

DIOKI d.d.
Zagreb, Žitnjak bb
No: R-123/2008

Pursuant to Art 13 of the Articles of Association of the company DIOKI d.d., and in line with recommendations of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, the DIOKI Board of Directors at its session on 9 Jun 2008 passed the following

THE CORPORATE GOVERNANCE C O D E

THE CORPORATE GOVERNANCE CODE

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THE CORPORATE GOVERNANCE CODE

1. INTRODUCTION – OBJECTIVES AND BASIC PRINCIPLES

DIOKI Organska petrokemija d.d. (further in the text referred to as: DIOKI d.d. or the Company) is a socially responsible company operating and developing its business on the Croatian and foreign markets, aware of the importance of responsible and ethically founded operation of business entities as a necessary prerequisite for development of high-quality relations and loyal competition among business partners, and especially of the importance of integration of the Croatian economy into international economic relations. In this sense, DIOKI d.d. tries to contribute by its business strategy, policy, by-laws (internal acts) and practices to transparent and efficient business activities and better business and partner relations in the community in which it is operating.

The objective of this Code is to set high standards of corporate governance and transparent business operations of DIOKI d.d.

Basic objectives of corporate governance of DIOKI d.d. are based on:

- business operation in line with valid legislation of the Republic of Croatia and countries the Company has business relations with,
- meeting the highest standards through organisation of business operations by applying contemporary business principles.

Basic principles of this Code are:

- Information and transparency of business operations
- Authorisation and responsibility system in the Company
- Internal supervision system
- Rights and obligations of shareholders
- Equal treatment principle of shareholders.

In the event of need to interpret the provisions of this Code, it must be conducted within the spirit of the said objectives and principles.

2. INFORMATION AND TRANSPARENCY OF BUSINESS

DIOKI d.d. wants to ensure to the shareholder an access to reliable, up to date and consistent information in a regular, timely and equalised manner. Such information should enable the shareholders and possible investors a well founded judgment on DIOKI's shares. In line with the aforementioned, DIO d.d. shall, consistent with the law and other regulations, in the shortest possible time period, publish and by means of it put at disposal to all the interested parties, significant information on activities and operations of the Company, and all the information on facts and circumstances which may influence business operations of the Company.

Information which DIOKI d.d. shall make accessible for public are:

- annual financial reports, the most important and comprehensive source of information on the Company
- calendar of important events expected in the business year, for instance, the anticipated date of announcement of financial results, date of the General Meeting, date of the dividend payment, celebration of anniversaries etc.
- main risk factor to which the Company is exposed, the probability or realisation of the possible risks and measures and plans adopted for avoiding or diminishing these risks
- CVs of the members of the Management and Supervisory Board
- information on the person in charge of relations with investors
- agenda of the General Meeting and decisions of the General Meeting
- objectives and goals of the Company
- corporate governance policy
- appointment of auditors
- information significant for status of workers in the Company.

DIOKI d.d. is operating in line with all the valid legislation and other requirements of competent authorities.

DIOKI d.d. is following all the changes of regulation, and always whenever possible participating in previous discussion on changes in legislation of the Republic of Croatia.

DIOKI d.d. is fulfilling its obligation of publication market-susceptible information, consistent with the rules of the Zagreb Stock Exchange.

Independent auditors, appointed by the General Meeting of DIOKI d.d.'s shareholders, perform annual audit in order to ensure objective evaluation on the manner of preparation and presentation of financial reports.

DIOKI d.d. maintains partnership relations with media for correct information on DIOKI's business operations and promotion of transparency of its business policy.

Except by manner of publishing information provided for the law and Articles of Association, DIOKI d.d. shall publish information on its business operations also by means of its own web site. It will ensure efficient and practical exchange of information with the public through internet.

Privileged information

Use of privileged information not being revealed in public is prohibited to everyone not having access to such information as it may have a consequence of unfair advantage of a person disposing with privileged information (holder of privileged information) when trading with securities of the Company, irrespectively of the fact are the privileged information used by the holder of privileged information him/herself or a third person, by virtue of information obtained from holder of privileged information.

The use of privileged information relates to all the shareholders, members of the Management and Supervisory Board, external consultants of the Company and all persons who, considering their position within and outside of the Company are considered persons having access to privileged information.

3. THE AUTHORISATION AND ACCOUNTABILITY SYSTEM IN THE COMPANY

The organs of the Company DIOKI d.d. ensuring the implementation of good practice of corporate governance are:

- General Meeting
- Supervisory Board
- Board of Directors.

GENERAL MEETING

The general meeting is an organ of decision making in a stock company by means of which shareholders participate in supervision and control of the Company, at the same time exercising their right of vote at the General Meeting.

The Board of Directors of the Company convenes a regular General Meeting as a rule once a year, after the performed audit of annual financial reports. Interest of the Company may require holding one or more extraordinary General Meetings a year.

Invitations for General Meeting with accompanying proposals of decisions and possible documentation are published on the web sites and the notice board of the Company, in the Official Gazette of the Republic of Croatia and on sites of the Zagreb Stock Exchange. The Company also ensures insight into documentations for all the shareholders in its premises.

Convening and holding of the General Meeting

The General Meeting is held in the place of the Company's registered seat.

All the shareholders, registered its participation not later than ten days before the meeting, have the right to participate and exercise their right to vote at the General Meeting of the Company.

Each shareholder, regardless of the kind of shares, has the right to vote, corresponding to the number of shares he/she is holding. The Board of the Company is entitled to suspend entries into the Register of shares in an appropriate time period before holding of the General Meeting. Duration of the suspension period of entry is determined by the Board of the Company by its decision. This period must be indicated in the invitation for the General Meeting.

Each shareholder, one or several of them, may be represented at the General Meeting by a proxy. The proxy must prove his/her status at the accreditation before commencing the Meeting.

Decisions of the General Meeting

All the decisions of the General Meeting are being published on web sites and the notice board of the Company, in the Official Gazette and on sites of the Zagreb Stock Exchange.

The General Meeting renders decisions on issues regulated by the law and the Company's Articles of Association.

Decisions defined by the law, or by DIOKI's Articles of Association, significantly influencing the state of assets, financial status, business results, ownership structure and managing of the company, are being rendered only at the General Meeting of the Company, by the stipulated majority of votes.

SUPERVISORY BOARD

Assignments and responsibilities

The main tasks of the Supervisory Board of DIOKI are:

- appointment and removal from office of the Board members
- supervision of the Board's work of conducting the Company business activities
- submitting reports on the supervision performed.

The Supervisory Board of DIOKI d.d. has competences defined by the law, the Company's Articles of Association and this Code.

In order for the Supervisory Board to be able to realise its tasks and accountabilities in an efficient manner, all foundations for decision making must be in a consistent, mutually comparable format, documented and understandable, and delivered to the members in an appropriate time period for them to be able to prepare themselves for the session.

The Supervisory Board has prescribed its manner of operation by the Rules of Procedure of the Supervisory Board.

Composition of the Supervisory Board

The Supervisory Board supervises the business conduct of the Company and within their framework, inspects the business records and documentation of the Company, state of accounts and orders the auditor to audit the annual financial reports.

The Supervisory Board of the DIOKI d.d. consists of seven members, predominantly independent ones. One of the members of the Supervisory Board is a representative of the workers being appointed by the Council of Workers.

Members of the Supervisory Board must meet the appropriate standards of education and professional experience, where at least one of them must have experience from the field of finances.

At election and appointment, each member of the Supervisory Board shall be acquainted with the business of DIOKI d.d., role of the Supervisory Board in the functioning of the Company, his/her personal rights and obligations and give his/her acceptance in writing to the function of a Supervisory Board member.

BOARD OF DIRECTORS

Assignments and accountabilities

The DIOKI d.d. Board of Directors manages the Company's business in an independent manner and at own responsibility rendering all the decisions only and exclusively at own judgement, *lege artis* and consistent with valid regulations. Managing the Companies business, the Board performs activities defined by the law, the Company's Articles of Association and other internal regulations adhering to provisions of this Code.

The existence of an approval or instructions of other organs of the Company do not exclude the responsibility of the Board to manage the business with the care of a good master.

The Board is bound to act only and exclusively for the benefit of the Company and shareholders, taking account of the interests of the employers and community with the objective and aim of expanding the value of the Company.

The Board members may, should need arise, seek advice from experts (legal consultants, auditors, tax, human resources and other experts) in order to obtain expert opinions and advice on important issues.

The Board is accountable for enforcement and efficiency of the decision it passes.

The Board members are solidarily liable for damage occurred as a consequence of violation of their obligation, unless they prove to have performed their duties in a fair and conscious manner.

Composition of the Board

The Articles of Association of DIOKI d.d. envisage that the Board may consist of one to five members.

Currently, the Board of Directors of DIOKI d.d. consists of two members, one being at the same time the president of the Board.

When composing the Board, it must be aimed at its members having various experience, education and character, including:

- experience in business management and developed organisation skills
- experience in risk and crisis management
- knowledge of accounting and finances
- knowledge of the company's scope of business
- knowledge of national and international market
- connecting of all the interests inside the company
- contribute to realisation of the company objectives by own personal characteristics
- be acquainted with good practice of corporate governance
- have strategic vision.

Cooperation and relation between the Supervisory Board and Board of Directors

The Supervisory Board and the DIOKI d.d. Board of Directors are bound to cooperate in the best interest of the Company, discuss and achieve agreements on strategic benchmarks of the Company's business.

Information of shareholders on share ownership of the Board of Directors and Supervisory Board members

Each Board member is bound to inform the Supervisory Board of the Company, and each Supervisory Board member is bound to inform the Company of all changes regarding his/her ownership of the Company's shares not later than the next work day after such change has occurred, with the obligation of the Company to publish such change in the shortest possible time.

Conflict of interest

A conflict of interest exists with a Supervisory Board member, or a Board member who is not neutral in respect to the object of decision making, or from the fact of his/hers connection with other companies, persons or activities it may be presumed that he/she might have interests which are not at the same time also the interests of the Company, and it might influence the decision making in pursuance of interests or affections which do not correspond with the interests of the Company.

Members of the Supervisory Board or the Board of Directors may not render decisions in pursuance of personal interests or interests of persons who they have close relations with.

Activities among the Company and the Board members of Supervisory Board Members

All the activities in which Supervisory Board and Board members are participating or persons closely related to them, and the Company and persons closely related with it shall be on the market principle, especially regarding deadlines, interests, guarantees etc. and shall be clearly indicated in the reports of the Company. Such activities shall be acknowledged by an independent assessment of independent experts in relation to participants of a particular business activity.

All the agreements or contracts between a member of the Supervisory Board and the Company shall be previously approved by the Supervisory Board, and significant elements or such agreements or contracts shall be contained in the Annual report.

Competition prohibition to Board members and Supervisory Board members with the Company

Members of the Board, or members of the Supervisory Board, may neither for their own or for the account of another, personally or through third person perform activities being performed by the Company, nor consult persons who may be considered as competition to the Company.

Members of the Board may also not have significant part in companies which may be considered competition to the Company, and members of the Supervisory Board are bound to publish the size of their business contribution and all the changes thereof in companies which may be considered as competition to the Company.

4. INTERNAL SUPERVISION AND AUDIT SYSTEM

The Audit commission analyses in detail financial reports providing support to the accounting service of the Company, establishing good internal control in the Company.

The Audit commission has open and unlimited communication with the Board of Directors and Supervisory Board reporting to the Supervisory Board.

The Audit commission shall discuss with an independent auditor:

- changes or maintenance of accountancy principles and criteria
- implementation of regulation
- important assessment and conclusion in preparing financial reports
- methods of risk and results assessment
- high-risk activity areas
- major deficiencies or significant defects observed in internal supervision
- external factors influence (economic, legal and industrial) on financial reports and auditing procedures.

The Audit commission shall ensure quality information to be provided by daughter or affiliated companies and third persons (as expert consultants), considering the influence of such information on consolidated financial reports.

5. RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

The shareholders rights are a consequence of the valid legislation of the Republic of Croatia, Articles of Association of DIOKI d.d. and this Code for the purpose of establishing open communication with shareholders on development of business activities and objectives of the company.

Basic rights and obligations of the DIOKI d.d. shareholders particularly include the right to:

- register the shares ownership right in a reliable manner
- free transfer of shares
- regular and timely delivery or ensuring access to appropriate reliable information on DIOKI d.d.
- participate in work and voting on regular and extraordinary General Meeting of DIOKI d.d. shareholders, personally or through proxy, and consistent with the Companies Act and the Articles of Association of DIOKI d.d.
- provide timely information on time, venue and agenda of the General Meeting of DIOKI d.d. shareholders, delivery of minutes and decisions of the Meeting within a reasonable time, and web sites may also be used for the said purpose
- acknowledge annual consolidated financial reports of the DIOKI d.d. Group
- grant decisions on removal from mandate to members of the Board of Directors and Supervisory Board of DIOKI d.d.
- decision making on usage of DIOKI d.d.'s profit, particularly determining the amount of dividend
- remove from office and elect members of the Supervisory Board of DIOKI d.d.
- remove from office and elect auditors of annual financial reports of DIOKI d.d. and consolidated financial reports of the DIOKI d.d. Group
- adopt and aimed of DIOKI d.d. Articles of Association
- render all decisions, which the General Meeting of DIOKI d.d. shareholders is authorised by the law or Articles of Association of DIOKI d.d.
- propose items of the agenda and pose questions at the General Meeting of DIOKI d.d. shareholders according to law and Articles of Association of DIOKI d.d.

It is necessary to make possible for all the shareholders to access to information on object of decision in a timely manner, as foreseen by the agenda of the General Meeting.

Should changes in the control of the Company occur, special rules have to be observed ensuring equal treatment of all shareholders. For the purpose of promoting relations with

shareholders and the shareholders position, DIOKI d.d. has a special experts person in charge for relation with investors.

6. EQUAL TREATMENT PRINCIPLE OF SHAREHOLDERS

Right of vote

The shareholders have equal status in the company under same conditions.

DIOKI d.d. applies the principle of “one share – one vote”.

Own shares do not provide with a right of vote.

Procedures

Procedures related to organisation of holding and work of the General Meeting of DIOKI d.d. shareholders enable equal treatment of all shareholders. DIOKI d.d. enables to shareholders voting through proxies.

Transactions with shares

Trading with DIOKI d.d. shares is prohibited to persons who, considering their position within DIOKI d.d. dispose with privileged information in particular time periods of trade prohibition, consistent with valid regulations.

7. INDEPENDENT EXTERNAL AUDITOR

DIOKI d.d. is aware of importance and role of the audit for success of corporate governance and legality and transparency in conduct of all the business processes within the society.

DIOKI d.d. is bound to have independent external auditors. An independent external auditor is considered an auditor not connected to the Company by ownership or interest, neither providing any other services to the Company by itself or through connected persons.

Independent external auditors are bound to express their opinion in the clearest possible manner of the fact whether financial reports prepared by the Board appropriately reflect the state of capital and financial state of the Company and business results for a particular time period.

The Audit commission establishes the plan of activities with the independent external auditor, and it also proposes the auditor's remuneration for the performed work. The Commission is bound to submit to the Supervisory Board proposal and recommendations at election of independent external auditors, prolongation of cooperation or at termination of cooperation with auditors.

Independent external auditors are bound to inform the Commission directly on the following issues:

- discussion on main accounting policy
- important defects in internal supervision and procedures

- alternative accounting procedures
- disagreement with the Board of Directors
- risk assessment
- possible analyses or fraud and/or abuse.

Procedures conducted by the auditing firm must reflect their independency and impartiality particularly where within the framework of the same audit firm employees provide other professional, particularly consultancy services. The Auditing Commission must be acquainted with all the services being provided by the company of independent auditors, and also with remuneration for these services, in order to avoid any doubt of the independence of the auditor and a possible conflict of interest.

8. RELATIONS WITH INVESTORS

The DIOKI d.d. Board of Directors is bound to provide access for investors to the information relating to the Company's business activities, in order to ensure for investors to understand in correct manner and judge the state of the company, and by virtue of such collected data render a decision on their investments.

Investors may always in a written form request and obtain in time relevant information from the Board of Directors of the Company or the person in the Company in charge for relations with investors.

The DIOKI d.d. Board of Directors in the event of expressed interest, shall hold special conferences with investors.

9. STAKEHOLDERS

Within the sense of this Code, stakeholders are considered to be persons taking over particular direct or indirect risks relating to the Company or in relation with the Company. Beside shareholders, stakeholders are among other considered to be employees, buyers and service users of the Company, suppliers, creditors, local community and state administration bodies.

The Board of Directors is accountable for transparent and good quality relations of DIOKI d.d. and stakeholders who is bound to take care of the company respecting all the stakeholders' rights by virtues of the law and good business practices.

No person may suffer negative consequences, should competent bodies or organs in the Company or outside of it point out to insufficiencies in regulation implementation or ethical standards within the Company.

10. ANNUAL QUESTIONNAIRE

In its Annual report and on its web sites, DIOKI d.d. shall indicate on a prescribed form, whether it has adhered to all the recommendations indicated in this Code.

This Code and its recommendations are founded on the principle „act and explain“, i.e. should the Company depart from it or not implement some of this Code's recommendations, there must be an explanation in the Annual Questionnaire why such departure or non-implementation has occurred.

11. ENTRY INTO FORCE AND APPLICATION

This Code shall enter into force at the day of its adoption to be implemented from 1 October 2008.