MONTENEGROBERZA
MONTENEGRO STOCK EXCHANGE

CORPORATE GOVERNANCE CODE IN MONTENEGRO

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CORPORATE GOVERNANCE CODE
IN MONTENEGRO

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FOREWORD

Corporate Governance is understood as the system by which companies are directed and controlled. As empiric research shows, companies abiding to good corporate governance usually will perform better than their counterparts that do not. One reason is that through improved mechanisms of direction and control, competencies are better allocated and the entire decision process is better driven. The second is that companies with good corporate governance inspire more confidence, hence attracting more investors. Both of these elements, help companies with good corporate governance outperform companies with poor or non existing standards in this field.

In several countries, Stock exchanges are the necessary vehicles to provide companies with low cost financing. In this region, due to the transition in the economy and the privatization process, stock exchanges have not been able to fully fulfill their missions, as their counterparts in other countries. We believe their role will be reinforced after this financial crisis, as banks will be more restrictive in their activity of lending.
This Corporate Governance Code is aimed at helping the Stock Exchange and ultimately the companies in the country, to adopt and embrace principles that are clear and well understood, not only in the country but also internationally. This ultimately will help increase the confidence of investors, bringing funds to companies.

A code per se is not a law or a regulation. It is not meant to be mandatory. Its purpose is to provide a set of good practices that companies are to strive towards.

Of course this is just the beginning, but we feel that the adoption and dissemination of this Corporate Governance Code is an important step.

This Corporate Governance Code is part of our activities in the region to promote corporate governance. For the last three years, IFC, a member of the World Bank Group, has been implementing a Corporate Governance Program in Southern Europe, covering Albania, Bosnia and Herzegovina, Macedonia and Serbia. The overall financing has been provided by the State Secretariat for Economic Affairs of Switzerland (SECO).

Juan Carlos Fernandez Zara, Regional Manager (IFC Corporate Governance Program in Southern Europe)

DEAR

The key of the success of any activity is in the synergy of each single part, which determines its commencement, course of action, and final outcome. According to this, a sound and successful company, well positioned in the market and with vision, is determined by the synergy of all participants such as: shareholders, investors, management, employees, suppliers, partners, and environment, in other words, all its stakeholders. The partnership between stakeholders is being built and is growing stronger over time. It becomes a force of the company's further successful development.

"Good" corporate governance, which is based on clear rules and procedures, brings about the company's future success, and it directly influences the investors' decisions. Investment decision making process cannot be imagined without a wide application of corporate governance quality indicators, which determines the level of protection of investors' interests and as such significantly participate in the process of investment risk assessment.

The interest of all business organizations, which want to use the market potential, permanently enhancing the corporate relations, and hence increasing investors' trust in securities, is indisputable.

The Corporate Governance Code in the Montenegrin capital market resulted from the need of further development of our market. Listening to the needs and desires of participants in the market, above all – the investors, we have understood that certain way of doing business, business procedures, principles, and business ethics should be transformed in the written document: the Corporate Governance Code, which the company will accept or explain the discrepancy from it.

The Code is the result of cooperation between the Montenegro Stock Exchange and the IFC. It has been produced with the contribution of distinguished domestic and foreign experts. With their constructive suggestions, the experts from domestic capital market also gave their input to the existing content of the Code.

The Montenegro Stock Exchange initiated a first step by launching the Corporate Governance Code. It is up to the market and companies, which shares are being traded on a daily basis, to transform it in the world of real activities. By launching and implementing the Code, together with you we will do our best to move our market in the new development phase.

Dejana Šuškavčević MA, CEO of Montenegro Stock Exchange

INTRODUCTION

The Corporate Governance Code represents a set of best practice recommendations in respect to corporate governance in order to encourage the establishment of the system of good governance, as well as to create conditions for a long-term sustainable development of joint stock companies. The Code objective is to encourage and alert shareholders and important stakeholders (i.e. employees, creditors, partners and broader company environment, etc.) to cooperate actively and at the same time to excersize their rights adequately, because it is the only way to enable successful business operations of the companies.

The Code is primarily intended to joint stock companies whose shares are listed at the Stock Exchange. The purpose of the Code is to thoroughly define principles of managing and governing of joint stock companies. In addition, the recommended practice may be applied to other companies accepting transparent and clear governance system, hence promoting trust of local and foreign investors, employees, and the public into the Montenegro system of corporate governance.[1]

The Code includes the Montenegro legislation, business ethics principles, and internationally recommended best practice of accountable and good corporate governance.

The corporate governance code has become an inevitable element of business reports including annual reports of companies and it is based on the principle **„comply or explain"**. This principle enables the companies to deviate from the recommendations of the Code, therefore allow them to develop their own business principles. However, the companies listed at the stock exchange are expected to adhere to the Code recommendations and if they fail to abide by them, they are to elaborate which recommendations they have not applied, as well as reasons behind it.

[1] The Law on Securities, The Law on Business Organizations, White Paper On Corporate Governance

LETTER OF THANKS

The Corporate Government Code of the Montenegro Stock Exchange emerged as the result of the cooperation between the Montenegro Stock Exchange and the International Financial Corporation (IFC), within the Program of Corporate Governance in the Southeast Europe, which is being implemented with the financial support of the Swiss State Secretariat for Economic Affairs (SECO).

The Code was adopted at the ninth session of the Board of Directors of the Stock Exchange, which took place on May 13th, 2009.

A number of domestic and foreign experts from the field of corporate governance gave the valuable support to the Stock Exchange in putting together the Code.

It is our pleasure to express our gratitude in respect to expert opinion and suggestions, which significantly contributed for the Code to better reflect a specific domestic regulatory environment, as well as the need and possibility of enhancing the corporate governance practice in Montenegro.

Special thanks go to:
- Dragan Radonjic, Prof. PhD.
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- Neda Ivovic, Secretary of the Security Exchange Commission of Montenegro

In the same time, we thank for their contribution in putting together Code to international experts from the IFC Global Corporate Governance Code Peer Review Group.

CONTENTS

GENERAL PROVISIONS–THE CONTENT AND STRUCTURE OF THE CODE

According to its content, the Code represents a set of rules and principles aimed at improving the corporate governance practice, which are articulated in the structure of the Code through the following:

1. Recommendations whose implementation is linked to the application of the rule **„COMPLY OR EXPLAIN"** that implies a mandatory implementation of recommendation or explanation of reasons for non-compliance. In the text of the Code, recommendations are indicated by a word „should", i.e. „should not"; and

2. Provisions whose intention is to more closely indicate the desirable practice of the corporate governance and methods for an efficient realization of the recommendations' objectives. These provisions are indicated by the following words „it is proposed", „may", „for example", etc.

SECTION 1
KEY STAKEHOLDERS OF THE CORPORATE GOVERNANCE

SHAREHOLDERS AND THE GENERAL MEETING OF SHAREHOLDERS

Article 1

A company should provide for an equal treatment and protection of rights of shareholders, and undertake measures and action stimulating shareholders to take an active role in business activities and decision making process of the General Meeting of Shareholders, and particularly to do the following:

1. regulate issues regarding the status and rights of shareholders by by-laws in a comprehensive way;
2. establish mechanisms for a consistent and efficient implementation as well as the supervision of the implementation of the by-laws of the company;
3. enable for a comprehensive and timely provision of information to shareholders in respect to all the issues concerning their status and rights;
4. establish mechanisms to prevent and solve potential conflicts among shareholders and the company;
5. provide shareholders with an adequate documentation necessary for an informed decisionmaking at the General Meeting of Shareholders within the shortest possible period of time and in a manner which enables the easiest access to such documentation (company's publications, company`s website, e-mail distribution, or other tehnical means that enable both fast and complete information about relevant facts).

Article 2

When setting conditions for an active participation of shareholders in the work and decision making of the General Meeting, a company should take care of the following:

1. a place where a session of the General Meeting of Shareholders will be held should be decided in a way to allow for the largest presence of shareholders along with optimal costs;
2. hand-outs to be submitted to the shareholders should contain overall information and explanation of proposed solutions to the issues that are on the agenda of the session of the General Meeting, supported by the relevant documentation;

3. for the shareholders to have an opportunity to gather additional information on issues from the agenda of the General Meeting of the Shareholders even prior to the General Meeting, in conformity with the principle of equal treatment of all shareholders; a person responsible for communication with shareholders is a Secretary of the company, who should be available for providing any information requested by shareholders at least 20 days before the General Meeting of Shareholders, either in direct communication or in any other form enabling shareholders to have a direct insight into requested information.

Article 3

The company shall adopt precise procedures for holding the sessions of the General Meeting, with clear procedures to be applied in the case of disagreements among shareholders.

The company shall particularly regulate rules of procedures concerning the issue of exercising the rights of shareholders to ask questions and obtain answers in respect to issues on the agenda of the General Meeting, as well as conditions under which the shareholders shall not be denied the right to answers in respect to the question raised. Possible restrictions related to the exercising of the shareholder's rights, a company should set restrictively and exclusively in order to prevent for the work of the General Meeting to be jeopardized.

Article 4

A company should develop efficient methods of informing the shareholders that will allow for all the shareholders to be equally intoroduced with the following:

1. their rights and obligations, and exercising and protection of their rights;
2. issues important for the operations of the company;
3. important changes in the company shareholder structure;
4. other issues important for protection of the status and interests of the shareholders.

A company is advised to adjust the model of informing the shareholders to the characteristics of the shareholder structure, and therefore, besides those prescribed by the law to apply other adequate communication means, such as e-mails, which correspond to possibilities of the majority of shareholders, within 30 days from the date of decision making at the General Meeting.

Article 5

A company should encourage a transparent communication between the shareholders and the management even beyond the sessions of the General Meeting, in accordance with the principle of equal treatment of all shareholders.

It is deemed that the company meets the requirements stated in the previous paragraph if it publishes all the documentation required for informed decisionmaking at the company`s website or through other adequate communication means suitable for informing shareholders of the company.

BOARD OF DIRECTORS

Article 6

A company should determine the size (number of members) and the main criteria for the election of the members of the Board of Directors by the Rulebook of the comapny, guided by the need to organize this body in a manner to enable it to perform the entrusted assignments professionally, efficiently and in the best interest of the company, respecting the appropriate level of independence in the work and decision making.

Article 7

The main criteria for the election of members of the Board of Directors should enable:

1. or the structure of the Board of Directors to be a combination of different knowledge, and professional and practical experience, which will reflect the balance of qualifications harmonized with the structure and core business operations and future outlook of the company;
2. that structure of the Board of Directors consists of persons who have appropriate personal qualities that reflect high moral standards and willingness for an active and impartial participation in the work and decision making of the Board of Directors;
3. prevention of potential conflicts of interest between members of the Board of Directors and the company.

A company is advised to request criteria, which require that specific number of members of the Board of Directors possess special professional knowledge of company's management activities.

A company is suggested to adopt the criterion of independence of the members of the Board of Director`s, i.e. to request that a specific number of members of the Board of Directors are independent of the company. It is proposed for the members of the Board of Directors not to be conisedered independent if: the person, or its close family member, was previously member of the management of the company, is a major shareholder of the company, a major supplier, a client, etc.

It is suggested to a company to identify persons deemed to be related parties and to specify when dealing with these persons represents a conflict of interest and when it is forbidden. It is also suggested that a company specifies situations when dealing with related parties is allowed but requires additional approvals from the other members of the Board of Directors. When defining related parties, it is recomended for the company to include persons who are:

- in blood relationship in an ascendant line regardless of the degree and in a collateral line within the second degree, in-laws within the first degree as well as adoptive parent and adoptive children;
- in marital or non-marital unions;
- related through managing or through capital ownership, so that one or more persons act in concert have a share of stock, own shares or other rights on basis of which they participate in management of the other person with at least 40% of voting rights;
- related through managing or through capital ownership, so that one or more persons act in concert have a share of stock, own shares or other rights on basis of which they participate in management of each of them with at least 40% of voting rights;
- related through signing an agreement to act in concert towards the company;

Article 8

In order to consider whether the criteria for membership in the Board of Directors of the company are met, prior to making the decision on the election of members of the Board of Directors, the shareholders should have enough information on the proposed candidates, including:

1. basic biography data on a candidate, including data on education qualifications and special professional knowledge;
2. data on membership in boards of directors of other companies;

3. data on the previous working experience and jobs they are currently performing;

4. the report of the candidate on his/her up-to date work for the company or in the company;

5. possible recommendations by persons or companies they cooperated with;

6. information on existence and nature of relations between the candidate and the company, related parties to the company, companies with competitive business operations and main business partners of the company;

7. data on a possible punishment for an act that makes him/her unworthy of performing the function of a member of the Board of Directors.

A constituent part of reporting to shareholders by the Board of Directors should also be the information on relevant changes that refer to the prescribed criteria and that have occurred to the members of the Board of Directors between two sessions of the General Meeting, and refer to the members from previous board, which were proposed for re-election.

Article 9

The procedure of election of members of the Board of Directors should be clearly defined and transparent, and should take care of an adequate participation of minority shareholders in making decision on the election of members of the Board of Directors of the company.

Article 10

Company's Statute and Rulebook on the operation of the Board of Directors should precisely define obligations of the Board of Directors, particularly encompassing, besides the legally prescribed field of business activities, the following ones:

1. monitoring and evaluation of business performance within the scope of the defined business policy of the company, as well as the risks that the company is exposed to in respect to its business operations related to defining the proposal of the business development strategy of the company;

2. supervision of a potential conflict of interest and transactions of related parties;

3. taking care of implementation and protection of shareholders' rights, as well as taking measures and activities for preventing and solving conflicts

between shareholders and the company;

4. taking care of legality of business operations of the company;
5. taking care of the communication with the shareholders.

Article 11

The Board of Directors should perform activities under its scope of work according to clearly defined written rules and procedures, which should provide for the sessions of the Board of Directors to be well organized and held regularly, with an active participation of members of the Board of Directors.

Article 12

In order to organize productive and efficient sessions of the Board of Directors, rules and procedures for organizing sessions of the Board of Directors should include all issues that should enable each member of the Board of Directors to take an active part in the Board's sessions and in managing the company`s affairs that fall into the scope of work of the Board of Directors on abest efforts basis.

Article 13

The Board of Directors should be obliged to analyze and evaluate the quality and efficiency of its work at least once a year, and to determine possible measures and activities for its improvement. Company is suggested that information on measures and activities for improvement of the work of the Board of Directors should be a constituent part of annual reporting to shareholders of the company in respect to the work of this body of the company.

The process of evaluation of work of the Board of Directors should particularly include:

1. evaluation of quality of operational work of the Board of Directors;
2. evaluation whether important issues were adequately prepared and considered;
3. evaluation of contribution of each member of the Board of Directors to the work of this body, particularlly with reference to their presence at the Board of Directors sessions and constructive contribution to discussions and decision making;
4. evaluation of the Board of Directors structure in terms of the need for possible revision of the defined criteria;
5. evaluation of independence of members of the Board of Directors in

Evaluation should be performed by the Board of Directors, at least at the end of its mandate with the aim: to check if the company is well-runned, sustainable and governed true to its mission; to shift the focus from routine governance matters and to reflect on how well the Board is meeting its governance responsibilities; to establish a common understanding of the Board's roles and responsibilities, as well as to identify critical areas for improvement. The self-evaluation should be made by each member of the Board and delivered to the General Meeting of Shareholders for adoption.

Article 14

Company is advised to provide conditions for continuous training of members of the Board of Directors by getting them acquainted with international experience in the best practice of work of such bodies, and particularly in the fields of activities wherein certain weaknesses have been discovered.

Company is advised to have defined and implemented clear procedures for the introduction of first-time elected members with the work of the Board of Directors of the company in the period prior to his/her election.

In the cases when not all the members of the Board are elected for the first time, the Board of Directors members of the previous session should also take care of informing the members who are nominated for the first time on all relevant issues.

RIGHTS AND OBLIGATIONS OF MEMBERS OF THE BOARD OF DIRECTORS

Article 15

Duties of members of the Board of Directors, particularly their obligations, should be prescribed more thoroghly by company's by-laws:

1. while performing the function of a member of the Board of Directors to base decisions on professionalism and competence , conscientiously, with reasonable belief that they are acting in the best interest of the company;
2. to abide by rules and constraints related to concluding business when there is a conflict of interest and competition ban, including the obligation to keep other members informed of all potential conflict of interest that they may

have while performing the function of the member of the Board of Directors;

3. to keep members of the Board of Directors and competent bodies in the company informed of all parties related to them that may be considered as the insiders of the company;

4. to consider data and materials furnished to them by the company for the purpose of performing the function of a member of the Board of Directors, which are not publicly available, as confidential and treat them as such throughout their mandate and after termination of the function of a member of the Board of Directors of the company, until the information losses its confidential status;

5. to keep the company informed (particularly when independent members of the Board of Directors are concerned) about all changes in their working engagement, membership in boards of directors of other companies, as well as related parties of the company, companies with competitive business operations and kay business partners of the company.

Article 16

Companies should have established efficient operational mechanisms for securing truthful, timely, comprehensive and equal information provision to all the members of the Board of Directors on issues relevant for performing their functions.

Article 17

Before acceding to the function of a member of the Board of Directors, members of the Board of Directors should be obliged to get acquainted with their rights, obligations and responsibilities stipulated by the law and by-laws of the company, and to confirm it by their statement, which could be a constituent part of the contract that members of the Board of Directors conclude with the company.

CHAIRMAN OF THE BOARD OF DIRECTORS

Article 18

When electing the Chairman of the Board of Directors, members of the Board of Directors should be guided by the criteria that enable election of a person of exceptional professional reputation and personal integrity, who is committed to the interests of the company and enjoys trust of shareholders and other members of the Board of Directors.

Article 19

By-laws of the company should define in detail duties of the Board of Directors Chairman, and particularly his/her key functions and assignments, such as:

1. managing the work of the Board of Directors and taking care of its efficiency,
2. communication with the Executive director of a business organization,
3. developing constructive relations among members of the Board of Directors.

Article 20

The role of the Board of Directors Chairman should also encompass his/her obligations to facilitate the work of the Board of Directors, and to that end:

1. to take measures and activities to prevent and overcome possible conflicts between members of the Board of Directors,
2. to propose issues upon which the Board of Directors should make the decision,
3. to initiate formulation of decisions of the Board of Directors.

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Article 21

Companies should adopt and implement a transparent, competitive, fair and accountable remuneration policy for members of the Board of Directors. In this regard it is suggested to companies that General Assembly adopts the "declaration of remuneration policy" as a separate act, and makes it public. It shall define main elements of the remuneration policy for members of the Board of Directors, as well as criteria for its concretization.

Article 22

When defining the remuneration policy for members of the Board of Directors as well as determining the rate of individual remunerations, the company should secure that:

1. the adopted methods of remuneration and individual remuneration rates are at the level that is sufficiently attractive and competitive to motivate engagement of persons who meet professional and other criteria necessary for the company;

2. remuneration rate corresponds with tasks and volume of engagement of members of the Board of Directors,

3. remuneration rates reflect business capacities and long-term interests of the company.

4. it is proposed to the business organization for the variable fee, which belongs to the Board of Directors, to reflect contribution of the Board of Directors to the business success of a business organization, and it is determined as a percentage of a net profit, with the condition not to endanger development of business organization.

Article 23

Remuneration policy should be the subject of evaluation and analysis, and with reference therewith of harmonization with needs, capacities and interests of the company, as well as changes of other determining criteria.

BOARD OF DIRECTORS COMMITTEES

Article 24

For the purpose of increasing efficiency and quality of its work, the Board of Directors may form committes, as professional advisory working bodies. Forming of committes of the Board of Directors does not imply transferring of powers from the Board of Directors to the committes, and the Board of Directors shall remain accountable for powers determined by the law.

The role of a Board of Directors committe is to assist the Board of Directors in the decision making process on individual issues, and in that context to:

1. enable for the Board of Directors to address a larger number of complex issues in a more efficient manner with the support of experts appointed in committees;

2. enable for the Board of Directors to be provided with an expert opinion in specific fields of company's business.

Article 25

When deciding about establishing committees and about their number, the Board of Directors should also consider a potentially negative impact that inappropriately large number of committes may have on the efficiency of work of the Board of Directors.

It is recomended to form the Board of Directors committes cautiously and gradually, starting from committees in the most critical fields of activities.

Article 26

When electing the chairman and members of a committe, the Board of Directors should respect the following criteria:

1. chairman and members of the committee should have adequate knowledge and experience in the field that is the subject of work of the committe;
2. number of commitee members (including the chairman) should correspond with the needs of conducting the assigned activities;
3. the members of the committees may be members of the Board of directors of the same company;
4. if the committee work includes time-consuming engagement of its members, when electing the members one should take into account their current obligations and assess their real capacities to be adequately committed to activities they have been entrusted with.

It is proposed that the decision on forming a committee also regulate the scope of responsibilities, method of work and obligations of the committee towards the Board of Directors.

Article 27

A need for having committes in small companies is not great. The Board of Directors is advised to form the following committees:

1. Committee for Appointments,
2. Committee for Remunerations, and
3. Committee for Audit.

The Committee for Appointments should play an active role in respect to the procedure of determining proposals for persons to be members of the Board of Directors, formulation of criteria for election of the above mentioned persons, and monitoring the efficiency and appropriateness of the company's managerial staff policy, as well as proposing possible changes.

The Committee for Remunerations should play an active role in defining

the remuneration policy of the company, as well as in determining concrete proposals for individual remunerations to members of the Board of Directors, executive directors and auditors. The work of this Committee should also include consideration of appropriateness of the given remunerations as compared to business operations of the company and trends of the same kind of remunerations in other comparable companies, and it should formulate opinions and proposals for their possible correction.

The Committee for Audit should help to the Board of Directors to make supervision over conducting of supervisory activities, and particularly to review the quality of financial statements of the company, implementation of accounting standards, accuracy and completeness of financial statements. The Committee for Audit should prepare a proposal for nomination of the external auditor and submit it to the Board of Directors. The Committee should examine internal audit and periodical financial statements before they are publically disclosed.

Article 28

The Board of Directors may also form other committes, such as:

1. Committee for Strategic Planning, Finance and Risk Management – as a support in carrying out activities from the domain of designing the business operations strategy and goals of the company, setting of business priorities, development of dividend policy, determining key indicators of business operations, etc.

2. Committee for Development of Corporate Governance – as a support to carrying out activities of monitoring the implementation of the plan and program of improvement of corporate governance in the company.

3. Committee for Conflict resolution within the Company – as a support to monitoring and securing clear formulation of the rights of shareholders within the company, and development of procedures for following them, as well as defining proposals for policy and procedures for resolution of possible disputes.

CHIEF EXECUTIVE OFFICER

Article 29

A Chief Executive Officer of the company should be a person who has appropriate both professional and personal qualities, and for whom there is a justified belief that:

1. he/she will enjoy the trust of members of the Board of Directors,

2. he/she has adequate organizational abilities and skills to implement his/her knowledge and experiences in practice through both direct decision making and through assigning activities and tasks to employees he/she is directly managing,

3. he/she is not in conflict of interest towards the company.

Article 30

The Board of Directors of the company should periodically make the evaluation of work of the Chief Executive Officer based on the previously established key performance indicators.

The Board of Directors of the company should formulate competitive, fair and transparent policy of remuneration of the Chief Executive Officer that offers enough opportunities to stimulate and attract professional and skilful individuals.

The companies are advised to structure individual remuneration for Chief Executive Officer based on the two components:

1. fixed remunerations – representing basic earnings based on the factors related to professional biography and experience of the executive officer, as well as remuneration practice in similar companies,

2. variable part – that is linked to the results of the company's business activities and contribution of the chief executive officer to the results achieved.

SECRETARY OF THE COMPANY

Article 31

Companies should consider the role of the Secretary of the Company in the sense of:

1. providing legal and organizational support to the management bodies in performing their functions in compliance with the adopted management policy while observing regulatory requirements and internal corporate rules,

2. development of policy and practice of corporate governance through: monitoring the alignment of business operations of the company with an adopted corporate governance policy, informing the Board of Directors of identified deficiencies with a proposal for their elimination, as well as the measures for revising the corporate governance policy of the company,

3. protection of shareholders' rights by carrying out activities of: organizing the General Meeting, maintaining links between shareholders and the company, rendering assistance to shareholders in exercising their rights, as well as activities with reference to resolving potential conflicts between shareholders and the company,

4. providing a high level of openness and transparency of business operations of the company – by carrying out the activities of assistance and support to directly competent bodies and persons in performing their duties in due course and in giving full information to the public and competent bodies,

5. establishing efficient internal communication between bodies and working bodies of the company,

6. Articles of Association or the Statute of the company should define in detail individual competences of the Secretary of the Company, as well as the obligation of bodies and working bodies of the company to cooperate with the Secretary of the Company when conducting activities that refer to their scope of work.

Article 32

When selecting and appointing the Secretary of the Company the Board of Directors of the company should be guided by personal and professional qualities of candidates, particularly taking into account that:

1. the selected person has appropriate knowledge and working experience in the field of Corporate Law and Securities Law, as well as corresponding communication and organizational skills necessary for carrying out the activities of the Secretary of the Company,

2. there are no circumstances that could have a critical impact on independence of the work of the Secretary of the Company.

SUPERVISION AND CONTROL ACTIVITIES

Article 33

A company should consider supervision and control activities as a process to be carried out by the Board of Directors, within its competences, that should, at the same time, take care of:

1. correct implementation of legal regulations, accuracy and completeness of accounting records, as well as preparation of reliable financial information in due time;

2. following established procedures and proceedings for securing accurate and efficient business operations of a company;

3. compliance with the established business policy at all levels of business operations of the company;

4. preservation of company's assets;

5. prevention and detection of criminal activities and errors in business operations of the company;

6. securing a qualified and independent external audit of financial statements of the company;

7. other issues stipulated by the law and company's by-laws.

Companies should pay a special attention to establishing mechanisms of supervision and control in the areas of protection from the abuse of privileged information, prevention of market manipulation, approval of business operations when there is a conflict of interest, and anti-corruption effort.

A company is advised to appoint an internal auditor in order to enable accuracy and completeness of accounting records, as well as prepare reliable financial information within the deadline.

Article 34

In order to provide for an efficient excersice of supervision and control effort, a company is advised to define and develop indicators with the purpose to alert the persons competent for supervision in the company, on the need of examination of individual activities of the company. Some of these indicators may encompass phenomena such as:

1. conclusion of complex business arrangements without great practical purpose;

2. large income obtained from transactions concluded just before the end of the accounting period;

3. insufficiently argumented public statements, which project the future success and growth of the value of the company;

4. inconsistency and contradiction between reports by the management and financial statements of the company;

5. close or absolute match between projected and accomplished business results;

6. lack of or avoiding to submit details by competent persons regarding the issues in financial statements;

7. frequent differences in views between the management of the company and external auditors;

8. unusual changes and deviations in the balance sheet and other financial statements;

9. deviation from the standards of accounting practice typical for the business activities of the company.

Article 35

Company may select an individual (internal auditor) or collective supervisory body (Supervisory Board) - hereinafter: supervisory bodies.

When deciding for one of the possible forms and structures of the supervisory body, a company should be guided by its own needs and capabilities, taking into account that the form, size, and structure of the supervisory body corresponds with actual needs for efficient execution of entrusted activities.

Article 36

A company is advised to define criteria for the election of members of supervisory bodies, primarily in terms of personal and professional qualities to be met by these persons.

Article 37

In order to provide for a high level of independence in decision making and work of the supervisory body, requirements for the election of its members should also encompass:

1. limitation of the number of successive mandates of persons to be elected;

2. limitation of participation of these persons in supervisory or other bodies of other companies;

3. limitation of cross-membership in legal entities (mutual overlapping of membership in the Board of Directors and Supervisory Boards of two legal entities).

INDEPENDENT (EXTERNAL) AUDITOR OF THE COMPANY

Article 38

When regulating the issues referring to the selection of an independent auditor

as well as the performance of external audit of financial transactions of the company, a company should, with observance of legal rights and obligations, pay special attention to the issues of:

1. securing an active participation of the supervisory body and competent committee of the Board of Directors in the procedure of defining the proposal for selection of an independent auditor of the company, and in determining the level of remuneration for his/her services;

2. regulation of mutual relations between the company and external auditor;

3. securing independence of the work of the external auditor.

Article 39

When selecting an independent auditor, a company must consider prior fulfillment of independence criteria.

The company is advised to enumerate special conditions which auditor must fulfil in order to be considered as independet, i.e. situations which represent the conflict of interest that should be avoided. It is advised that auditor may not be independent if:

- performs certain services to the company which are not directly related to services of financial statements' audit and that may create economic motives which may inadequately impact audit of financial statements;
- performs certain non-audit related services, irrespective to profit, that are such to make inherent conflicts that cannot lead towards objective audit.

A company is advised to prescribe conflict of interest situations between auditor and company – the client. The company is advised to prescribe that conflict of interest is especially considered in the situations when there is:

(a) Financial connection between auditor and company-client;

(b) Employment relation between auditor and company-client;

(c) Business connection between auditor and company-client, which is not related to audit;

(d) Relation through transactions which are not related to audit.

Prior to voting for the independent auditor the General Meeting of the company should be informed of all circumstances that are generating or could generate a conflict of interest between the proposed candidates and the company, or which

in some other way have an impact on the independence of the candidate for an external auditor.

Article 40

A company should provide for audit process to be carried out in an independent and efficient manner, and for that purpose a company is advised to perform the following measures and activities:

1. organization of periodical meetings between auditors and independent members of the Board of Directors;

2. entrusting supervisory bodies of the company (or the audit committee, if formed) with special assignments regarding relations with the auditor;

3. rotation of employees in charge for direct communication with an independent auditor in the course of the audit procedure, etc.

The company is advised to prescribe a request for the rotation of auditors, at least upon five years of successive audits of financial statements of a company, in order to ensure independence in evaluation and in opinion of the auditor and for the auditor to keep its objectivity.

Article 41

The contract regulating mutual relations between the company and independent auditor should contain provisions that stipulate obligations of the auditor:

1. to inform the company Board of Directors without delay, or through the supervisory body of the company (if exists), of existence of the reason for exclusion or bias that occur in the course of audit conduct and that cannot be immediately eliminated;

2. to participate at the sessions of the General Meeting in order to provide additional information to shareholders with reference to the audit conducted and the opinion provided;

3. to immediately inform the corresponding competent body of the company of potential errors, abuse of the position or violence of the law and internal rules of the company that are identified during the audit process;

4. besides the audit report to also prepare a special internal document intended for the Board of Directors of the company ("a letter to the Board of Directors"), which shall include more important weaknesses identified in the control procedures, and in accounting and operational procedures of the company, with a suggestion for their improvement.

PREVENTING CONFLICT OF INTEREST

Article 42

Company should adopt and implement clear rules and procedures that secure identification of legal affairs where there is potential conflict of interest (hereinafter referred to as affairs related to conflict of interest), as well as criteria and conditions under which these affairs may be approved.

Article 43

Affairs related to conflict of interest are affairs concluded with the company by persons who are considered as related parties in accordance with this Code (hereinafter jointly referred to as related parties).

Company is advised to expand legally prescribed circle of persons who have personal interest in the company, by its by-laws including the folowing:

1. employees in the company who are on the position of managing individual organizational units of the company,
2. other persons who perform business operations of special interest or with special competences for the company.

CORPORATE CONFLICT PREVENTION AND CONFLICT RESOLUTION

Article 44

Company should adopt clear rules and procedures for the prevention and resolution of possible conflictthat may arise between shareholders and the company (corporative conflicts), or holders of individual functions in the company, whereby it is suggested to company to incorporate them into by-laws regulating the issues of competence and working methods of individual bodies of the company.

Article 45

When determining bodies of the company competent for corporate conflict resolution, companies should be guided by the following rules:

1. resolution of specific corporate conflicts should be under jurisdiction of the company's body under whose regular jurisdiction is decision making on issues that are the subject of the conflict;
2. from decision making on a concrete corporate conflict should be excluded persons – members of the competent body on whose interest is having

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effect or may have effect the conflict in question;

3. when decision making on a concrete corporate conflict is under jurisdiction of the Chief Executive Officer and the conflict is having effect or may have effect on interests of the Chief Executive Officer of the company, decision making on the given conflict should be delegated to the Board of Directors;

4. Upon becoming aware of the impact that the corporate conflict has or may have onto their individual interests, members of the bodies competent for corporate conflict resolution are obliged to inform the chairman of the body or some other competent body of the company.

Article 46

In the process of corporate conflict resolution, a company is advised to strive towards a legal, compromising and rational solution that will satisfy interests of both parties in conflict. In this context it is suggested to the company to exercise an active communication with the shareholder in conflict during the process of conflict resolution through direct negotiations and appropriate written correspondence.

REPORTING POLICY

Article 47

A company should adopt a clear, written and publicly available reporting policy that defines principles, rules, and procedures of reporting to shareholders, competent bodies, and the public. A constituent part of the reporting policy should also be precise operational and control mechanisms that secure its efficient implementation through competent bodies and persons in the company.

Article 48

The reporting policy should also include:

1. criteria for identifying confidential information;

2. criteria for determining what information may have an impact on the price of securities of the company (identifying material information);

3. rules of conduct for insiders when trading securities of the company and prevention of abuses of privileged information.

Article 49

The reporting policy of the company should be based on the following principles:

1. following the regulations in force;
2. regular and timely reporting on all information of material importance for investors' decision making;
3. fast, simple and broadly accessible information through utilization of efficient means of communication with their beneficiaries;
4. truthful, comprehensive, consistent and document-based information.

The reporting policy should enable an equal treatment of all potential beneficiaries of information and it should establish a ban on selective information provision to individual persons or groups of beneficiaries.

Article 50

When identifying information which represents confidential information (business secret) in terms of its importance, the company should, besides legal definitions of the character of confidential information, also be guided by the following principles:

1. confidential information must not be of the kind to cause misinforming of the investor on a legal and financial status of the company;
2. when defining individual information as confidential there must be economic justification for denying it to the public, which should be explained through potential negative business effects that its disclosure might have on the company;
3. principles established for determining confidentiality of information of the company should also be applied when exercising legal possibilities for asking competent bodies to allow exemption from publishing individual information prescribed as key events.

Article 51

When identifying material information, a company is advised to be guided by the rule that the material importance of information determines the circumstance

whether by its content and character it is such that it may have a critical impact on economic (investment) decision of investors, or price of securities.

When identifying material information, a company should take into account different factors, such as:

1. previous market experience in respect to the impact of uniform or similar information on the price of securities;
2. analyst reports and expert opinion in respect to the impact of specific information on the price of securities;
3. previous personal experience and experience of other companies within the branch of economy as far as the treatment of similar information is concerned;
4. importance of concrete information with reference to factors such as the size of the company and development level of the company.

Article 52

In order to establish an efficient system of monitoring and protection from abuse of privileged information, the company should set-forth, in writing, the rules and operational procedures that secure:

1. outline and regular revision and update the list of persons covered by the legal ban on the exercise of privileged information (company insiders) in compliance with the criteria stipulated by the law and company by-laws;
2. regular monitoring and supervision of implementation of adopted rules and procedures, detection of potential abuses of privileged information and taking appropriate measures for their elimination.

Companies should secure regular information provision to the public on trading with securities of the company by important insiders and parties related with them.

STRUCTURE AND KEY ELEMENTS OF PERIODICAL REPORTS

Article 53

Company should provide, within the scope of financial statements and business reports, as well as other forms of periodical reporting, public access to all material information, particularly in the domains of:

1. financial and business results of the company;

2. objectives and development plans of the company;

3. shareholders and ownership structure of the company;

4. members of the Board of Directors, key executive officers, persons who conduct supervisory activities in the company;

5. management structure of the company and adopted management policies;

6. assessments of potential and predictable material risks;

7. issues of material importance for other stakeholders in the company (e.g. employees, business partners, creditors, different state institutions and organizations of local self-government etc.).

The reports on business operations of the company should also indicate the position of the company within the scope of the pertaining branch of industry, priority field of activities, as well as expected development trends.

Reports on business operations of companies should contain separate information on business activities of the company that deviate from core activities of the company.

Article 54

A constituent part of the annual report on business operations of the company should also be the "report of the management of the company" by which the management of the company is providing for its qualitative opinion and analysis of the results achieved in the period covered by the report, as well as its view of the future development of business operations of the company. This report should present positions on:

1. important issues that have determined business operations of the company over the course of the reporting period;

2. future development of business operations of the company and achievement of long-term values of the company;

3. long-term and short-term prospects of the company;

4. audit report, and particularly in respect to possible discrepancies with the auditor's opinion.

In the case of disaccord of individual members of the management with their positions set forth in the "report of the management of the company", a constituent part of this report should also be their separate opinions on individual issues.

A constituent part of the annual report on business operations of the company is Corproate Governance report that should be prepared by the Board of Directors of the company and set out the compliance status of the Company with the requirements of corporate governance stated in the laws and this Code.

Article 55

Through their annual statements on financial transactions a company should provide for comprehensive, clear, and understandable information to beneficiaries, particularly on:

1. main fields of operations of the company;
2. results of financial and business activities of the company, as well as key factors that have an impact on revenues of the company;
3. financial and economic data and indicators;
4. market capitalization and liquidity, as well as liabilities of the company in respect to issued securities;
5. structure of the capital and working capital of the company;
6. structure and value of fixed assets;
7. relations with company that are related by the capital, with the data on potential mutual transactions and financial conditions under which they were concluded, as well as basic data and individual financial statements of company being the subject of consolidation.

Article 56

Company should provide for a publicly available data on the management structure of the company and management policy of the company, whereby it is enabled for the interested persons to get an insight into:

1. data on members of the Board of Directors, executive officers and persons performing activities of supervision and control in the company;
2. division of competences among the General Assembly, Board of Directors and Chief Executive Officer of the company;
3. the method of organizing and functioning of the internal supervision and control systems in the company;
4. main traits of the corporate governance policy in the company and efficiency of its implementation in the business practice of the company.

REPORTS ON KEY EVENTS

Article 57

Through the reports on key events, company should provide for a timely public

information on all material information not generally known, and in that respect establish internal operational procedures, which will secure that relevant information is publicly available as soon as possible.

Article 58

It is advised that reports on key events, besides compulsory information defined by imperative regulations, particularly include information on:

1. decisions made on acquisition of own shares of the company, as well as data on acquired or alienated own shares of the company;
2. approval of legal affairs related to conflict of interest with an explanation of the reason;
3. changes of business operations of the company, and particularly on termination or change of main business operations of the company;
4. status changes in the company (division, merging, acquisition);
5. decisions on joint venture and important investments;
6. conclusion or cancellation of more important contracts;
7. important changes in investment policy of the company;
8. more important changes in management structure of the company, with special explanation of the reason behind it, if the changes occurred due to extraordinary circumstances in business operations of the company;
9. significant changes in the structure of capital and assets of the company;
10. new credits and other borrowings of the company (including guarantees issued for debt securities and loans) that may have a critical impact on the objective assessment of yield and financial position of the company;
11. acquisition and alienation of shares of the company by persons who perform in the company or for the company business operations with special competences;
12. percentage participation and changes in the percentage of participation in the capital of the company related to members of the Board of Directors of the company, members of internal supervisory bodies of the company, members of the committees of the company and heads of individual organizational units of the company;
13. important changes in financial transactions of the company;
14. initiation of bankruptcy or liquidation proceedings.

DISTRIBUTION OF INFORMATION

Article 59

Company should provide conditions for fast, equal and efficient public dissemination of information and in that context particularly:

1. develop their own Internet website with the structure to enable potential users to have a clear overview of published information, as well as user friendly search and access to concrete data;
2. define and consistently conduct operational procedures that provide for the publishing of information on the website of the company as soon as they take place,
3. provide access to all available information in English language with a minimum time difference in publishing of the two versions of information.

Article 60

Company should publish on its website all the relevant information, published statements issued in mass media, which are distributed inside and outside the territory of Montenegro.

Article 61

Companies that are due to receiving of its securities on regulated markets outside Montenegro, obliged to publish information regarding business operations outside Montenegro, shall ensure that the same information are published simultaneously in Montenegro and sent to the stock exchange electronically.

FINAL AND TRANSITIONAL PROVISIONS

Article 62

It is recommended for all the companies willing to improve their organization and business operations in conformity with the corporate governance best practice rules to apply the Code.

The obligation of the Code implementation is generated in the case the company voluntarily accept its application in the form of a written statement provided to the Stock Exchange.

Article 63

The implementation of the Code implies the following obligations for the companies:

1. to harmonize its organization and business operations with the recommendations of the Code within 6 to 9 months from the day of its acceptance; during that timeframe the competent bodies of the Stock Exchange and of the company shall cooperate in order to provide for a high-quality harmonization and implementation of the Code;

2. to adopt/issue an annual Corporate Governance Report containing information on implementation of the Code recommendations or provide explanation for non-compliance (the rule „comply or explain");

3. to submit to the Stock Exchange additional information and reports concerning implementation of the Code provisions, upon the request of the Stock Exchange.

Article 64

The Stock Exchange will monitor the implementation of the Code, and in that respect determine and make publically available (on its website) the criteria for evaluation of the level of compliance of the business operations of the companies with the Code recommendations.

Monitoring of the Code implementation shall be performed by the technical and professional departments of the Stock Exchange through reviews and analysis of the following:

1. structure, contents, timeliness and comprehensiveness of the information which have been made public by the company in compliance with current regulations and Code recommendations; written reports and information on the implementation of the Code submitted to the Stock Exchange by the company, upon request;

2. identified shortcomings in the Code implementation.

Expert departments shall inform the Board of Directors of the Stock Exchange on the results of monitoring of the Code implementation.

Article 65

The Board of Directors of the Stock Exchange shall review the results of activities performed by the expert units of the Stock Exchange regarding the monitoring of the Code implementation and adopt a report on the Code implementation. Besides the overall evaluation of the quality of the Code implementation, the Report shall contain the following:

1. a review of the company that achieved the highest level of compliance

of their business operations with the Code provisions;

2. information regarding significant non-compliances with the Code application.

Article 66

The report referred to in the previous article of the Code shall be made publicly available by the Stock Exchange on its website, while the information on the companies with the highest level of compliance will be published in mass media and on the website.

Article 67

This Code, as well as its changes and amendments, shall enter into force on the day of its adoption.

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