

**RULES OF PROCEDURE**

**FOR THE AUDIT COMMITTEE OF THE  
SUPERVISORY BOARD OF THE COMPANY  
POSLOVNI SISTEM MERCATOR, D.D.**

January 2010

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## **1. Membership**

The Committee shall be appointed by the Supervisory Board. All members of the Committee, except for the independent expert (or experts), are also members of the Supervisory Board. The Committee shall consist of three members. Two members are required for the quorum.

The Supervisory Board shall appoint one of its members as the Audit Committee Chairwoman/Chairman. The Audit Committee shall also include one member who is an independent expert trained in accounting and auditing.

## **2. Secretary**

The Secretary to the Supervisory Board shall also be the Secretary to the Audit Committee.

## **3. Presence at the meetings**

Only members of the Audit Committee may be present at the Audit Committee meetings. Other persons may be present subject to an invitation by the Committee.

As a general rule, at least one meeting, or a part of the meeting at which the Audit Committee meets the independent and internal auditors, without the presence of Management Board members, shall be held each year. This may or may not be the same meeting.

## **4. Frequency of Audit Committee meetings**

Each year, the Audit Committee shall adopt a provisional timetable defining the issues to be discussed. The topics shall be changed as required. The Audit Committee must hold at least four meetings each year, preferably one in each quarter.

An Audit Committee meeting may also be requested by independent and internal auditors, as they deem necessary.

## **5. Authorization by the Supervisory Board**

The Supervisory Board shall vest in the Audit Committee the following power and authority:

- to investigate any activity within its duties and responsibilities;
- to request any required information, from any company employee; all employees shall be instructed to comply with any requirement by the Audit Committee;
- to obtain independent legal or expert advice, charged to the company, and provide the presence of independent consultants with relevant experience and in-depth knowledge, when the Committee deems necessary.

## **6. Duties and responsibilities**

### **6.1. Financial reporting**

The Audit Committee shall perform the following tasks:

- review and, if required, reject any measures and judgments of the company management, related to financial reports, audit of operations, and financial audit, interim reports, preliminary forecasts and related official statements of the company, before they are submitted to the Supervisory Board for approval and before they are submitted for approval to the auditors.

Particular care shall be paid to the following:

- major accounting policies and practices, and any changes and amendments thereof;
  - decisions whose major part relies on an audit;
  - magnitude of effects of uncommon or unconventional transactions during the year on the financial statements and the method of disclosure thereof;
  - clarity of disclosures;
  - major revisions and corrections based on an audit;
  - assumption of going concern;
  - compliance with relevant financial reporting standards;
  - compliance with stock exchange and other legislative requirements;
- study any other issues defined by the Supervisory Board.

### **6.2. Internal control and risk management**

Supervision of the operation of internal controls and risk management includes the following duties of the Audit Committee:

- reviewing the company procedures for detecting fraud and making sure a system is in place in which the employees may convey, in confidence, their thoughts on any irregularities in financial reporting, financial control, or any other issue;
- reviewing the Management Board and internal auditor's reports on the efficiency of the systems of internal financial control, financial reporting, and risk management;
- monitoring the flawlessness of internal accounting controls;
- reviewing the statements in the Annual Report, and Report on Internal Control and Risk Management Mechanisms in the company, and
- reviewing the extent and efficiency of the systems established by the management in order to identify, assess, manage, and monitor financial and non-financial risks.

### **6.3. Internal Audit**

Audit Committee's cooperation with the internal audit shall include the following duties for the Audit Committee:

- review the work plan of the Internal Audit Service and make sure the Internal Audit Service has at its disposal all relevant sources and resources, and that it enjoys the appropriate reputation within the company;
- make sure the internal auditor has direct access to the Supervisory Board Chairman and to the Audit Committee, and that the internal auditor reports on her/his work to the Audit Committee;
- review the report on the work of internal auditors for each period;

- review and monitor the Management Board's response to the findings and recommendations by the internal auditor;
- monitor and assess the role and efficiency of the internal audit function in relation to the total risk management system in place at the company.

#### **6.4. Independent Audit**

The work of Audit Committee also includes cooperation with the independent auditor. Such cooperation shall include the following tasks and duties for the Audit Committee:

- supervising the company relations with the independent auditor;
- study and propose appointment, re-appointment, and replacement of the independent auditor;
- approve the conditions and provisions of the agreement, and the amount of payment to the independent auditor for his or her services;
- each year, assess the professional training and adequacy, knowledge, experience, available sources, efficiency, and actual independence of independent auditors. This includes the following:
  - obtaining proof that the auditors and their staff are not in any family, financial, employment, investment, or other business relationship with the company (except through usual regular business arrangements);
  - each year, obtain the information from the audit service on the policies and procedures for maintaining independence and monitoring compliance with relevant requirements, including requirements on replacement of audit partners and their staff;
  - monitoring compliance of the independent auditing company with the effective ethical guidelines with regard to the replacement of audit partners, amount of payment for the services paid for by the company relative to the total revenue from the services performed by the auditing company, the office and partner, and other related regulations;
  - agreement with the Supervisory Board and supervision of the company policy on employment of former employees of the independent auditor;
- discussion with the independent auditor, before the start of the audit, on the method and extent of the audit;
- review, in cooperation with independent auditors, the following:
  - their findings, including any major issues that emerged during the audit and were subsequently resolved, and issues that have remained unresolved;
  - key accounting and general audit;
  - gravity of the errors and incompliance found in the process of audit;
  - explanations by management and independent auditors as to why some errors and incompliance could remain unresolved (if required);
- review written presentations by the management for the audit, before they are discussed by the Supervisory Board, which also includes in particular studying the non-standard questions and issues;
- at the end of the audit cycle, assess the efficiency of the audit performed, which includes the following tasks for the Audit Committee:
  - reviewing whether the auditor met the agreed audit plan and receiving information about the reasons for any changes, including the changes in cases of perceived audit risks, and information about the work performed by the independent auditors in order to hedge/resolve such risks.

- assess the consistency, thoroughness, and decisiveness of the auditors in addressing the key accounting and general audits, and in their response to the questions by the Audit Committee, as well as their comments on the internal control systems, where appropriate;
- obtain feedback information on the process of the audit from key personnel involved in the audit;
- review and monitor the contents of the letter by the independent auditor to the Management Board in order to assess whether the letter is based on solid knowledge of the company operations and to find whether the Management Board took any measures based on the recommendations; if this is not the case, inquire about the reasons;
- prepare and recommend to the company Supervisory Board the policy with regard to performance of non-auditing services of the auditor, and make sure the performance of such services does not impair the independence or non-biased and objective approach by the independent auditor. In doing so, the Audit Committee shall do the following:
  - consider whether the auditing company, given its capabilities, competence, and experience, is appropriate for performing non-auditing services;
  - consider whether sufficient safety mechanisms are in place to make sure that the on-auditing services performed by the independent auditor in no way compromise the objective and independent audit;
  - consider the type of non-auditing services, amount of payment, and amount of these individual payments and total payment relative to the total payment for the audit;
  - define and enforce the official policy which defines the following:
    1. types of non-audit services not to be performed by the independent auditors for the company;
    2. types of non-audit services for which independent auditors can be hired without reporting to the Audit Committee; and
    3. types of non-audit services for which a decision is required on a case-by-case basis.

## **7. Reporting**

Audit Committee Chairwoman/Chairman shall be responsible for diligent compilation of minutes that include a summary of the discussion and state any objections conveyed by the committee members during the meeting with regard to any item of the agenda. The Audit Committee Chairwoman/Chairman shall draft the minutes and submit them to all members within 15 days after the meeting. Any notes and objections to the draft minutes submitted back to the Chairwoman/Chairman in a timely manner shall be included in the materials based on which the minutes are to be confirmed and adopted at the subsequent meeting. The Secretary shall send the minutes of the Committee meetings to all Supervisory Board members, and the Audit Committee Chairwoman/Chairman shall be present at least at the Supervisory Board meeting at which the closing of annual accounts is confirmed.

Each year, the Audit Committee shall review its tasks and responsibilities, as well as its own efficiency, and propose any changes to the Supervisory Board.

The Audit Committee shall prepare a report on their role and responsibility and the measures taken.

Such report should, in particular, include the following:

- a summary of the role of the Audit Committee;
- names of all Audit Committee members;
- number of meetings held by the Audit Committee and presence of each member;

- the way in which the Audit Committee performed its tasks; and
- description of measures implemented.

The report summary shall be included in the company Annual Report.

Audit Committee Chairwoman:  
Jadranka Dakič