

Končar – Elektroindustrija d.d.
Zagreb, Fallerovo šetalište 22

Pursuant to provisions of the Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 111/12 68/13, 110/15 and 40/19) and the Corporate Governance Code of the Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange, which entered into force on 1 January 2020, at its 44th meeting held on 15 December 2020, the Management Board of Končar – Elektroindustrija d.d. (hereinafter: Company) adopted the Corporate Governance Code. At its 8th meeting, held on 22 December 2020, the Company's Supervisory Board approved the Corporate Governance Code adopted by the Company's Management Board, as presented below.

CORPORATE GOVERNANCE CODE

Preamble

Končar – Elektroindustrija d.d. (hereinafter: Company) develops and operates in accordance with good corporate governance and strives, with its business strategy, business policies, internal acts and business practices, to contribute to transparent and efficient performance and better relationship with the business environment in which it operates.

The objective of this Code is to establish high standards of corporate governance and business transparency with regard to the clearly defined procedures of corporate governance based on recognisable international standards, as well as the Company's supervision and management functions.

Corporate Governance Code (hereinafter: Code) is adopted for the purpose of:

- Responsible management*
- Defining procedures of corporate governance based on recognisable international standards*
- Supervision of business management,*

all with the aim of establishing high standards of corporate governance and business transparency as the basis for protecting shareholders, investors and other stakeholders, and for supporting employees, sustainable development and environmental protection.

The Code is based on legal regulations of the Republic of Croatia and adopted international standards, as well as their incorporation into the Company's business practices.

I GENERAL PROVISIONS

Article 1

(1) Company's shares are admitted to trading on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE), and the Company is therefore required to disclose the information on decisions of the Management and Supervisory Boards pertaining to:

1. Financial statements (unaudited and/or audited, unconsolidated and/or consolidated),

2. Dividend payment or advance dividend payment,
3. Increase and decrease of share capital,
4. Adopting a Treasury Share Buyback Programme,
5. Approval of acquisition and disposition of own shares,
6. Repurchasing debt securities, and
7. Changing the requirements for share issuance.

(2) Company's activity is the management of companies in which it holds the majority of membership rights and supervision of companies in which it holds minority membership rights.

Article 2

(1) Company and the companies in which it holds the majority of membership rights are open to business partners, especially buyers, and have a permanent duty to develop, improve and enhance products and production processes whilst taking account of the status of technical advancement, and to deliver their products in accordance with the contracted price, time limits and quality requirements.

(2) Main priorities of the Company are:

- Development and growth of the Company and companies in Končar Group
- Improvement of products and production processes
- Ensuring employee quality of life and quality of work environment
- Partnership with all the stakeholders with the aim of creating a positive investment climate and generating profits.

II BASIC PRINCIPLES

Article 3

(1) Basic principles are as follows:

- Business transparency,
- Clearly defined procedures for the activities of the Supervisory Board, Management Board and other bodies of the Company,
- Avoidance of the conflict of interest,
- Efficient internal control,
- Efficient responsibility system,
- Equal treatment of shareholders and
- Safeguarding of employees' rights and interests.

(2) Interpretation of the provisions of this Code shall be based on the adherence to the objectives and principles stated herein.

III DISCLOSURE

Business transparency

Article 4

(1) Pursuant to legal regulations, the Company provides regular access to information on its performance and activities, as well as information on facts and circumstances that may affect the share price, all in accordance with the Company's Rules on Treatment of Prescribed and Privileged Information.

- (3) Company publishes a calendar of events, candidacies and CVs of members of the Management and Supervisory Boards, contact details of the person in charge of investor relations, notifications of meetings and decisions of the Supervisory Board, agenda, decision proposals, and decisions of the General Assembly meeting, all within prescribed time limits.
- (4) Information published on the Company's website is available in both Croatian and English.
- (5) Management Board is responsible for accuracy and timeliness of all information.

Financial statements

Article 5

- (1) Company shall prepare its financial statements (annual, semi-annual and quarterly statements) in accordance with the International Financial Reporting Standards and, once they have been adopted by the Company's competent bodies, publish them within the prescribed time limits in the Central Register of Regulated Information (SRPI), on the ZSE's website, Company's website and with the Croatian News Agency (HINA).
- (2) Annual, semi-annual and quarterly statements are the most important and comprehensive source of data about the Company.

IV EQUAL TREATMENT OF SHAREHOLDERS

Article 6

- (1) Company shall treat all shareholders equally, in accordance with legal regulations, Company's Articles of Association, general acts of the Company regulating shareholders' rights and this Code.
- (2) Company shall treat all shareholders equally and under the same terms, so that all the shareholders have equal access to information about the Company and on how they can exercise and protect their rights.

Article 7

- (1) Company shall designate a person in charge of investor relations and monitor the rights to shares and their subscription status, in accordance with applicable regulations.

Article 8

- (1) Shares are issued as dematerialized securities and recorded on the shareholders' equity accounts in the computer system of the Central Depository and Clearing Company (hereinafter: CDCC), in the form of electronic records.
- (2) A shareholder is the person on whose account the Company's shares are registered in the CDCC.

V BODIES OF THE COMPANY

GENERAL ASSEMBLY

Article 9

(1) Company's Management Board shall convene a General Assembly meeting once a year.

Article 10

(1) Shareholders shall exercise their rights in the Company at the General Assembly meeting.

(2) Shareholders shall participate in the General Assembly meeting in person or by proxy.

(3) Shareholders may participate in the General Assembly meeting and exercise their voting right in accordance with the Company's Articles of Association.

Article 11

(1) President and Deputy President of the Supervisory Board, chairpersons of the Supervisory Board committees, and all Management Board members shall attend General Assembly meetings and be available to answer questions from shareholders. The external auditor shall attend the General Assembly meeting at which financial reports are presented.

(2) The Management Board shall submit to the General Assembly a report on the state of affairs in the Company, which must be prepared in a clear and comprehensible manner, include all aspects of business activities throughout the whole year compared to the preceding years, as well as an accurate, complete and fair presentation of assets and expenditures, financial position of the Company and the future business plan.

(3) Supervisory Board shall submit an annual report to the General Assembly, in which, apart from providing information prescribed by law, it shall evaluate the overall business performance of the Company and activities of the Management Board and comment on its cooperation with the Management Board. The annual report shall, in particular, include the following:

- Target relating to the percentage of female members of the Supervisory and Management Boards to be achieved within the next five years, and progress regarding the set target, which must be reported annually,
- A report on activities of the Supervisory Board and each Supervisory Board committee, including information on the number of meetings held, the members of the committee and their attendance record,
- A report on the Supervisory Board's evaluation of the Supervisory Board and its committees, which must state how the evaluation was carried out, whether external assessors had been employed and who had been consulted during the process. The report should summarise the actions that have been or will be taken as a result of the evaluation
- Evaluation of cooperation between the Supervisory and Management Board
- Details of any Company shares and other financial instruments held by Supervisory and Management Board members, notifiable under applicable laws and regulations, and shares and other financial instruments held in other companies that compete with the Company's business

- Details of any contracts and agreements between members of the Management or Supervisory Boards and the Company.

(4) Supervisory Board shall inform the General Assembly of the conflict of interest, if any, involving its members and members of the Management Board, as well as of the measures taken with regard thereto.

Supervisory Board

Article 12

(1) The main responsibilities of the Supervisory Board shall be the appointment and dismissal of Management Board members, supervision over the Management Board's activities relating to managing the Company's affairs, and submission of reports on the supervision performed. The Supervisory Board shall ensure that the Management Board reflects the Management Board profile which specifies the minimum number of members and the combination of skills, knowledge and education, as well as professional and practical experience required for the Management Board.

(2) Supervisory Board members' term of office shall not be binding, which means that every Supervisory Board member performs their duty independently and at their own responsibility, irrespective of who nominated or appointed them.

(3) Supervisory Board members shall perform their duties with due care and diligence of a prudent businessmen and keep any business secrets of the Company confidential. Supervisory Board members shall be able to dedicate enough time to their duties in the Supervisory Board to exercise their functions properly and in a quality manner.

(4) Supervisory Board shall adopt a decision on the framework plan of its activities, which shall include the list of regular meetings and information to be made available to Supervisory Board members regularly and in a timely manner.

(5) Supervisory Board shall adopt its internal rules of procedure, which shall not restrict the freedom of any member to act independently. No Supervisory Board document shall prevent or restrict individual Supervisory Board members from acting in compliance with legal regulations. Furthermore, each member shall avoid abusing their powers and shall always strive to coordinate their activities with the activities of other members of the Supervisory Board.

Article 13

(1) The number of Supervisory Board members, their election and appointment are stipulated by the Company's Articles of Association.

(2) Supervisory Board members should meet the appropriate standards in terms of their education and professional experience, and should possess the combination of skills, knowledge, education and practical experience required for membership in the Supervisory Board. At least one member of the Supervisory Board shall possess financial expertise, and all the members shall have high moral standards and be able to dedicate enough time to their duties in the Supervisory Board.

(3) Immediately after the election or appointment, each member of the Supervisory Board shall familiarize him/herself with the Company's operations, the role of the Supervisory Board in the functioning of the Company and his/her personal rights and obligations.

(4) All members of the Supervisory Board shall undergo continuous training and education to improve their skills and knowledge.

Article 14

(1) Every member of the Supervisory Board shall notify the Company and the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) of subsequent transactions conducted for their own account relating to the shares of the Company once the total amount of such transactions has reached the threshold set out in Article 19 of the Regulation (EU) No 596/2014 on market abuse. Such notifications shall be made promptly and no later than 3 (say: three) days after the date of the transaction.

(2) Member of the Supervisory Board shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the Company's shares during a closed period of 30 (say: thirty) calendar days before the announcement of an interim financial report or a year-end report in accordance with the corporate events calendar published on the Company's website.

(3) Each member of the Supervisory Board shall notify, in writing, any person closely related to them of their obligations under the Company's Rules on Treatment of Prescribed and Privileged Information.

Article 15

(1) Each Supervisory Board member shall notify, in writing, the Company Secretary of all their holdings in companies that engage in activities that compete with the Company's business, and details of such holdings shall be made freely available on the Company's website.

(2) Each Supervisory Board member shall notify, in writing, the Company Secretary of their membership in supervisory and/or management boards of other companies.

(3) Supervisory Board member shall not be a member of the supervisory board in a company that may be considered as competing with the Company's business.

Article 16

(1) Supervisory Board establishes the following committees:

- Nomination Committee,
- Remuneration Committee,
- Audit Committee and
- Strategic Development Committee,

each of which consists of at least three members. Members of the Management Board shall not be members of the Supervisory Board committees.

(2) Remuneration Committee is regulated by the Company's remuneration policies adopted by the Company's Supervisory Board and approved by the General Assembly.

Article 17

- (1) Nomination Committee shall find and recommend to the Supervisory Board the candidates who may fill the vacancies in the Management and Supervisory Boards, and propose the wording of the agreement to be concluded with members of the Management Board, as well as the structure of their remuneration and the remuneration of the Supervisory Board members.
- (2) Duties of the Nomination Committee shall be as follows:
- To find and recommend to the Supervisory Board the candidates who may fill the vacancies in the Management and Supervisory Boards, and to evaluate their knowledge, skills and experience; prepare the list of requirements and activities relating to each such appointment, and estimate the time for the performance thereof,
 - To evaluate, at least once a year, the structure, size, membership and quality of work of the Supervisory and Management Boards and prepare appropriate recommendations for the Supervisory Board,
 - To evaluate, at least once a year, the knowledge, skills and experience of each member of the Supervisory Board and inform the Supervisory Board thereof,
 - To analyse the problems related to the planning of work continuity of the Supervisory and Management Boards.
- (3) Nomination Committee shall analyse proposals of the Management Board and consult with the President of the Management Board, who may submit proposals to the Nomination Committee, especially with regard to matters relating to members of the Management Board.

Article 18

- (1) Audit Committee shall oversee the process of selecting and appointing the external auditor for the Company and its affiliated companies, conduct detailed analyses of financial statements, provide support for the Company's Accounting Department and establish good and effective internal control systems in the Company.
- (2) Audit Committee shall have the following duties:
- Monitoring the financial reporting procedure,
 - Monitoring the effectiveness of the Company's internal control, internal audit and risk management systems,
 - Monitoring the auditing of the annual financial and consolidated reports,
 - Monitoring the independence of independent auditors or auditing company, especially the contracts on additional services,
 - Giving recommendations to the General Assembly on the selection of an independent auditor or an auditing company,
 - Monitoring the integrity of the information relating to the Company's financial performance, especially the correctness and consistency of the accounting methods used by the Company, including the criteria for the consolidation of financial reports of the companies belonging to the Group,
 - At least once a year, assessing the quality of the internal control and risk management systems, with the aim of adequately identifying and publishing the main risks the Company is exposed to, as well as managing such risks in an adequate manner,
 - Ensuring the efficiency of the internal audit system, especially by preparing recommendations for the appointment.

Article 19

(1) Strategic Development Committee shall cover the topics and activities from the scope of activities of the Supervisory Board, with special reference to the long-term viability of the Končar Group, risk assessment, strategic priorities of the Group, the need for restructuring and the development of strategic human resources within the Končar Group.

(2) Strategic Development Committee also receives other tasks from the Supervisory Board that fall within the scope of the Supervisory Board's activities.

Article 20

Supervisory Board is entitled to seek opinion or advice from parties outside of the Company at the Company's expense where this is necessary for successful performance of its duties.

In the case referred to in the previous paragraph of this Article, President of the Supervisory Board shall notify the Company's Management Board on the need to seek opinion or advice from parties outside of the Company and request from the Management Board that the Company, on its behalf and for its account, collects offers accordingly.

At the request of the President of the Supervisory Board on the need to seek opinion or advice from parties outside of the Company, the Management Board shall collect at least three offers, one of which will be selected based on a joint decision of the Management and Supervisory Boards.

Management Board

Article 21

(1) The Company's Management Board shall manage Company's affairs independently and at its own responsibility, and shall make all decisions solely at its own discretion.

(2) The role of the Management Board in managing Company's affairs is determined by law, Articles of Association, general acts of the Company and this Code.

(3) The Management Board shall always act exclusively in the interest of the Company and the shareholders, taking into account the interests of its employees and the general public, with the aim of increasing the Company's value.

Article 22

(1) The number of Management Board members, their appointment and term of office are prescribed by the Company's Articles of Association.

(2) When deciding on the composition of the Management Board, the Supervisory Board shall strive to include members with different experience, education and character, including:

- Experience in managing business, highly developed organizational skills,
- Experience in identifying and monitoring risk and in crisis management,
- Accounting and finance knowledge,
- Knowledge of the basic corporate governance theory, corporate governance practice and knowledge of capital markets,
- Knowledge of the scope of activity of the Company,

- Knowledge of the national and international market,
- Connecting all interests within the Company.

(3) Each member of the Management Board shall contribute, with their personal characteristics, to the achievement of the overall objectives of the Company, be familiar with good practices in corporate governance and have a strategic vision, so that the Management Board's role could be performed at the best possible level.

(4) In addition to meeting the above conditions, the President of the Management Board shall have the reputation of an acknowledged and good businessman in a wide business environment.

Article 23

(1) Each member of the Management Board shall notify the Company and Hanfa of subsequent transactions conducted for their own account relating to the shares of the Company once the total amount of such transactions has reached the threshold set out in Article 19 of the Regulation (EU) No 596/2014 on market abuse. Such notifications shall be made promptly and no later than 3 (say: three) days after the date of the transaction.

(2) Member of the Management Board shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the Company's shares during a closed period of 30 (say: thirty) calendar days before the announcement of an interim financial report or a year-end report in accordance with the corporate events calendar published on the Company's website.

(3) Each member of the Management Board shall notify, in writing, any person closely related to them of their obligations under the Company's Rules on Treatment of Prescribed and Privileged Information.

Article 24

(1) Management Board shall report to the Supervisory Board at regular intervals on all the facts and circumstances that may affect the Company's performance.

(2) At least once a year, the Management Board shall evaluate its own effectiveness and that of its individual members, and shall report the conclusions of the evaluation to the Supervisory Board.

Article 25

(1) The Management Board of the Company, as the parent company of the Group, shall be responsible for strategic management and long-term performance of the entire Group, and shall supervise, through membership in supervisory boards of daughter companies, their business activities and investments of the Group in daughter companies.

(2) The Management Board of the parent company shall ensure adequate cooperation within the Group, taking account of the timely and efficient exchange of information between the companies in the Group.

Company Secretary

Article 26

- (1) Company Secretary shall be appointed by the Management Board.
- (2) Duties of the Company Secretary are as follows:
 - Ensuring that the procedures of the Supervisory Board and its committees are complied with,
 - Advising the Supervisory Board on governance matters,
 - Supporting the President of the Supervisory Board,
 - Helping the Supervisory Board and its committees to function efficiently,
 - Receiving notifications from the members of the Management Board on the companies outside Končar Group in which such members and/or their spouse and/or their children have holdings/membership rights,
 - Receiving notifications from the members of the Management and Supervisory Boards on their holdings in companies that engage in activities competing with the Company's business, or companies that are considered to be the Company's competitors, and forwards such notifications to be published on the Company's website,
 - Receiving notifications from the members of the Management and Supervisory Boards on their membership in supervisory or management boards of companies outside Končar Group.

VI RELATIONS AND COOPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Article 27

- (1) The Company's Management Board and Supervisory Board shall fully cooperate in the best interest of the Company and discuss and reach an agreement on strategic guidelines for Company's performance.
- (2) The Management Board shall provide the Supervisory Board and its committees with timely access to the Company's facilities, premises, senior management and employees when necessary for the performance of their duties, and to all documents needed for these purposes. President of the Supervisory Board or the chairman of a particular committee will notify the President of the Management Board of such necessity, and agree with him/her on the manner and terms of communication, as well as on the access to the requested documents.
- (2) All members of the Company's Management Board shall attend the meetings of the Supervisory Board except when matters under discussion directly concern the Management Board or some of its members, especially when matters being discussed pertain to dismissal, responsibility or remuneration of the Management Board members.
- (3) The Management Board shall submit timely and comprehensive reports to the Supervisory Board on all the facts and circumstances which may influence the performance, financial position and assets of the Company and its daughter companies, and shall allow members of the Supervisory Board access to all facilities and premises of the Company as well as to all records and files necessary for the performance of their duties.

VII CONFLICT OF INTEREST

Article 28

- (1) A conflict of interest occurs where relations of the Management or Supervisory Board member with other companies, persons or business activities lead to the assumption that he/she might have interests not necessarily being equal to the interests of the Company, which may result in his/her making a decision based on the interests or preferences not necessarily corresponding with the interests of the Company.
- (2) Members of the Management or Supervisory Boards shall act in the best interest of the Company. They shall not be permitted to make decisions based on personal interests or the interests of persons connected with them, and they shall not participate in decisions where they have a conflict of interest.
- (3) Management and Supervisory Board members shall immediately notify the President of the Supervisory Board, and the President of the Supervisory Board shall immediately notify other Supervisory Board members of any personal interests in the Company's affairs.
- (4) Management and Supervisory Board members may not disclose or use any information obtained in the performance of their function for personal interests or interests of any third parties.

Article 29

- (1) Members of the Management Board shall notify the Company on the companies outside Končar Group in which they and/or their spouse and/or their children have holdings/membership rights. Notification on such holdings/membership rights shall be delivered to the Company Secretary.
- (2) Members of the Management Board shall obtain a previous approval of the Company's Supervisory Board for membership in management or supervisory boards of companies outside Končar Group. Notification on membership in supervisory boards of companies outside Končar Group shall be delivered to the Company Secretary.
- (3) Where the Company's Supervisory Board establishes suspected conflict of interest based on holdings/membership rights and/or membership in management or supervisory boards of companies outside Končar Group, members of the Management Board and/or their spouse and/or their children shall transfer such holdings/membership rights to a third party or give up their membership in such other supervisory boards.

Article 30

- (1) Members of the Management or Supervisory Boards shall not, for their own or other persons' account, personally or through third parties, conduct activities belonging to the type of business conducted by the Company, nor shall they provide advice to persons that might be considered as the Company's competitors.

Article 31

- (1) Members of the Management Board shall not own significant holdings/membership rights in companies that compete with the Company's business. Members of the Supervisory Board shall publish information on the size and any changes in holdings/membership rights they own in companies which might be considered as the Company's competitors. Notification

on holdings/membership rights in companies which might be considered as the Company's competitors shall be delivered to the Company Secretary.

VIII AUDIT AND INTERNAL CONTROL MECHANISMS

Article 32

- (1) The Company is aware of the importance and role of audit for the success of corporate governance and the legality and transparency of all business processes in the Company.
- (2) The Company shall have independent external auditors, representing an important instrument of corporate governance, in order to ensure that financial statements adequately reflect the real position of the Company as a whole.
- (3) An auditor shall be considered to be an independent external auditor if he/she is not connected with the Company in terms of ownership of interests, and does not provide, him/herself or through related persons, any other services to the Company.
- (4) Independent external auditors shall, unambiguously and as clearly as possible, give their opinion on whether the financial statements prepared by the Management Board adequately present the balance of capital and financial situation of the Company, as well the results relating to a certain period of time.

Article 33

- (1) The task of the Internal Audit Department and chief internal auditor shall be supervision of the internal control system, as well as verifying compliance with regulations, guidelines and instructions. Internal auditors shall submit reports on the results directly to the Audit Committee, i.e., the Supervisory Board of the Company. The Supervisory Board shall approve the internal auditors' work plan, analyse their results and monitor the implementation of their recommendations.
- (2) The Supervisory Board shall actively participate in planning of activities of internal auditors.
- (3) Roles and responsibilities within the Internal Audit Department are defined by the Company's Internal Audit Charter.

IX RELATIONS WITH INVESTORS

Article 34

- (1) The Management Board of the Company shall ensure the investors have access to balanced data relating to both positive and negative sides of the Company's performance, in order to enable investors to properly understand and assess the situation of the Company, and make their investment decisions based on such information.
- (2) Investors shall always have the possibility to request, in writing, and receive in a timely manner all relevant records from the Management Board of the Company or from the person in the Company responsible for relations with investors.

X STAKEHOLDERS

Article 35

(1) Stakeholders shall be considered to be the persons taking on certain direct or indirect risks in relation to the Company and with regard to the Company. In addition to shareholders, stakeholders shall also be, among others, employees, buyers and users of Company services, suppliers, creditors, local community and state authorities.

(2) The Supervisory Board and the Management Board shall jointly identify the Company's key stakeholders.

(3) The Management Board shall bear the responsibility for transparent and quality relationships between the Company and stakeholders, and shall also ensure that the Company respects all the rights of the stakeholders based on legal regulations and good business practices.

(3) Nobody shall suffer negative consequences for pointing out to the competent authorities or bodies in or outside the Company any shortcomings in the application of rules or ethical standards within the Company.

XI PUBLISHING INFORMATION ON PROVISIONS OF THE CODE

Article 36

(1) In its annual report and on its website, the Company shall state, within the prescribed forms, whether it complies with all the recommendations stated in the Corporate Governance Code of Hanfa and ZSE and this Code.

(2) Corporate Governance Code of Hanfa and ZSE, this Code and their recommendations are based on the "Comply or Explain" principle, i.e., if the Company departs from or fails to apply some of the recommendations, it shall provide an explanation in the annual questionnaire as to why it departed from or failed to apply a recommendation.

XII FINAL PROVISIONS

Article 37

(1) All the members of the Company's bodies and Company employees shall comply with this Code.

(2) In case of departure from this Code, the Management or Supervisory Board will inform the General Assembly thereof.

(3) This Code has been adopted by the Management Board and approved by the Supervisory Board. It may be amended in the same manner.

(4) This Code enters into force the day after its approval by the Company's Supervisory Board.

(5) With entry into force of this Code, the Principles of Corporate Governance of April 2008 cease to be valid.

President of Management Board:

Gordan Kolak, MScEng

President of Supervisory Board:

Joško Miliša

Member of Management Board

Josip Lasić, BScEcon