary Meeting of the Supervisory Board if necessary.

- 3.1.3. The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the

Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required.

Upon the establishment of committees (audit committee, remuneration committee etc.) by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organization. Upon change of the committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

#### 3.1.4. The Chairman of the Supervisory Board manages the work of the Supervisory Board

The Chairman of the Supervisory Board shall determine the agenda of the Supervisory Board meeting, chair meetings, monitor the efficiency of the Supervisory Board's work, organize the transmission of information to the members of the Supervisory Board, ensure that the Supervisory Board has enough time to prepare for decisions and examine information and represent the Supervisory Board in communications with the Management Board.

### 3.2. Composition and charge

#### 3.2.1. The members of the Supervisory Board shall be elected from persons having sufficient knowledge and experience for participation in the work of the Supervisory Board.

Upon the election of a member of the Supervisory Board, the nature of the Supervisory Board's and the Issuer's activities, the risks of conflict of interests and if necessary the age of the potential member shall be taken into account.

The membership of the Supervisory Board shall be sufficiently small to ensure efficient management and sufficiently large to involve necessary know-how.

#### 3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members.

An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations.

No more than two previous members of the Management Board having been members of the Management Board of the Issuer or a company

controlled by the Issuer within the past three (3) years shall be members of the Supervisory Board at the same time.

- 3.2.3. A member of the Supervisory Board and the Chairman of the Supervisory Board in particular shall ensure that they have enough time to perform the duties of a Supervisory Board member.
- 3.2.4. Upon determination of the remuneration of members of the Supervisory Board, the General Meeting shall take into consideration the duties of the Supervisory Board and their scope and the economic situation of the Issuer. Based on the nature of the Chairman of the Supervisory Board's work, the related requirements of that work may be taken into consideration upon determination of remuneration amount.
- 3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).
- 3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

### 3.3. Conflict of interests

- 3.3.1. Members of the Supervisory Board shall prevent conflict of interests from arising through their activities. Members of the Supervisory Board shall give preference to interests of the Issuer over their own or those of a third party upon his word as a member of the Supervisory Board. Members of the Supervisory Board shall not use business offers addressed to the Issuer for their personal interests.

The Supervisory Board shall operate in the best interests of the Issuer and all shareholders

- 3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.

All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.

The persons close to a member of the Supervisory Board are spouses, a minor child and a person having shared a household with them for at least one year. Persons connected with a member of the Supervisory Board are civil law partnerships or legal persons managed or controlled by them or

persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or person close to them or which is made for their benefit or the benefit of a person close to them and which economic interests are to a significant extent similar with their economic interests or the economic interests of a person close to them.

- 3.3.3. A member of the Supervisory Board shall resign or be removed if their conflict of interests is of material and permanent nature.
- 3.3.4. A member of the Supervisory Board shall strictly adhere to the prohibition of competition prescribed by the Commercial Code (*Commercial Code § 322*) and shall promptly inform other members of Supervisory Board of their intention to engage in an enterprise in the same field of activity as the Issuer.

#### IV CO-OPERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

- 4.1. Management Board and Supervisory Board shall co-operate closely for the purpose of better protection of Issuer's interests. The basis of this co-operation is first of all the open exchange of ideas between and within the Management Board and Supervisory Board.

The Management Board and Supervisory Board shall jointly develop plans and principles of activities and strategy of the Issuer.

The Management Board shall operate under strategic guidelines provided by the Supervisory Board and shall discuss its strategic management questions with the Supervisory Board regularly.

The Management Board and Supervisory Board shall disclose its respective division of tasks regarding the management of the Issuer to the extent not already provided in the articles of association. Upon changing the division of tasks they shall be publish the content of the change, the effect to the Issuer and the period of implementation.

- 4.2. The Management Board and the Supervisory Board shall jointly take steps to ensure that the mutual exchange of data shall be adequate and efficient.

The Management Board shall inform the Supervisory Board regularly of all material circumstances, which pertain to planning of the Issuer's activities, business activities, risks connected with its activities and management of those risks. The Management Board shall separately call attention to such changes in the business activities of the Issuer deviating from plans and purposes set formerly and indicate the reasons of such changes. The information shall be delivered promptly and shall cover all material circumstances.

The Supervisory Board shall specify the conditions for the delivery of information by the Management Board and its content. The Management Board shall send data necessary for the Supervisory Board decision-

making, including the annual accounts, the annual accounts of the consolidation group and the auditor's report to the Supervisory Board in sufficient time before the Supervisory Board meeting.

- 4.3. The Members of the Management Board and Supervisory Board shall observe the rules of confidentiality upon organization of the mutual exchange of data ensuring above all the control over the transfer of price sensitive information.

The Management Board shall also ensure the observance of the rules of confidentiality employees of the Issuer, who access such information

## V Publication of INFORMATION

- 5.1. The Issuer shall treat all shareholders equally and shall notify all shareholders equally of material circumstances.

Upon notification of shareholders and investors the Issuer shall use proper information channels, including his own web site. The equal treatment of shareholders principle shall not affect the Issuer's right to delay publication of inside information and to deliver the unpublished inside information to persons entitled to receive it.

- 5.2. The web site of the Issuer shall be clear in structure and published information shall be easy to find. Published information shall also be available in English.

The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar. The Issuer shall also publish this notice on his web site.

- 5.3. On the Issuers web site the following shall be accessible to the shareholders:
  - report on Corporate Governance Recommendations
  - date, place, and agenda of the General Meeting and other information related to the General Meeting;
  - articles of association;
  - general strategy directions of the Issuer as approved by Supervisory Board;
  - membership of the Management Board and Supervisory Board;
  - information regarding the auditor;
  - annual report;
  - interim reports;
  - agreements between shareholders concerning concerted exercise of shareholders rights (if those are concluded and known to the Issuer);
  - other information, published on the basis of these Corporate Governance Recommendations

- 5.4. The Management Board and the Supervisory Board shall describe the management practices of the Issuer including their compliance with these Corporate Governance Recommendations in the annual report presented to General Meeting. If the management of the Issuer deviates from the management structure described in these Corporate Governance Recommendations the Management Board and Supervisory Board shall justify the deviation.

The Management Board and the Supervisory Board shall also describe in the report presented at the General Meeting any circumstances required under these Corporate Governance Recommendations.

Corporate Governance Recommendations shall be presented as separate chapter of management report.

- 5.5. If the Issuer notifies financial analysts or other persons of facts or estimates related to the Issuer, they shall also publish this information to shareholders the Issuer's website.

Inside information disclosed at the General Meeting in response to questions presented by shareholders or other means and which has not been formerly disclosed shall be published by the Issuer immediately after holding of the General Meeting.

- 5.6. The Issuer shall organize the exchange of information with journalists and analyst after a careful consideration. The Issuer shall refrain from compromising the independence of the analyst or the Issuer's independence from analyst when communicating with analysts.

The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.

The Issuer shall not arrange meetings with analysts and presentations organized for investors directly before dates of publishing a financial report (interim reports, annual report).

## VI FINANCIAL REPORTING AND AUDIT

### 6.1. Reporting

- 6.1.1. Issuers shall publish annually its annual report and within a fiscal year its interim reports.

The Management Board shall draw up annual accounts, which shall be audited by the auditor and the Supervisory Board. On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board. Members of the Management Board of the Issuer and other persons belonging to management shall leave the meeting during the auditor reports the most material conclusions of audit.

The shareholders shall be presented the annual report signed by members of the Management Board and the Supervisory Board for examination. Together with annual report, the Supervisory Board shall make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code.

6.1.2. The Issuer shall publish an annex of the annual accounts including a list of companies not belonging to the Issuer's group, in which the holding of Issuer has significant importance to the Issuer. The Issuer shall disclose the business name, location, and size of the holding, area of activity, amount of share capital, and net profit or loss during the previous financial year of this company.

6.1.3. Annexes to the annual accounts shall be contain information regarding the connections of the Issuer with shareholders which are deemed to be connected persons pursuant to standards of international financial reporting provided for in sub section 17 (2) of the Accounting Act.

## 6.2. Election of the Auditor and Auditing of the Annual Accounts.

6.2.1. Together with Notice Calling the General Meeting the Supervisory Board shall make available to shareholders information on a candidate for auditor, including information on their business connections specified below. If there is a desire to appoint an auditor who has audited Issuers reports on previous financial year the Supervisory Board shall pass judgment on their work.

Before the Supervisory Board presents a candidate of auditor for election in a General meeting, the Supervisory Board shall require from a candidate for auditor an overview of what kind of connection pertaining to work, economic connection or other connection possibly affecting the independence of the auditor exists between the auditor, its management body and the auditors in charge on one side and the Issuer and its management body on other side.

The Supervisory Board shall describe in its evaluation report to judgment of the auditors work *inter alia* the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or shall provide during the next year. Also the remuneration the Issuer has paid or shall pay to the auditor shall be published.

If the Supervisory Board makes a proposal to elect a new auditor it shall justify to the General Meeting its reasons for terminating the contract with previous auditor.

6.2.2. Before entering a contract for auditing services with an auditor, the Management Board shall present the Supervisory Board with the draft contract for approval. In a contract to be concluded with an auditor, above all the auditor's functions, timetable and remuneration shall be agreed upon. The Issuer shall not conclude a contract, indicating that disclosure of remuneration payable for auditing is breach of contract.

Pursuant to the contract the auditor obliges to promptly inform the Chairman of the Supervisory Board of any danger to the independence or professionalism of their work that becomes evident during the course of their work, unless the danger is promptly eliminated.

Pursuant to the contract, the auditor shall oblige to promptly inform the Supervisory Board of any material circumstances that become known to them that may affect the work of the Supervisory Board and management of the Issuer.

The contract to be concluded with an auditor shall not in any manner hinder the auditor's evaluation of the Issuer's activities.

- 6.2.3. Upon organizing the rotation of auditors, the Issuer shall comply with guidelines of the Financial Supervision Authority from 24 September 2003, "Rotation of auditors of certain entities under state supervision."
- 6.2.4. Pursuant to the contract the auditor obliges to disclose to the Supervisory Board and at the General Meeting the facts, which become evident to them during the course of exercising of a regular audit, indicating non-compliance with the Corporate Governance Recommendations by the Management Board or the Supervisory Board. The Auditor shall prepare a memorandum to the Issuer regarding these facts along with the auditor's report. The auditor shall not reflect in the memorandum the facts that the Management Board has explained in the Corporate Governance Recommendations Report.
- 6.2.5. The General Meeting, Supervisory Board and Management Board shall enable auditor to carry out the auditing according to international auditing standards.
- 6.2.6. Upon introducing the findings of the audit to the Supervisory Board, the Auditor shall present *inter alia*:
  - an overview of the progress of the audit, co-operation with employees subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;
  - an overview of the independence of the auditor and the absence of conflict of interests during the audit;
  - an analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;
  - their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;



- his or her own opinion regarding financial forecasts made and the quality of the budget.

The Auditor shall present an overview, analysis and opinion described above in writing to the Supervisory Board.

## ANNEX. Requirements of independence

Independent is the member of the Supervisory Board, who:

- (a) is not a member of the Supervisory Board, the Management Board or management of the Issuer, controlling shareholder of the Issuer, company belonging to Issuer's group or company controlled by the Issuer and who has not been in such a position for the previous three (3) years;
- (b) is not an employee of the Issuer, controlling shareholder of the Issuer, a company belonging to the Issuer's group or a company controlled by the Issuer;
- (c) does not receive significant additional remuneration from the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a company controlled by the Issuer except remuneration paid as remuneration of member of the Supervisory Board;
- (d) has not represented directly or indirectly the controlling shareholder;
- (e) not to have, or have had within the last year a significant business relationship with the Issuer or through a company controlled by them, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a company controlled by the Issuer. Business relationships include a significant acquisition, use or transfer of goods or services (including financial, legal, advisory or consulting services) for direct or indirect monetary reciprocity;
- (f) not to be or have been the auditor, external auditor, auditor in charge or an employee of the auditing company of the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a company controlled by the Issuer during the last three (3) years;
- (g) is not a member of the Management Board or person belonging to management in a company in which the member of the Management Board or a person belonging to management of the Issuer, a controlling shareholder of the Issuer, a company belonging to Issuer's group or a company controlled by the Issuer acts as a member of the Supervisory Board and does not have significant links with members of the Management Board of the Issuer through other companies or persons;
- (h) has not been an independent member of the Supervisory Board for more than ten (10) years;
- (i) is not a person close to a member of the Management Board or a person belonging to management of the Issuer, a controlling shareholder of the Issuer, a company belonging to Issuer's group or a company controlled by the Issuer or a person close to persons specified in clauses (a)-(f).