



**Report on the Application of Corporate Governance Principles by Ronson Europe N.V. (the "Company") in the Financial Year Ended on 31 December 2012**

**Part I**

**List of corporate governance principles which were not adhered to by the issuer, stating the circumstances and reasons for not applying the given principle and the manner in which the Company intends to remove possible consequences of not applying the given principle or what steps it intends to undertake to mitigate the risk of not applying the given principle in the future.**

The Company is incorporated and organized under Dutch law. Therefore, not all the rules set forth in the "Code of Best Practice for WSE Listed Companies" applied directly to the Company and some could have only been applied to the extent permitted by Dutch law.

It should be noted further that the Company, as an entity incorporated under Dutch law is subject to the Dutch Code of Corporate Governance (the "**Dutch Code of Corporate Governance**").

In 2012 the Company did not comply with the following rules set forth in the "Code of Best Practice for WSE Listed Companies":

**Rule II.6.**

**A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.**

Directors (i.e. members of the Company's management board (the "**Management Board**") are authorised to take part in the General Meetings as advisors. Dutch law does not provide for any provisions which would require the mandatory presence of directors. Although the Company made every possible effort to ensure the presence of as large a number of directors as possible at the General Meetings, it could not have ensured the presence of all the directors.

**Rule III.3.**

**A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.**

Directors (i.e. members of the Company's supervisory board (the "**Supervisory Board**") are authorised to take part in the General Meetings as advisors. Dutch law does not provide for any provisions which would require the mandatory presence of directors. Although the Company made every possible effort to ensure the presence of as large a number of directors as possible at the General Meetings, it could not have ensured the presence of all the directors.

## **Rule IV.2.**

**The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.**

The primary document which regulates the internal organisation of a public company limited by shares established and existing under Dutch law are the articles of association. The Company's articles of association (the "**Articles of Association**") define in detail the manner of convening, conducting and decision making by the Company's general meeting (the "**General Meeting**"). Under Dutch law no special by-laws regulating the general meeting's organisation and functioning exist. The Articles of Association may be amended exclusively on the basis of resolutions of the General Meeting.

## **Part II**

**Operations and main powers of the general meeting; shareholders' rights and the exercise thereof.**

An annual General Meeting is held within six months of the end of the Company's financial year.

Extraordinary general meetings are convened by the Management Board or the Supervisory Board (in exceptional situations also by shareholders or depository interest holders) whenever it is deemed necessary. Furthermore, extraordinary General Meetings are held upon a written request filed with the Management Board by shareholders and/or deposit interest holders who jointly represent at least one-tenth of the issued capital.

The notice of the convening a General Meeting specifies the matters to be discussed thereat. The convening notice will include any matter discussion of which has been requested in writing by one or more persons entitled to attend the General Meeting, representing individually or collectively at least 1% of the issued capital or holding shares of the Company which represent a value of at least EUR 50,000,000.

General Meetings will be held in Rotterdam, Amsterdam, The Netherlands or in Haarlemmermeer, The Netherlands (Schiphol Airport). If a General Meeting is held elsewhere, valid resolutions can only be adopted if the entire issued capital of the Company is represented.

All shareholders, depository interest holders (which have fulfilled certain formal conditions), usufructuaries (*vruchtgebruikers*) and pledgees with voting rights are entitled to attend the General Meeting, to speak and to cast a vote. Each ordinary share will give the right to cast one vote. Unless Dutch law or the Articles of Association require a greater majority, resolutions are adopted by absolute majority of votes cast.

The General Meeting is empowered to pass resolutions *inter alia* in the following matters:

- i. the issue of shares in the Company and decreasing the Company's equity;
- ii. restriction or exclusion of pre-emptive rights;
- iii. appointment, suspension and dismissal of the members of the Management Board;
- iv. appointment, suspension and dismissal of the members of the Supervisory Board;
- v. amendment of the Articles of Association, however only following a proposal of the Management Board which has been approved by the Supervisory Board;

- vi. the dissolution of the Company, however only following a proposal of the Management Board which has been approved by the Supervisory Board.

Resolutions of the Management Board require the prior approval of the General Meeting when such resolutions relate to an important change in the identity or character of the Company or certain undertakings of the Company, including in any case:

- i. the transfer of the enterprise, or practically the entire enterprise, of the Company to a third party;
- ii. the entry into or termination of a long-term agreement by the Company or a subsidiary with, or the co-operation of the Company or a subsidiary with, another legal entity or partnership or as a fully liable partner in a limited partnership, if such co-operation or termination is of far-reaching significance for the Company; and
- iii. the acquisition or disposal of a participation in the capital of the Company with a value of at least one third of the amount of the assets as set forth in the balance sheet with explanatory notes, or if the Company prepares a consolidated balance sheet, as set forth in the consolidated balance sheet, with explanatory notes, forming part of the most recently adopted annual accounts of the Company.

### **Part III**

#### **Composition and operations of the managing and supervising bodies of the company and their committees.**

The Company has a two-tier board structure: a Management Board and a Supervisory Board. The day-to-day management and policy-making of the Company is vested in the Management Board, under the supervision of the Supervisory Board. The Supervisory Board supervises the Management Board and the Company's general course of affairs and the business it conducts. It also supports the Management Board with advice. In performing their duties, the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

The Management Board is responsible for the day-to-day management of the Company's operations, under the supervision of the Supervisory Board. The Management Board is required to keep the Supervisory Board properly informed, consult with the Supervisory Board on important matters and submit certain important decisions to the Supervisory Board for its approval (as more fully described below).

The Company's Articles of Association provide that the Management Board shall consist of one or more managing directors A and may, in addition, consist of one or more managing directors B. The Supervisory Board shall determine the precise number of members of the Management Board and the precise number of Management Board members of a specific class. The General Meeting of Shareholders shall grant the title of "Chief Executive Officer" to one of the managing directors A, who will be the chairman of the Management Board. The General Meeting of Shareholders may also grant the title of "Chief Financial Officer" to a managing director A and other titles to managing directors A or managing directors B.

The Management Board may perform all acts necessary or useful for achieving the Company's corporate purpose, save for those acts that are prohibited by law or by its Articles of Association. The Management Board as a whole is authorized to represent the Company, as are two members of the Management Board acting jointly among whom, if one or more managing directors B are in office, at least one managing director B.

Members of the Management Board are appointed by the General Meeting following a nomination by the Supervisory Board. A nomination is binding if it is drawn up in due time and contains the names of no fewer than two persons for each vacancy. However, the General

Meeting may deprive such nomination of its binding character by a resolution adopted with a majority of no less than two thirds of votes cast, with such votes representing more than one half of the issued capital.

The General Meeting may suspend or dismiss Management Board members at any time. If a resolution to suspend or dismiss a Management Board member has not been proposed by the Supervisory Board, the resolution to suspend or dismiss a Management Board member is adopted with no less than two thirds of votes cast, with such votes representing more than half of the issued capital. The Supervisory Board may also suspend Management Board members at any time. The suspension may at all times be cancelled by the General Meeting by a resolution adopted with no less than two thirds of votes cast, with such votes representing more than half of the issued capital.

Under the Articles of Association all resolutions by the Management Board are adopted by an absolute majority of the votes cast; provided, however, that resolutions with respect to the purchase of real property are adopted by the Management Board by unanimous vote.

Under the Articles of Association the Supervisory Board may resolve that specific resolutions of the Management Board must be approved by the Supervisory Board. Such resolutions must be clearly specified and reported to the Management Board in writing. The absence of approval of the Supervisory Board does not affect the authority of the Management Board (or its members) to represent the Company.

In 2012 the Management Board consisted of the following members: Shraga Weisman (President of the Board, Chief Executive Officer), Andrzej Gutowski (Sales & Marketing Director); Tomasz Łapiński (Chief Financial Officer), Israel Greidinger, Ronen Ashkenazi and Karol Pilniewicz (resigned on 31 October 2012).

The Supervisory Board is responsible for supervising the conduct of, and providing advice to, the Management Board and supervising the Company's business generally. In performing its duties, the Supervisory Board is required to act in the interests of the Company's business as a whole. The members of the Supervisory Board are not, however, authorized to represent the Company in dealings with third parties.

The Company's Articles of Association state that the Supervisory Board will consist of no fewer than three and no more than seven natural persons, of which at least one will be independent within the meaning of the Articles of Association.

The Company's Articles of Association provide that the General Meeting appoints the members of the Supervisory Board following nomination thereof by the Supervisory Board. A nomination is binding if it is drawn up in due time and contains the names of no fewer than two persons for each vacancy. However, the General Meeting may deprive such nomination of its binding character by resolution adopted with a majority of no less than two thirds of the votes cast, with such votes representing more than one half of the issued capital.

Under the Articles of Association the General Meeting may at any time suspend or dismiss members of the Supervisory Board. If a resolution to suspend or dismiss a member of the Supervisory Board has not been proposed by the Supervisory Board, the resolution to suspend or dismiss a member of the Supervisory Board is adopted with no less than two thirds of the votes cast, with such votes representing more than one half of the issued capital. The Articles of Association provide that the Supervisory Board members will retire periodically in accordance with a rotation plan to be drawn up by the General Meeting.

Under the Articles of Association the Supervisory Board can only adopt resolutions by an absolute majority of the votes cast. Each member of the Supervisory Board is entitled to one vote.

Two committees within the Supervisory Board have been established: (i) an Audit

Committee; and (ii) a Remuneration and Nominating Committee.

The abovementioned committees are composed from members of the Supervisory Board with relevant experience. Both committees operate under the overall responsibility of the Supervisory Board, in accordance with the Dutch Code of Corporate Governance.

The Company's Audit Committee assists the Supervisory Board in monitoring its systems of internal control, the integrity of the Company's financial reporting process and the contents of the Company's financial statements and reports. The Audit Committee also assists the Supervisory Board in assessing and mitigating the business and financial risks of the Company.

The Audit Committee meets at least twice a year and also meets each time the Company proposes to issue a press release containing the Company's financial figures.

The Company's Remuneration and Nominating Committee advises the Supervisory Board on the remuneration of the members of the Management Board and monitors the Company's remuneration policy, which covers bonus plans for the Company's senior management and members of the Management Board. The Remuneration and Nominating Committee also advises on the selection criteria and appointment procedures for members of the Management Board and members of the Supervisory Board, as well as the proposals for appointments and reappointments thereto, and the policy of the Management Board on selection criteria and appointment procedures for members of the senior management. It also assesses the functioning of individual members of the Supervisory Board and the Management Board.

In 2012 the Supervisory Board consisted of the following members: Mark Segall, Reuven Sharoni, Yair Shilhav, Frank Roseen, Arie Mientkavich and Przemysław Kowalczyk (independent member).

In 2012 the Audit Committee consisted of the following members: Yair Shilhav (Chairman), Mark Segall, Reuven Sharoni; and the Remuneration and Nominating Committee consisted of the following members: Arie Mientkavich (Chairman), Yair Shilhav, Reuven Sharoni.

## **Part IV**

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

The Company fully complies with the internal control provisions of the Dutch Code of Corporate Governance. The Board has established a continuous process for identifying and managing the risks faced by the Company, and confirms that any appropriate actions have been taken, or are being taken, to address any weaknesses. The Audit Committee plays a key role in the Company's internal control and risk management. As mentioned above, this committee assists the Supervisory Board in reviewing its systems of internal controls, the integrity of the Company's financial reporting process and the contents of the Company's financial statements and reports. The Audit Committee also assists the Supervisory Board in assessing and mitigating the business and financial risks of the Company.

**Ronson Europe N.V.**

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