

REPORT OF THE SUPERVISORY BOARD – 2013

In accordance with its authorisations, the Supervisory Board supervised and monitored the work of the Management Board and the company's operation via regular monthly reports on operation and other activities. The company's operation in the 2013 financial year was in accordance with the Business and Financial Restructuring Plan. The 2013 financial results show that, to a substantial extent, the company has kept in line with the planned objectives and is on the right path to successful work in the future as well. The operating result of Livar d.d. in 2013 was among the best in the company's 60-year history despite the poor and unpredictable business environment in Slovenia, which was the result of the successful management of the company.

Until the 20th General Meeting of Livar d.d., which was held on 27 June 2013, the Supervisory Board of Livar d.d. (SB) operated with the following composition: Janko Čevka, Ivo Judnič, Vojko Rovere, Tomaž Švigelj, Jože Strmole and Mitja Škrbec, MSc. Until the 20th General Meeting, the SB met in three Sessions in 2013, where it discussed regular reports on operation and other current matters and important issues.

At the 2nd Session, the SB discussed and confirmed the Business Plan for 2013, which was based on the Restructuring Programme. An important emphasis of the Business Plan is on the decentralisation of responsibilities and defining objectives according to individual organisational units. The Business Plan set ambitious goals compared to the operating result for 2012 showing a planned realisation of EUR 53,165,781.00 EUR and profit from regular operation in the amount of EUR 4,079,814.00. The Business Plan was presented to the Supervisory Board by all the members of the council and top management, who presented the planned tasks providing substantiated facts.

At the Session, the Chairman of the Management Board Franc Rovere also gave a verbal report on the company's operation in 2012. The company achieved a realisation in the amount of approximately 43 million euro (76% of the plan) and foreseen loss in the amount of approximately EUR 2.3 million. At the Session, the Supervisory Board also confirmed the draft annex to the management contract of the Chairman of the Management Board, which defined the conditions for the bonus.

At its 3rd Session, the SB was briefed by the Management Board on the realisation of the Restructuring Plan. All the main planned measures were implemented and decentralised management was set up. Members of the council, as responsible persons for individual sectors or fields, presented their activities and provided individual explanations. On the basis of the reports, the SB concluded that the company is following its set results and business objectives for 2013. The Chairman of the Management Board presented the unaudited operating results for the 2012 financial year. At the Session, the SB was also briefed about the legal transactions of the former Management Board that deviate from established business practices. As the SB has to obtain additional information, the Management Board has been instructed to withhold all payments to the previous Management Board based on the Agreement on the Settlement of Mutual Relations. At the session, the SB was briefed about the schedule for the implementation of the company's 20th

General Meeting.

At the 4th session, the SB was briefed by the Chairman of the Management Board and the members of the council on the operation in the first four months of 2013. The implementation of the restructuring ran in accordance with the plan and the majority of all the set tasks have already been realised at the time. The Chairman of the Management Board presented the projection of operation of Livar d.d. until 2020, which does not foresee quantity growth but a growth of the average price of products on the basis of higher value added. Two larger investment cycles are also planned, i.e. in the 2014 to 2018 period in the amount of approximately EUR 15 million. These investments will make the company more competitive, as the activity will be based on new knowledge and technologies. The Supervisory Board was briefed on the Annual Report for the 2012 Financial Year and the auditor's opinion, which was presented by auditors from the KPMG auditing company. The auditor's opinion denoted reservations due to the valuation of the investment in Jelšingrad Livar a.d., Banja Luka for the previous period. The grounds for the reservation were eliminated in the current year. The Supervisory Board confirmed the audited Annual Report of Livar d.d. for the 2012 financial year and referred it to the 20th General Meeting for decision, instructing the Management Board to eliminate all grounds on which the auditor's opinion denoted reservations. At the Session, the Supervisory Board learned of the foreseen proceedings and investigations into the legal transactions of the former Management Boards. The opinion of the Chairman of the Management Board, as well as of members of the SB, is that the present and the future are important for the company and not the past, which we cannot influence.

After new SB members were appointed at the 20th General Meeting, the SB met in its 1st Session on 9 July 2013 with the following composition: Vojko Revere, Janko Čevka, Jože Kaligaro, MSc, Janko Šteharik, MSc, Jože Strmole and Mitja Škrbec, MSc. At the constitutive Session, Janko Čevka was elected Chairman and Jože Kaligaro, MSc, Vice Chairman. During this Session, the Supervisory Board was briefed on the operation in the January – June 2013 period. To a great extent, the processes of the programme and marketing restructuring ran according to plan both in terms of content and time.

At the 2nd Session of the Supervisory Board in its new composition, we discussed the report on operation in the ten months of the year and an assessment of operation by the end of 2013. The Chairman of the Management Board Franc Rovere presented the company's operation in 2013 and assessed it as very positive in light of the critical situation in the company at the end of 2012. The main directions from the company's Restructuring Plan have established faith in Livar d.d. in both the sales and purchasing market as well as among employees. After initial centralised management, a consolidation of the management team followed and the company adapted to the new organisation. The operating result for 2013 is three times better than the best result in the last fifteen years of operation. The Chairman of the Management Board especially emphasised that Livar achieved most in the last twelve months or its maximum within the framework of the objectively possible and Livar's team is justifiably proud of that. The SB unanimously congratulated the entire management team for the results achieved.

The SB was further briefed on the Projection of Development of Livar d.d. until 2020, which provides the main directions for the company's future development and accepts it as the fundamental document for future development and the thus related strategy of Livar d.d. in future years. The foreseen results confirm the basic developmental direction – transition to a development-oriented foundry with higher value added. Based on the Projection of Development, the SB was also briefed on the Business Plan for the year 2014. The SB confirmed the Business Plan for 2014 and adopted it with the proposed amendments with the Plan of Restructuring Loan Obligations.

The Chairman of the Management Board further submitted the proposal for the Future Systemic and Organisational Management of Livar d.d., which ensures the continuity of the established management model. The SB agreed with the proposal offered by the Chairman of the Management Board on the future systemic and organisational management of Livar d.d., confirmed and adopted it.

At its session, the SB of Livar d.d. adopted the declaratory decision that the term of the Chairman of the Management Board of Livar d.d. Franc Rovere expires on 21 November 2013 and reappointed him for the period from 21 November 2013 to 21 May 2014, when a new three-member Management Board will be appointed. For the period from 21 May 2014 to 31 December 2014, Franc Rovere will be granted power of procuration.

The Supervisory Board of Livar d.d. gave its consent to the conclusion of a contract between Livar d. d. and Rovere d.o.o., which ensured expert support for business functions with a special emphasis on establishing corporate management standards, measuring business performance, reporting to and communication with banks and other stakeholders of Livar d.d. and covered the costs of operation of SPV VIMPRO d.o.o.

Conclusion

The Supervisory Board estimates that the 2013 financial year was one of the most successful in the company's history. In a short period of time, the Management Board and the management were able to motivate and activate all the employees on all levels of business. In the future, Livar d.d. will still be facing great challenges that can be successfully addressed, while new strategic and developmental directions will enable the company to achieve its planned operating result.

Chairman of the Supervisory Board:
Janko Čevka, BSc (Met Eng)