

Pursuant to Articles 297 and 280 of the Companies Act and Article 14.a of the Rules of Procedure for the Supervisory Board of Poslovni sistem Mercator d.d., the Audit Committee of the Supervisory Board of Poslovni sistem Mercator d.d. adopted on August 24, 2017, in the form of consolidated text, the following

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

**I. Recitals**

Article 1

These Rules of Procedure define the composition, power and authorizations, and mode of operation of the Audit Committee of the Supervisory Board of Poslovni sistem Mercator d.d. (hereinafter referred to as the Audit Committee) and all other issues of relevance to its work and decision-making.

Article 2

The Audit Committee operates and performs its work upon request by the Supervisory Board and in compliance with the effective legislation, Rules of Procedure of the Supervisory Board of Poslovni sistem Mercator d.d., resolutions adopted by the Supervisory Board of Poslovni sistem Mercator d.d., and these Rules of Procedure.

The Audit Committee is directly responsible for its work only to the Supervisory Board.

**II. Audit Committee composition and appointment of its chair and deputy chair**

Article 3

The Audit Committee shall consist of no less than three (3) members. At least one Audit Committee member shall be an independent expert trained in accounting and auditing. All members of the Committee, except for the independent expert (or experts), are also members of the Supervisory Board.

Audit Committee members shall have such expert qualifications or personality traits that allow quality and independent operation, and especially familiarity with the contents of the field of expertise of the Audit Committee, independence, and available time for work in the Audit Committee.

In performing their function, all Audit Committee members have to observe exclusively the goals of the company.

The number of Audit Committee members shall be specified by the Supervisory Board that shall also appoint from among its members the Audit Committee chair and deputy chair. Audit Committee chair shall not at the same time be the Supervisory Board chair. The deputy chair shall have the same powers and authorizations as the chair during the latter's absence.

#### Article 4

Audit Committee members shall be appointed for a period until the expiry of the Supervisory Board members' term of office.

The term of office of the independent expert on the Audit Committee is not tied to the term of office of the Supervisory Board members, and the Supervisory Board may replace the independent expert at any time.

If the term of office of the Audit Committee chair, deputy chair, or member in the Supervisory Board is terminated or if they resign from their Supervisory Board position, then the Supervisory Board shall appoint a new chair, deputy chair, or member of the Audit Committee at its next session.

#### Article 5

The independent expert shall sign a statement to keep confidential all information, to the same standards as the Supervisory Board members.

The independent expert shall be independent from the company, the Management Board, and any other circumstances that could affect her or his judgement.

### **III. Secretary to the Audit Committee**

#### Article 6

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

### **IV. Convocation and frequency of Audit Committee sessions**

#### Article 7

Each year, the Audit Committee shall adopt an outline of a timetable defining the issues to be discussed. The issues shall be changed or amended as required. The Audit Committee shall hold at least four meetings each year, presumably one in each quarter.

The Audit Committee members shall receive a written invitations to the session, complete with relevant documentation or materials, as a rule no less than seven (7) days before the session.

The documentation or materials for the Audit Committee session may under certain circumstances be sent subsequently; however, the Audit Committee members should receive them at least two days before the session.

#### Article 8

Convocation of an Audit Committee session may also be requested by external (independent) or internal auditors if they deem it necessary, and the Audit Committee session may also be convened upon request or proposal by the Audit Committee or Supervisory Board members. In such cases, the Audit Committee chair shall convene a session no later than within 14 days.

#### Article 9

Session agenda may be changed, amended or expanded upon proposal by an Audit Committee member; the Audit Committee shall decide on such proposal with simple majority of the votes of present members.

### **V. Audit Committee session**

#### Article 10

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

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

#### Article 11

The Audit Committee shall be deemed to have reached quorum if majority of members are present at the vote (or decision-making), and either Audit Committee chair or deputy chair or both are present.

The Audit Committee shall adopt their resolutions with simple majority of the votes. The vote shall be public and it shall take place by raising hands. In case of an equal number of votes, the vote of the Audit Committee chair shall be the deciding vote.

An absent Audit Committee member may also participate in a vote by submitting her or his vote in writing to the Audit Committee chairman or secretary, or vote via video or telephone conference and similar technical means.

### **VI. Audit Committee minutes**

#### Article 12

The Audit Committee minutes shall include particularly the following:

- date and place of the Audit Committee session;
- session attendants;
- session agenda;

- concise contents of the discussions by the Audit Committee chair and members, and any other session attendants;
- resolutions and voting results by respective agenda items;
- statements and opposing views by individual Audit Committee members for which the persons presenting them requested that they be noted into the meeting minutes.

#### Article 13

The Audit Committee secretary shall compile the minutes and submit them to all Audit Committee members within 14 days after the session. Any objections or remarks to the minutes may only be submitted by the Audit Committee members who attended the session. The Audit Committee shall discuss any objections or remarks regarding the minutes at the next session when the minutes are also to be approved.

Audit Committee minutes shall become effective as of the day it is signed by the Audit Committee chair or deputy chair and the Audit Committee secretary.

The Audit Committee secretary shall present the Audit Committee minutes to all Audit Committee and Supervisory Board members.

#### Article 14

An audio recording of the Audit Committee session shall be made, unless the Audit Committee decides otherwise. Audio recordings shall only be used to compile the session minutes, and they shall be destroyed upon approval of the minutes.

#### Article 15

Original minutes, Audit Committee resolutions and documentation or materials for respective Audit Committee sessions shall be kept by the Audit Committee secretary.

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

#### Article 16

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

- to investigate any activity within its duties and responsibilities;
- to request from the company all information required for their work;
- to obtain independent legal or expert advice, charged to the company, and provide the presence of independent consultants with relevant experience and expert knowledge, when the Committee deems necessary.

## **VIII. Audit Committee tasks and responsibilities**

### Article 17

The Audit Committee shall have the following tasks and responsibilities:

1. monitoring the process of financial reporting and developing reports and proposals to ensure its comprehensiveness and completeness;
2. monitoring the efficiency and performance of internal controls at the company, internal audit, and the risk management systems at the company;
3. monitoring mandatory audits of annual and consolidated financial statements, in particular the performance of mandatory audit, observing all findings and conclusions of the relevant body;
4. reviewing and monitoring the independence of the company annual report auditor, in particularly regarding the provision of additional non-audit services;
5. responsibility for the auditor selection procedure, including a proposal to the Supervisory Board of a candidate for the company annual report auditor;
6. controlling the validity and accuracy of financial information reported by the company;
7. evaluating the composition of the annual report, including the proposal for the Supervisory Board;
8. taking part in defining the main fields of auditing;
9. taking part in preparing the agreement between the auditor and the company; in this respect, all and any provisions that restrict the Shareholders Assembly's choice or discretion in the appointment of the auditor shall be prohibited; all and any such provisions shall be void;
10. reporting to the Supervisory Board about the results of mandatory audit, including an explanation as to how the mandatory audit contributed to the comprehensiveness and completeness of financial reporting, and the role of the Audit Committee in such procedure;
11. any other tasks specified by the Articles of Association or Supervisory Board resolution;
12. working with the auditor in auditing the company annual report, in particular by mutually informing about the key issues regarding the audit;
13. working with internal auditor, in particular by mutually informing about the key issues regarding the audit.

## **A) Financial reporting**

### Article 18

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

Particular care shall be paid to the following:

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

The Audit Committee shall examine any other issues specified by the Supervisory Board.

## **B) Internal control and risk management**

### Article 19

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

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

### **C) Internal audit**

#### Article 20

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

- reviewing the internal audit charter (Rules and Regulations on the Operation of Mercator Group Internal Audit PI-21-0003) that specifies the intent, relevance, tasks, powers and authorizations of internal audit, and submitting such charter for approval to the Supervisory Board;
- reviewing the internal audit's annual plan and make sure the internal audit has at its disposal all relevant sources and resources, and that it enjoys appropriate reputation or standing within the company;
- preparing a proposal on the appointment and discharge of the head of internal audit for the Supervisory Board;
- ensuring that the internal auditor has direct access to the Supervisory Board Chairman and to the Audit Committee, and that the internal auditor reports on her or his work to the Audit Committee;
- reviewing the internal audit report for specific periods; examine within the mandatory deadline the internal audit annual report, before the company submits such report to the Supervisory Board;
- reviewing and monitoring the Management Board's response to the findings and recommendations by the internal auditor;
- monitoring and assessment of the role and efficiency of the internal audit function in relation to the total risk management system in place at the company.

### **D) External audit**

#### Article 21

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

- supervising the company relations with the external (independent) auditor;
- studying and proposing the appointment, re-appointment, and replacement of the external (independent) auditor;
- approving the conditions and provisions of the agreement, and the amount of payment to the external (independent) auditor for his or her services;

#### Article 22

Each year, the Audit Committee shall assess the professional training and adequacy, knowledge, experience, available sources, efficiency, and actual independence of external (independent) auditors, which shall include the following:

1. obtaining proof that the auditors and their staff are not in any family, financial, employment, investment, or other business relationship with the company (except through usual regular business arrangements);
2. each year, obtaining the information from the audit service on the policies and procedures for maintaining independence and monitoring compliance with relevant requirements, including requirements on replacement of audit partners and their staff;
3. monitoring compliance of the external (independent) auditing company with the effective ethical guidelines with regard to the replacement of audit partners, amount of payment for the services paid for by the company relative to the total revenue from the services performed by the auditing company, the office and partner, and other related regulations;
4. agreement with the Supervisory Board and supervision of the company policy on hiring of former employees of the external (independent) auditor.

#### Article 23

Before the start of the audit, the Audit Committee shall discuss the method and scope of the audit with the external (independent) auditor.

The Audit Committee shall work with the external (independent) auditors to review the following:

- their findings, including any major issues that emerged during the audit and were subsequently resolved, and issues that have remained unresolved;
- key accounting and general audit;
- gravity of the errors and non-compliance found in the process of audit;
- explanations by the management and external (independent) auditors as to why some errors and non-compliance may remain unresolved (if required).

The Audit Committee shall review written presentations by the management for the audit before they are discussed by the Supervisory Board, which shall also include in particular examination of any non-standard questions and issues.

At the end of the audit cycle, the Audit Committee shall assess the efficiency of the audit performed, which shall include the following tasks for the Audit Committee:

- reviewing whether the auditor met the agreed audit plan and receiving information about the reasons for any changes, including the changes in cases of perceived audit risks, and information about the work performed by the external (independent) auditors in order to hedge/resolve such risks.
- assessing the consistency, thoroughness, and decisiveness of the auditors in addressing the key accounting and general audits, and in their response to the questions by the Audit Committee, as well as their comments on the internal control systems, where appropriate;
- obtaining feedback information on the process of the audit from key personnel involved in the audit.



The Audit Committee shall review and monitor the contents of the letter by the external (independent) auditor to the Management Board in order to assess whether the letter is based on solid knowledge of the company operations and to find whether the Management Board took any measures based on the recommendations; if this is not the case, inquire about the reasons.

#### Article 24

The Audit Committee shall prepare and recommend to the company Supervisory Board the policy with regard to performance of non-auditing services of the auditor, and ensure the performance of such services does not impair the independence or non-biased and objective approach by the external (independent) auditor. In doing so, the Audit Committee shall do the following:

- consider whether the auditing company is, considering its competences and experience, suitable for performing the non-auditing services and examine whether adequate safety mechanisms are in place to ensure that the non-auditing services performed by the external (independent) auditor in no way compromise the objectiveness and independence in the audit;
- consider the type of non-auditing services, amount of payment, and amount of these individual payments and total payment relative to the total payment for the audit;
- define and enforce the official policy which defines the following:
  1. types of non-audit services not to be performed by the external (independent) auditors for the company;
  2. types of non-audit services for which external (independent) auditors can be hired without reporting to the Audit Committee; and
  3. types of non-audit services for which a decision is required on a case-by-case basis.

### **IX. Audit Committee reporting**

#### Article 25

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

The Audit Committee shall prepare a report on their role and responsibility and the measures taken. Such report should, in particular, include the following:

- a summary of the role of the Audit Committee;
- names of all Audit Committee members;
- number of sessions held by the Audit Committee and presence of each member;
- the manner or method by which the Audit Committee performed its tasks; and
- description of measures implemented.

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

## **X. Final provisions**

### Article 26

Any issues not specifically addressed by these Rules of Procedure shall be regulated by reasonable application of the provisions of the Rules of Procedure of the Supervisory Board of the company Mercator d.d.

### Article 27

The Rules of Procedure and any subsequent changes and amendments thereto shall be in effect as of the day they are adopted by the Audit Committee and approved by the Supervisory Board.

### Article 28

As of the day of adoption of these Rules of Procedure, the Rules of Procedure for the Audit Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. dated November 14, 2014, shall no longer be in effect.

Ljubljana, on this August 24, 2017

Deputy chair  
of the Audit Committee  
of the Supervisory Board of Mercator d.d.

Damir Kuštrak