



On the basis of the authorisation issued to it on 19 May 2005 by the General Meeting of the Slovene Association of Supervisory Board Members, the Administrative Board of the Slovene Association of Supervisory Board Members adopted on 23 June 2005 the following

RECOMMENDATIONS FOR THE APPOINTMENT, DISCHARGE AND MANAGEMENT OF REMUNERATIONS OF MANAGEMENT BOARD MEMBERS

1. PREAMBLE

On the basis of domestic and foreign theoretical knowledge and practical experience gained from the operations of Slovene companies, in the Slovene Association of Supervisory Board Members (ASBM) we believe that through the formation of standards for managing the relationships among the management board members and the company, we can improve the management of Slovene companies. Through the use of these standards, we can achieve an actual improvement in the practice of operations of supervisory boards and their more active role in motivating and monitoring the success of management board work.

ASBM has, within the framework of adapting the recommendations of the Commission of the European Communities, reconciling the recommendations of the Corporate Governance Code and in compliance with contemporary trends in managing companies, formulated recommendations in the form of a document called Recommendations for the Appointment, Discharge and Management of Remuneration of Management Board Members (hereinafter: Recommendations). We are convinced that the Recommendations will prove beneficial to members of supervisory boards and all those subjects involved in the management of companies.

The management board of a company is, within the framework of the management system, the carrier of the management function and the executive body of the company concerned with the normal operations and the successful operation of the company on the market. The management board manages the company autonomously, at its own responsibility and to the benefit of the company. The management board bears responsibility to the company, its shareholders or partners and to its creditors. The position of the management board must, in this regard, be distinguished from the position of other employees in the company for they are concerned and responsible for the operations of the entire company.

2. USE AND PURPOSE OF THE RECOMMENDATIONS

- 2.1. The provisions of the Recommendations are non-binding and contextually define in greater detail the relationship between the company and management board within the legally defined frameworks and in compliance with the recommended practice for this area.
- 2.2. The Recommendations shall be used for the members and chairmen of management boards of all companies established in accordance with the Companies Act and which possess a supervisory board, unless these companies are bound to observe legislation or rules which differ in their substance.
- 2.3. The purpose of the Recommendations is to ensure:
 - appropriate procedures for appointing management board members,
 - appropriate contents and procedures for encouraging management boards to attain the highest possible level of success of the company,
 - the definition of fundamental frameworks for determining the success of companies and individual management board members,
 - the presentation of suitable contents of contracts between the management board and the company,
 - the definition of special rights of management board members on the basis of success achieved by the company and individual management board members,
 - the adequate relationship between the rights of management board members depending on the complexity of their tasks and their specific responsibilities on the basis of valid legislation and
 - the procedure for and remuneration in connection with the cessation of management board member functions.
- 2.4. Each company has its own special characteristics, thus the Recommendations will not be used in their entirety by each company. The supervisory board of each company should judge whether the company possesses any special characteristics which must be arranged in a manner different than foreseen in the Recommendations. It is suggested that the supervisory board also adequately explain such a decision to its general meeting of shareholders.

3. MEANING OF TERMS IN THE RECOMMENDATIONS

- 3.1. »Management board member« means a member or chairman of a management board or a manager in accordance with the Companies Act, unless otherwise provided or if not provided otherwise in the purpose or system of provisions.
- 3.2. »Company« means a legal entity, established in accordance with the Companies Act, within which a management board member performs his/her function.
- 3.3. »Contract with management board members« means an employment contract or other form of contract allowing for the arrangement of relations between a management board member and the Company within which he/she performs his/her function.

- 3.4. »Remuneration« means the entire remuneration of a management board member, composed of fixed monetary payments, variable monetary payments (or awards for success) and all fringe benefits.
- 3.5. »Fringe benefit« means each form of other benefits a management board member receives in a non-monetary form, such as for example, discounts, insurance, use of company assets for personal use, non-paid out acquisition of shares or entitlements to options and other rights.
- 3.6. »Fixed remuneration« means a remuneration whose amount is fixed and defined in the contract with a management board member due to him or her for fulfilling the obligations and accepting the responsibilities of a management board member.
- 3.7. »Variable remuneration« means remuneration whose existence and amount is dependent on the attainment of defined levels of success.
- 3.8. »Monetary payment« means remuneration in monetary form.
- 3.9. »Salary« is synonymous for a fixed monetary remuneration while »Salary dependent on success« is synonymous with the variable monetary remuneration received by a management board member for performing his/her function in the company on the basis of an employment contract.
- 3.10. »Capital« means the share capital of the company based on the balance sheet, in accordance with the Companies Act and Slovene Accounting Standards and valid upon the date of entry into force of the Recommendations. In establishing variations in values between two time points, paid out dividends shall also be reasonably included in the value of capital.
- 3.11. »Affiliated person« means each family member or company in which the management board member or one of his/her family members possesses a business share, stocks or other role which ensures or enables him/her to exert influence on the adoption of decisions or who has a significant asset interest on the results of operations of the company. Similarly to a family member, other relatives, household members or third persons are considered affiliated persons in which the management board member has a well-founded interest that such a person would acquire proceeds.
- 3.12. All remunerations and relationships between them shall be designated in gross amounts. If the burdening of remuneration of a management board member through taxes, contributions and potential other burdens should significantly change, these changes should be reasonably taken into account.

4. SELECTION, AGREEMENT ON RIGHTS AND OBLIGATIONS, AND APPOINTMENT OF MANAGEMENT BOARD MEMBERS

- 4.1. The supervisory board is competent for appointing all management board members. The Supervisory Board may not transfer its competency for appointment of management board members onto the chairman of the management board.
- 4.2. The supervisory board may transfer the procedure for selection of new management board members to a special commission. The conditions for membership to the management board may be defined by the articles of association of the company or through a decision by the supervisory board. The supervisory board or commission must, in the selection of candidates, first observe the defined criteria which the

candidates must fulfil for the performance of this function. The chairman of the management board may by authorisation of the supervisory board recommend the remaining management board members. The supervisory board can accept or reject his/her recommendation.

4.3. The supervisory board should search for candidates for management board members in the following manner:

- through a public tender,
- through an invitation for tenders,
- through the aid of subjects for seeking personnel, and
- from among other levels of management of the company and potential other candidates in the company (concern for succession of the management board).

The supervisory board may, in its search for candidates for management board members of the company, utilise a number of methods for seeking candidates simultaneously.

4.4. The supervisory board may, in larger companies, form a human resources commission which shall prepare proposals for decisions for the supervisory board, give aid in formulating conditions and criteria for the selection of management board members, formulate the company's succession plan and give aid to the supervisory board in the selection of management board members from among the candidates.

4.5. The supervisory board should appoint the management board members and regulate the relationships between them according to the following chronological order of application:

- selection of management board member candidates on the basis of their presentation of operations (definition of business objectives) for the period of the mandate,
- reconcile the expectations of the company and those of the candidates,
- formulate essential contractual elements with management board member candidates,
- appoint the chosen candidate, and
- conclude a contract with the management board member in accordance with preliminary essential contractual elements agreed upon prior to the appointment of the management board member.

It is important that an agreement on contractual elements with the management board member exists prior to his/her appointment as a management board member.

4.6. The supervisory board should first prepare a contract with the management board member candidate and the criteria for defining an advantage in the selection of a management board member. The supervisory board should, as a condition or criteria, **particularly** observe the following characteristics of the candidate:

- personal integrity and business ethics,
- complete business knowledge and suitable expert knowledge,
- possession of at least 5 years of suitable working experience in the area of leadership or management of a company for the chairman of the management board or one of its members,
- possession of at least 5 years of suitable working experience in the area which the individual management board member will be responsible for (finance, sales, procurement, production, human resources, technical sector, controlling, management of subsidiaries, etc.),

- complete time availability,
- capability for effective communication and teamwork,
- capability of effective use of knowledge in his/her work and the transfer of knowledge to other persons,
- readiness for continuous education and own professional development,
- capability of observing the interest of the company with regard to his/her actions and decision-making while subordinating to the former any eventual other personal or individual interests (third persons, employees, management board, shareholders, publics or countries), and that
- the candidate does not perform supervisory, leadership or management functions and consulting tasks for competitive companies and is not a shareholder or partner in a competitive company.

The supervisory board should clearly define which characteristics shall represent conditions and which of these criteria represent an advantage in the selection of a candidate.

- 4.7. Prior to being appointed, the candidate must disclose all data regarding his/her direct or indirect affiliation with the company or its supervisory board or any member of the supervisory board or its affiliated persons in a business or capital sense to the supervisory board. It is suggested that the supervisory board, prior to formulating essential elements of the contract, acquaint the management board with the vision, personal and business objectives and expectations of the management board member candidate.
- 4.8. The entire supervisory board as a body should cooperate in the confirmation of all contractual elements and appointment of the management board and the chairman of the supervisory board should be present as a representative of the supervisory board merely for the signing of the contract on behalf of the company.
- 4.9. If a management board member is competent for an individual area, the contract concluded with management board members should define as precisely as possible his/her competencies, obligations, responsibilities and rights.
- 4.10. The supervisory board should ensure the succession of the management board in the company. To this end, it should ensure possibilities for acquainting itself with other management levels in the company.
- 4.11. The supervisory board should at least one year prior to the expiration of the mandate of the chairman of the supervisory board include the question of succession of the management board of the company in the agenda of the session. The chairman of the management board should prepare recommendations regarding succession for the management board.
- 4.12. The contract with management board members may be concluded for a period shorter than 5 years if this is in compliance with the company's articles of association and the law. A shorter contractual period is only recommended when it involves the appointment of a candidate with whose previous work within the company the supervisory board is unfamiliar (new management board member).

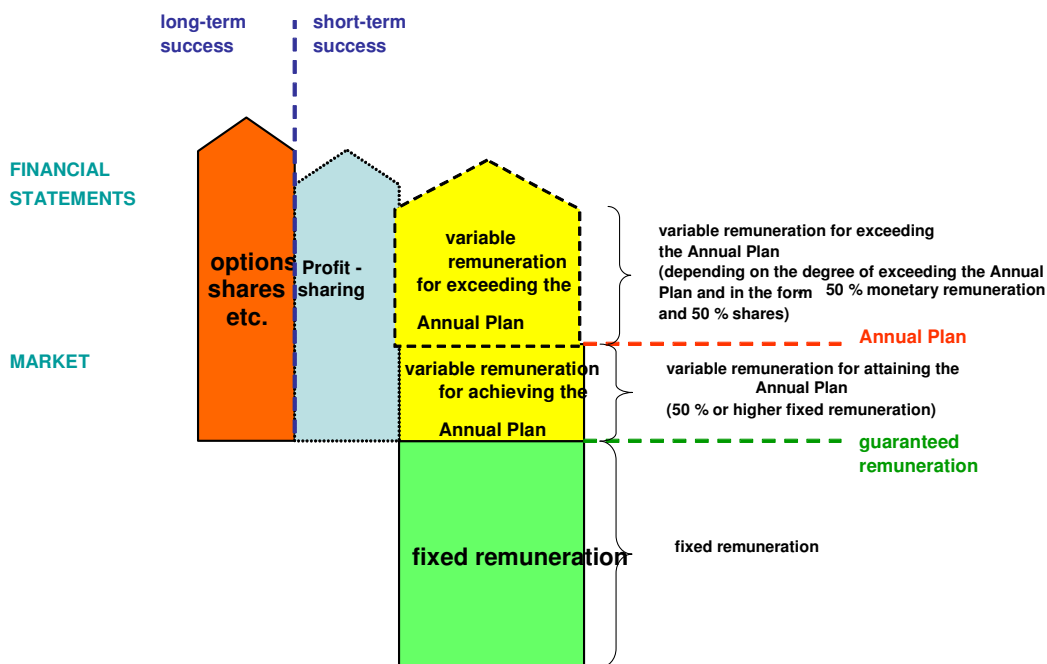
5. REMUNERATION OF MANAGEMENT BOARD MEMBERS

- 5.1. When defining a rewards system for a management board member, the supervisory board should observe the value of the company's share capital and the value of its assets, the capability of the company to

generate revenues and profit, and the entire cost of operations and management of the company which encompasses total and group costs for remuneration of all management board members, persons from the wider management circle and all members of the supervisory board.

- 5.2. For the purposes of this chapter, a »company« shall be deemed to be a group of parent and subsidiary companies if the management board member performs the function of a management board member in the parent company.
- 5.3. A management board member should have the right, under the conditions defined in the Recommendations, of acquiring the following remunerations:
- fixed remuneration (monetary payments and fringe benefits) for the acceptance of responsibilities and tasks, work performed, use of time and the loyalty to the company,
 - variable remuneration (monetary payments and fringe benefits):
 - remuneration for short-term success on the basis of criteria, which also ensure the long-term growth in the value of the share capital of the company, namely:
 - for achieving annual business plans,
 - for exceeding annual business plans.
 - remuneration for long-term success:
 - growth in the value of capital or increase in the market price of shares, in respect to paid-out dividends,
 - profit-sharing,
 - special rewards for one-time achievements (e.g. due to the increased value for shareholders because of extraordinary profits).

5.4. Remuneration scheme



- 5.5. The supervisory board should, each year and in accordance with the company's strategy and approved annual business plan, define concrete objectives for each business year so as to enable the reliable measurement of its realisation. The supervisory board should together with the management board members define the criteria for measuring the success of a management board member by concluding an annex to the contract with the management board member or through a decision by the supervisory board.
- 5.6. Whenever a management board member is entitled to remuneration in the form of shares, the market price should be observed in the acquisition of shares and if the company is not listed on the market, the fair value of the shares. If the latter cannot be ascertained, a price valorisation for the acquisition of the company's own shares should be used unless this is contradictory to regulations or not prudent with regard to tax effects.
- 5.7. The management board member of a company in trouble is entitled to fixed and variable remuneration on the basis of indicators and criteria, as defined by the supervisory board of the company, while observing the market, asset, financial and other relevant situations of the company, company objectives and plan for rescuing the company from the crisis.

Fixed remunerations

- 5.8. Fixed remunerations consist of fixed monetary payments and fixed fringe benefits.
- 5.9. The management board member should acquire the right to fixed remuneration due to the realisation of assumed obligations based on the employment contract, the acceptance of responsibilities and assured loyalty to the company. The obligation for achieving business objectives defined in the business plan does

not affect the receipt of fixed remunerations, but may, however represent a reason for discharging the management board.

5.10. The annual fixed remuneration of a management board member should not be defined by the supervisory board of the company in the form of a formula, but in an absolute amount (in SIT or EUR). When defining the annual fixed remuneration amount of a management board member, the supervisory board should provide for the balancing of fixed remuneration with respect to appropriate remuneration of management board members in comparable companies and based on the characteristics of the management board member (knowledge, experience, use of potential, knowledge of the branch or industry, etc.). When ascertaining similarities of companies, the following criteria should be particularly observed: size, activity and complexity of operations.

5.11. A fixed annual remuneration in the amount from €36,700 to €115,200 is recommended for the chairman of the management board, dependent on the size of the company and complexity of operations (Table: Criteria for Determining the Fixed Annual Remuneration of the Chairman of the Management Board). The amounts denoted in the table represent a framework recommendation. Fixed remunerations are paid out as a monthly salary (one twelfth of the indicated amount).

The fixed remuneration of the chairman of the management board of the company which operates on global markets and has an asset value in the excess of €400 million and a sales turnover exceeding €800 million, employing over 3,500 people may deviate from the recommended annual fixed remuneration defined in the first sentence of this point.

CRITERIA FOR DETERMINING THE FIXED ANNUAL REMUNERATION OF THE CHAIRMAN OF THE MANAGEMENT BOARD

CRITERIA OF COMPANY SIZE				CRITERIA OF COMPLEXITY OF COMPANY OPERATIONS			RECOMMENDATION FOR FIXED REMUNERATION
Class	No. of employees up to	Sales turnover in EUR million (balance sheet amount for banks)	Company asset value in EUR million	Internationalisation of operations	Diversification or complexity of products / services	Organisational complexity	Indicative gross fixed annual remuneration in EUR
1	50	7	4	domestic market	low	low	36,700
2	100	30	15				
3	220	70	30	international market	medium	medium	50,700
4	600	170	70				
5	1,400	450	150				
6					high	high	83,000

7	3,500	800	400				115,200
	over 3,500	over 800	over 400	global market	highest	highest	outside of recommendation

The supervisory board should take into account the characteristics and particularities of the company (e.g. company activity) and according to weightiness classify each according to the criteria of size and complexity of operations, thus defining the average class for the company. In doing so, the supervisory board gives a greater weight to those criteria which are most important for the company and may similarly overlook defined criteria which have no special importance for the company. When establishing the class for an individual company, certain flexibility is allowed and it is not a condition that the company attains all three criteria in order to be ranked in a higher class.

- 5.12. The amount of the fixed remuneration of a management board member should amount to **up to 85%** of the amount of the annual fixed remuneration of the chairman of the management board of the same company. The ratio between the amounts of annual fixed remunerations is defined dependent on the competencies and the increased responsibility of the chairman of the management board arising from them with respect to the competencies and responsibilities of the management board members.
- 5.13. The supervisory board should at least once a year review the status of rewarding management board members in the company against comparable companies, primarily from the viewpoint of the suitability of amounts of fixed and total remunerations with respect to the attained success.
- 5.14. Fixed remunerations are, as a rule, in the form of fixed monetary payments, but may also be in the form of fringe benefits if this leads to improved motivation and company loyalty or if this is more suitable for a management board member. Fixed fringe benefits should be included in the total fixed remuneration if they exceed 10% of the fixed monetary payments, otherwise it should be deemed that the fixed remunerations are identical to the fixed monetary payments.
- 5.15. The following fringe benefits should **for example** be included as fixed benefits for a management board member:
- accident and life insurance, unless the company is the beneficiary of an insurance indemnity or compensation,
 - supplementary health insurance,
 - supplementary pension insurance according to the plan valid for remaining employees of the company,
 - higher-class company car, also for personal use,
 - manager health examination once a year, and depending on the health state of the management board member, also twice a year,
 - education, except if it is substantiated that this is advantageous for the company.
- 5.16. Using the insurance of the responsibilities of a management board member for actions connected to membership in the management board is only recommended on the condition that the insurance is concluded under such conditions that the management board member continues to be liable with the prevailing amount of his/her assets.

- 5.17. If the contract with the management board members is concluded as an employment contract, the fixed monetary payments shall represent a salary to management board members.
- 5.18. Fixed monetary payments should be paid out as monthly payments (one twelfth of the indicated amount).

Variable remunerations

- 5.19. Variable remunerations consist of variable monetary payments and variable fringe benefits. Variable remunerations are based on the long-term success of company operations.
- 5.20. Management board members should be stimulated so as to possess the right of also acquiring variable remunerations in addition to fixed remunerations, depending on the level of attained success. The variable part of the remuneration should be defined in such a scope to significantly stimulate the management board member into attaining a higher level of success.
- 5.21. The variable part of the remunerations of each management board member should be based on short-term success founded on the objectives of long-term success of the company and the success of the management board member in the field of his/her competences.
- 5.22. If not otherwise defined in the nature of individual forms of variable remunerations, the variable remunerations should be determined and paid-out once a year for the previous business year, upon the adoption of the audited annual report approved by the supervisory board except in the event the company is not bound to the auditing of the annual report.
- 5.23. It is recommended that the reward system with variable remunerations for short-term success is formulated so as to enable a management board member who achieves the objectives defined in the annual business plan to acquire variable remunerations amounting to around 50% of fixed remunerations, giving the management board member the possibility of acquiring an unlimited remuneration for exceeding the plan of success. The ratio between the amount of variable remunerations and attained level of success should be as homogenous as possible.
- 5.24. A management board member should be directly entitled to variable remunerations for short-term success (achievement and exceeding of the annual business plan) defined in the Recommendations on the basis of the contract with the management board member and upon the establishment of the fulfilment of criteria for success. Variable remunerations for exceeding the annual business plan to which a management board member is entitled should be paid out up to one half of the amount in cash with the remaining portion paid out in the form of shares.

Remunerations for short-term success

- 5.25. Remunerations for short-term success should ensure the effective and balanced concurrent operation of the management board member to the greatest extent possible, oriented towards the long-term success of the company. The success of such operations should be monitored via quantitative and qualitative criteria on the success of the company and the management board member.

- 5.26. Remunerations for short-term success should be in the form of monetary payments and fringe benefits to which a management board member should be entitled only in the case of achievement of a defined level of success in accordance with the criteria for success being established.
- 5.27. The following indicators should, for example, be used as quantitative criteria:
- capital growth from ordinary operations of the company and its subsidiaries,
 - positive cash flow,
 - capital growth from financial investments and subsidiaries,
 - increase in revenues from ordinary operations of the company or group of companies alongside a non-decreased level of profitability rate of turnover,
 - cost rationalisation and
 - increase in the value added per employee.
- 5.28. The following indicators should, for example, be used as qualitative criteria:
- inputs (research and development, encouragement of innovations, employee training, etc.),
 - processes (risk management, leadership, quality of work and productivity, public relations, investor relations, etc.),
 - non-financial results (employee satisfaction, customer satisfaction and stability, company image) and
 - assessments (social responsibility, ethics, ecology, etc.).
- 5.29. It is recommended that a portion of the fringe benefits of a management board member belong to him/her only under the condition that he/she achieves the defined above-average level of success. The following fringe benefits should as an example be used:
- above-standard pension insurance – in a greater scope than for employees of the company according to plan,
 - luxury class company car, also for personal use and
 - other fringe benefits.
- 5.30. The annual business plan of the company should be approved by the company's supervisory board. Objectives should be clearly defined in the annual business plan of the company, on whose basis the supervisory board formulates criteria for measuring success. The supervisory board should, semi-annually and quarterly for public companies, monitor the fulfilment of objectives of the annual business plan and movements of indicators.
- 5.31. The objectives of the annual business plan, indicators for measuring success and other elements of the mechanism for determining the amount of variable remunerations should represent a legal element for arranging the relationship between management board members and the company (contracts with management board members).
- 5.32. The supervisory board should approve the annual business plan only if the plan has been ambitiously and realistically prepared and considering the success of the previous business year and success of operations

of comparable companies, with respect to other factors which are expected to significantly influence the operations of the company and considering the long-term plan of the company.

Remunerations for long-term success

- 5.33. Remunerations for long-term success should ensure the effective and balanced concurrent work of the management board member to the greatest extent possible for achieving the long-term success of the company. The success of such work should be monitored via value created for shareholders originating from the ordinary operations of the company.
- 5.34. If the management board or a management board member is responsible for the creation of long-term value for shareholders originating from extraordinary operations, the supervisory board should give a member a suitable one-time reward if it assesses this to be just.
- 5.35. Remunerations for long-term success should be in the form of shares, entitlements to options and/or other instruments which will bind the remunerations for long-term success to the movements of capital values of the company and/or movements of share prices. If the company's shares are not traded on the organised market, the movement of share prices is calculated reasonably on the basis of the movement of the capital value of the company.
- 5.36. It is recommended that a management board member acquires during the entire period of his/her mandate the entitlement to options or acquisition of company shares in such a scope that the total price of all shares upon acquisition of the entitlement to options and purchased shares according to the share plan amounts to at least 25% of the annual net fixed monetary payment to the management board member.
- 5.37. Remunerations for long-term success should not possess a maximum ceiling and suitable elements for preventing the manipulation of share price movements should be installed in instruments on the basis of which the management board member acquires the entitlement to such remunerations. A management board member may sell or purchase shares of the company if he/she acquaints the supervisory board of this desire and acquires its consent.
- 5.38. Members of management boards of public companies should be entitled to entitlements to options, acquired under fair conditions. A management board member who acquires shares on the basis of entitlements to options (option plan) or on the basis of a share plan should not be entitled to sell such acquired shares for at least a minimum of 2 years upon cessation of the mandate in which they were acquired. A management board member may only divest such shares in the new mandate if he/she acquires new shares during the new mandate prior to divesting those from the previous mandate.
- 5.39. For non-public companies or companies where entitlements to options by nature are unsuitable, encouragement for long-term success should be based on the movement of the company's capital value. If the movement of the company's capital value (which includes paid-out dividends for the period in question) is used as a criterion for acquiring the right to remuneration for long-term success, then the management board member should be entitled to a defined percentage of the increased value of the capital with respect to the capital balance at the commencement of use of such a criterion. A management board member should acquire the right to a remuneration for long-term success only upon the conclusion of 12 months following the cessation of his/her function under the condition that an erroneous display of capital value was

not established in such an interim period upon cessation of his/her function as a management board member. One half of the amount of such remuneration should be paid-out in money and the other half in shares.

- 5.40. If the company guarantees a management board member shares, the same mechanism as used for the definition of the amount of remuneration and conditions as valid for the acquisition of rights to remuneration shall be valid for an eventual repurchase on the part of the company.
- 5.41. When rewarding beneficiaries with shares and entitlements to options, the supervisory board and management board member must observe regulations regarding operations with the company's own shares.
- 5.42. A management board member of a subsidiary as a rule acquires the shares of the parent company of the subsidiary instead of the shares of the subsidiary.
- 5.43. The relationship between remunerations for long-term success and remunerations for short-term success should be determined based upon the development status of the company. For a company in the initial development phase, a larger share of remunerations should be given for long-term success.

Participation of a management board member in profits and other rewards on the basis of a decision by the general meeting

- 5.44. A management board member's participation in profit-sharing and other rewards on the basis of a decision by the general meeting represent a form of variable remuneration for a management board member which the supervisory board and management board propose for the general meeting to decide on for which they justifiably feel that several or all members of the management board on the basis of the existing system of rewarding were not satisfactorily rewarded for the results attained. It is recommended that the supervisory board and management board recommend to the general meeting that such a manner of additional rewarding of the management board should be performed only if the company has created a profit from ordinary operations following the deduction of taxes in such amount which exceeds the capital yield agreed upon in advance by the supervisory board and management board.
- 5.45. Regarding the proposal of a general meeting decision on the use of the appropriated profit which also foresees the rewarding of the management board, the general meeting should only vote after having been as correctly and as thoroughly acquainted with the business results of the company as possible, business report, all remunerations and all entitlements due to the attainment of long-term success of a management board member to which he/she is entitled to on the basis of the contract with the management board members. It is recommended that several conditions and guidelines for formulating recommendations on the use of the appropriated profit be defined in the contracts with the management board members.
- 5.46. The decision on the use of the appropriated profit should contain elements, on whose basis the share of participation in profits pertaining to each individual management board member can be defined.
- 5.47. Participation in profit-sharing is, as a rule, paid-out 50% in the form of monetary remuneration and 50% in shares whereby the decision of the general meeting must contain the price of the shares based upon which the number of relevant shares per member is calculated.

Compensations, supplements, cost reimbursements

- 5.48. Regardless of whether a management board member is employed in the company or entitled to remunerations and other rights on the basis of other types of contracts with management board members, a management board member should be entitled to all remunerations defined in the Recommendations. A management board member should also be entitled to the reimbursement of reasonable costs and suitable compensations as appurtenant to employees of the company.
- 5.49. A management board member should not be entitled to other remuneration on the basis of the Employment Relationships Act and collective agreements valid for employees (supplements for stability, supplements for special burdens, overtime, additional supplements, recourse and similar remunerations, supplement for length of service).

6. DISCHARGE OF A MANAGEMENT BOARD MEMBER

- 6.1. It is in the interest of the company and management board member that the contract with the management board member defines the manner and conditions for cessation of the mandate of the management board member and subsequent rights and obligations of the company and management board member thereof.
- 6.2. If the management board member performs a function on the basis of an employment contract, the duration of the contract with the management board member should be bound to the duration of the function of the management board member.
- 6.3. The contract with a management board member should contain or foresee all possibilities of cessation of the function of the management board member:
- consensual cessation of function,
 - unilateral discharge of a management board member (by the company) and
 - unilateral resignation of a management board member.
- 6.4. If the function of a management board member ceases consensually, the rights and obligations of the contractual parties should be defined with an agreement, which should however reasonably observe the provisions of the Recommendations.
- 6.5. A management board member, whose function ceases on the basis of an agreement, should be entitled to compensation in the amount defined by such agreement. It is recommended that the severance pay in the amount of a maximum of 50% of the entire annual remuneration of the management board member in the previous business year be defined in the contract with the management board member.
- 6.6. In the event of a unilateral discharge of a management board member, the supervisory board of the company should clearly and precisely define in the contract with the management board member the possible reasons for a discharge and separate them into those originating from the sphere of the management board member and those which do not originate from the sphere of the management board member. Violations of the contract with a management board member due to reasons for which the

management board member is responsible should be included as a reason originating from the sphere of the management board member.

- 6.7. A management board member who is discharged due to a reason existing from the second paragraph of Article 250 of the Companies Act which originates from the sphere of the management board member, as a rule, is not entitled to compensation. Similarly, he/she is not entitled to compensation if his/her function ceases due to the expiration of his/her mandate for which he/she was appointed. The contract with a management board member should indicate that the non-achievement of the key elements of the business plan are deemed as reasons for the discharge of a management board member if it arises from the sphere of the management board member and for which he/she is responsible. The most significant elements of the business plan should be defined in both the contract with management board member or in the one-year annex to such a contract.
- 6.8. A management board member who is discharged without the existence of the reason defined in the second paragraph of Article 250 of the Companies Act (illegal discharge) or due to the existence of the reason defined in the second paragraph of Article 250 of the Companies Act which does not originate from the sphere of the management board member should be entitled to a compensation in the amount of the remuneration which the management board member would have been entitled to until the end of his/her mandate, however up to a maximum of 100% of the average total annual remuneration (exclusive of remunerations for long-term success). A management board member should be entitled to such compensation on the condition that he/she submits a written consent to the contract with the management board member or a special statement in which he/she consents to there being an event of damage arising and caused to him by the discharge, otherwise he/she should not be entitled to compensation.
- 6.9. A management board member should be prohibited for at least 1 year following the cessation of his/her function from performing a function in another company (competitive clause) whose activities are or could be competitive to the company in which he/she performs a function under the condition that a suitable compensation for observing the competitive clause is ensured to him/her. Compensation for observance of the competitive clause should be guaranteed to a management board member in the contract with the management board member in an amount of between 50% and 80% of the fixed remuneration which he/she would have been entitled to in the period for which the competitive prohibition is valid if his/her function had not ceased.
- 6.10. If a management board member is entitled to compensation due to observance of the competitive prohibition upon the cessation of his/her mandate, the severance pay defined in the Recommendations should be decreased by the amount of paid-out compensation to which the management board member is entitled.
- 6.11. The management board member should not resign from his/her function at an inappropriate moment. If he/she violates this, he/she should be responsible for payment of the contractual penalty in the identical amount defined for the amount of compensation which such management board member would be entitled to if he/she was discharged due to reasons not originating from the sphere of the management board member. Regardless of the other provisions of this paragraph, a management board member is not obliged

to pay the contractual penalty is he/she acted with the due skill, care and diligence of a good economist regarding the assurance of succession in the company and handover of business.

- 6.12. A management board member should be obliged upon the cessation of his/her function to ensure and participate in the handover of business, work and tasks, all business contacts and other significant business data and inform his/her successor of the opportunities and threats in connection with his/her operations and the company's operations.
- 6.13. A management board member should, following his/her discharge and in other cases following the cessation of his/her function, be prohibited from issuing statements to the public which could damage the interests of the company. Similarly each such act should be prohibited for his/her representative and other persons affiliated with him/her or his/her representative.

7. LOYALTY OF MANAGEMENT BOARD MEMBERS

- 7.1. A management board member should be loyal to the company in all areas of operations for which he/she performs the function of a management board member.
- 7.2. When making decisions, a management board member should not place his/her own interests above those of the company and should not exploit the business opportunities of the company for his/her own account.
- 7.3. A management board member must immediately disclose the existence of a potential or existing conflict of interest to the supervisory board of the company in which he/she performs the function of a management board member, and inform remaining members of the management board of this fact.
- 7.4. All business between the company (or its affiliated persons) and the management board members (or their affiliated persons) in which the management board member is personally present or in anyway holds a personal interest, must be concluded in accordance with good business practices and the consent of the supervisory board.
- 7.5. A management board member in his/her work may not demand from a third person nor accept any type of monetary payment or other advantage for himself/herself or for any third person nor guarantee a third person any advantages which would be illegal or contrary to good business practices.
- 7.6. During the period of performance of his/her function, a management board member may not without the consent of the supervisory board perform profitable activities in the area of the company's activities, or conclude transactions for his/her own account or for the account of third persons, or become the owner of shares or a business share of a company which performs activities which are competitive to the activities of the company in which he/she performs the function of a management board member. A management board member may not acquire a business share in a competitive company.
- 7.7. A management board member should at least within a period of two years following the cessation of his/her function as a management board member not establish a competitive company and should not offer or namely conclude a working relationship or other type of contract on the performance of work, services or transfer of proprietary rights to any employee of the company in which he/she performed the function of a management board member or its affiliated persons.

8. CONTENTS OF THE CONTRACT WITH A MANAGEMENT BOARD MEMBER

- 8.1. The contract with management board members should contain the following contextual topics:
- clear definition of the type of contract being concluded indicating that it regards a contract with a management board member,
 - obligations of the management board member in connection with the annual business plan and strategy of the company,
 - obligations of the management board member regarding cooperation with members of the supervisory board in connection with the management succession plan,
 - fixed monetary payments, variable monetary payments and fringe benefits,
 - competitive prohibition and competitive clause, together with compensations,
 - protection of business secrets and other confidential information,
 - protection of the company's image,
 - cessation of the mandate and cessation of the validity of the contract with the management board member,
 - severances and
 - if it regards an employment contract, additional mandatory components in accordance with the Employment Relationships Act.
- 8.2. The contract with a management board member should clearly bind the right to variable remunerations for the achievement of success. The annual business plan and strategy should be adapted on an annual basis and should be a constituent part of the contract with the management board member. The annual business plan should define measurable priority objectives and tasks whose non-achievement means the non-achievement of the business plan as a whole and which represents a reason for the discharge of the management board member.
- 8.3. Criteria or indicators which are important for determining the existence and amount of variable remunerations of a management board member should be known to the management board member in advance and should be defined annually upon the adoption of the annual business plan.
- 8.4. The contract with the management board member should precisely and in detail arrange the question regarding loyalty of a management board member to the company. It should also arrange in detail the question regarding the prohibition of competition, protection of confidential information and protection of the company's image. The contract with the management board member should define as clearly as possible what comprises a competitive activity and what a competitive company is.
- 8.5. The supervisory board and management board shall for each separate contract with a management board member review and agree on individual elements of such contracts to the greatest extent possible so as to adapt individual contracts with management board member to the concrete relationship between the management board member and the company. The supervisory board and management board should in

each case separately judge what level of importance will be given to the individual recommendations in the Recommendations and individual contractual elements.

- 8.6. The contract with a management board member may define that a management board member should, as a rule, only accept membership in a supervisory board in an unaffiliated company following the prior consent of the supervisory board of the company in which he/she performs the function of a management board member.
- 8.7. The contract with a management board member may define that the management board member must acquire the consent of the supervisory board for the acceptance of obligations outside the tasks which he/she performs on the basis of the Companies Act and the contract with the management board member.

9. TRANSPARENCY OF REMUNERATIONS OF MANAGEMENT BOARD MEMBERS

- 9.1. Management board members should endeavour to disclose all their remunerations to the shareholders of the company in which they perform their function as management board members.
- 9.2. The supervisory board should, in the contract with a management board member or in a separate document, acquire a written consent of the management board member for the publication of data on his/her remunerations.
- 9.3. The total remunerations (monetary payments, reimbursements and other fringe benefits) of management board members should be evident in the notes to the financial statements. Payments should be disclosed for each management board member separately.
- 9.4. Upon disclosure, payments should be classified according to the following groups:
 - fixed remunerations,
 - variable remunerations,
 - remunerations for short-term success,
 - remunerations for long-term success,
 - remunerations for the increase in capital value of the company,
 - data on the status of conferred entitlements to options and remunerations of management board members based on entitlements to options,
 - data on the remunerations of management board members on the basis of acquired shares of the company or affiliated companies,
 - participation in profit-sharing and
 - other remunerations of management board members by type of remuneration.
- 9.5. If a management board member is also rewarded with the shares of the company, these remunerations should be indicated in different groups, with monetary and share payments shown separately.

10. TRANSITIONAL AND FINAL PROVISIONS

- 10.1. Wherever possible, supervisory board members should use the Recommendations for reformulating existing contracts with management board members, otherwise the supervisory board members should use them for the conclusion of all newly concluded contracts with management board members.
- 10.2. If in accordance with the Recommendations variable remunerations are introduced anew or introduced in an increased scope with respect to the existing status of arranging remunerations of management board members, the supervisory board should, when formulating the amount of the total remunerations, take into account the increased responsibility and risk of the management board member in achieving business result and thus the creation of his/her own remunerations. In this case, the portion of fixed remunerations should be lower in the total remunerations; however, management board members possess, upon above-average success of operations, a possibility of considerably increasing their variable remunerations and thus their total remunerations.

11. VALIDITY OF THE RECOMMENDATIONS

- 11.1. The Recommendations shall enter into force when adopted by the Administrative Board of the Association of Supervisory Board Members and shall be published on the Website of the Association of Supervisory Board Members: www.zdruzenje-ns.si.

Branko Pavlin, M.A.

Chairman of the Association of Supervisory Board
Members

Ljubljana, 23 June 2005