

Pursuant to the provisions of Article 247a of the Companies Act (Official Gazette nos. 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; hereinafter CA) and the provisions of Item 50 of the Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange (in force since 1 January 2020), at the meeting of the Supervisory Board held on 28 May 2020, the Supervisory Board of Končar - Elektroindustrija d.d. sets out the following

## **REMUNERATION POLICY**

### **Item 1**            *Remuneration policy objectives*

(1) This policy establishes a system of remuneration for members of the Management Board in order to ensure the existence of prescribed and transparent policies and procedures for determining the remuneration of members of the Management Board which harmonize their interests with long-term interests and successful and ethical implementation of the strategy of Končar - Elektroindustrija d.d. (hereinafter: the Company).

(2) The Company wants to achieve a balance between monetary and non-monetary rewards and fixed and variable remuneration of members of the Management Board. Monetary and non-monetary rewards are related to the values and strategies of the Company. Remuneration is fixed and/or variable. Fixed remuneration reflects the relevant professional experience, competence and organizational responsibility of the members of the Management Board. Variable remuneration is based on performance and, in exceptional cases, on other conditions. Variable remuneration provides an incentive for long-term prudent risk-taking and good risk management.

### **Item 2**            *Remuneration Committee*

(1) The Supervisory Board shall establish the Remuneration Committee (hereinafter: the Committee) to express a competent and independent opinion on rewarding policies and practices and on incentives established for risk management, by appointing members of the Committee.

(2) The Remuneration Committee is responsible for the following:

1. preparation of recommendations to the Supervisory Board regarding the rewarding of members of the Management Board;
2. drafting proposals and advice to the Supervisory Board on drafting and amending the rewarding policy for members of the Management Board;
3. auditing of the rewarding policy and monitoring its implementation;
4. reviewing the appointment of external advisers for remuneration that the Supervisory Board may, if necessary, employ for advice or support;
5. support to the Supervisory Board by monitoring the functioning of the rewarding system on behalf of the Supervisory Board;
6. paying special attention to the assessment of rewarding mechanisms adopted to ensure that the overall remuneration policy is consistent with the Company's business strategy, objectives, values and interests;
7. ensuring regular independent review of the policy and system of rewarding by internal audit;
8. formal review of a number of possible scenarios to examine how the rewarding system will respond to future external and internal events.

**Item 3**            *Remuneration policy and business strategy and the long-term development of the Company*

- (1) The remuneration rules set out in this policy are designed to promote and comply with transparent and effective management and to prevent the assumption of risks that are not in line with the Company's business strategy and long-term development.
- (2) This remuneration policy is designed to achieve the long-term economic interests of the Company, shareholders and employees.
- (3) The remuneration policy is harmonized with the business strategy of the Company and the Group (hereinafter: the Končar Group), and the variable remuneration amount is conditioned by the realization of the adopted business plans. In this way, the business policy contributes to the long-term development of the Company.

**Item 4**            *Prevention of conflicts of interest*

- (1) This remuneration policy is in line with the business strategies, objectives, values and interests of the Company, shareholders and employees and includes measures to avoid conflicts of interest.
- (2) The Company's Management Board ensures that the principles and procedures related to remuneration are formulated in such a way that all decisions of the Management Board are balanced and in the best interests of the Company, shareholders and employees, which is ensured by using risk-adjusted performance indicators which also take qualitative criteria into account (e.g. violation of prescribed restrictions, etc.).

**Item 5**            *Fixed remuneration*

- (1) Fixed remuneration of members of the Management Board does not promote taking high-level risks.
- (2) Fixed remuneration of Management Board members:
  - 1) reflect the value of the work, competence, experience and market contribution;
  - 2) achieve a balance between responsibility, knowledge, skills and experience (market value of work and person);
  - 3) encourage the working environment in the Company in terms of:
    - a) performance (set goals, achieving results, providing feedback),
    - b) development (career, employment opportunities) and
    - c) core competencies (growth, responsible action, excellence in execution, cooperation within the team are encouraged).
- (3) Fixed remuneration (basic salary) of members of the Management Board is determined in the monthly gross amount. The basic salary includes flat-rate remuneration for work outside the daily working hours, days of annual leave, paid leave, public holidays prescribed by law. Members of the Management Board are not entitled to a special compensation i.e. salary increase for overtime work, that is for work longer than full time work or for redistribution of working time, as well as to salary supplements in terms of the provisions of the collective agreement. In addition, members of the Management Board are not entitled to rewards and/or remuneration for their work in the bodies of Končar Group companies. All the above supplements, rewards and remuneration are included in the basic salary.

**Item 6***Variable remuneration*

- (1) Depending on the Company's business results, the members of the Management Board are also entitled to a variable part of the salary (variable remuneration). The variable part of the salary is related to the realization of the annual business plan of the Končar Group, in terms of the realized consolidated profit and the realized income from the sale of products and services.
- (2) The variable part of the salary related to the achieved result is calculated according to the following criteria:
- a) if the realized profit of the KONČAR Group is 80% or less than the amount envisaged by the Business Plan for a particular business year (realized profit  $\leq$  80% of the plan), the members of the Management Board do not exercise the right to a variable part of salary in relation to that criterion;
  - b) if the realized profit is higher than 80%, and less than or equal to 100% in relation to the profit envisaged by the Business Plan (80% of the Business Plan  $<$  realized profit  $\leq$  100% of the Business Plan), the members of the Management Board are entitled to the amount of variable salary in the ratio of 100%, in relation to this criterion, with a proportional reduction of the variable part of salary in such a way that for each full percentile of reduction of profit compared to the amount representing 100% of profit planned by the Business Plan, the variable part of salary is reduced by 5%;
  - c) if the realized profit is greater than 100%, and less than or equal to 120% in relation to the profit envisaged by the Business Plan (100% of the Business Plan  $<$  realized profit  $\leq$  120% of the Business Plan), the members of the Management Board are entitled to the full amount of the variable part of salary paid to the members of the Management Board in relation to that criterion (100% of the amount of the variable part of the salary), with a proportional increase of the variable part of the salary in such a way that for each full percentile of increase of profit from the amount that represents 100% of profit planned by the Business plan, the variable part of the salary increases by 1%, up to a maximum of 120% of the amount of the variable part of the salary for this criterion;
  - d) if the realized profit is higher than 120% in relation to the profit envisaged by the Business Plan (realized profit  $>$  120% of the Business Plan), the members of the Management Board are entitled to 120% of the full variable part of salary which would be paid to the members of the Management Board in relation to this criterion. In this case, the Supervisory Board of the Company may also make a decision on an additional reward to the members of the Management Board.
- (3) The variable part of the salary related to the realization of operating income is calculated according to the following criteria:
- a) if the realized operating income of the Končar Group is 85% or less than the amount envisaged by the Business Plan for a particular business year (realized operating income  $\leq$  85% of the Business Plan), the members of the Management Board are not entitled to a variable part of salary in relation to this criterion;
  - b) if the operating income is higher than 85%, and less than or equal to 100% in relation to the plan (85% of the Business Plan  $<$  realized operating income  $\leq$  100% of the Business Plan), the members of the Management Board are entitled to the variable part of the salary in relation to this criterion in the ratio of 100%, with a proportional reduction of the variable part of the salary in such a way that for each full percentile of reduction of realized operating income in relation to the amount representing 100% of the planned operating income, the variable part of salary is reduced by 6.66% in line with this criterion;
  - c) if the operating income is higher than 100%, and less than or equal to 110% in relation to the plan (100% of the Business Plan  $<$  realized business income  $\leq$  110% of the Business Plan), the members of the Management Board are entitled to the full variable part of the salary

Management in relation to this criterion (100% of the amount of the variable part of the salary), with a proportional increase of the variable part of the salary in such a way that for each full percentile of increase of realized operating revenues in relation to the amount representing 100% of planned operating income, the variable part of the salary is increased by 2%, to the maximum of 120% of the amount of the variable part of the salary for this criterion;

- d) if the realized operating income is higher than 110% in relation to the plan (realized operating income > 110% of the Business Plan), the members of the Management Board are entitled to 120% of the full variable part of the salary that would be paid to the members of the Management Board in relation to this criterion. The Supervisory Board of the Company may also make a decision on additional rewarding of the members of the Management Board.

**Item 7**            *Deferrals and refunds of remuneration*

- (1) The Company has no deferrals or periods for which the payment of part of the remuneration is deferred, and the Company has no right to demand the refund of variable parts of remuneration.

**Item 8**            *Shares*

- (1) Depending on the of the Company's business results and the assessment of the contribution of the member of the Management Board to the business results, the Supervisory Board will allocate the Company's shares to the member of the Management Board according to the Rules on long-term rewarding of the Company's Management Board which were adopted by the Company's Supervisory Board at the session held on 28 May 2020.

- (2) The Rules on the long-term rewarding plan for members of the Management Board (hereinafter: LTR) determine the conditions and manner of calculating rewards for members of the Management Board in the Company, as well as the conditions, the manner and relevant periods for rewarding in the Company's shares.

- (3) For the purposes of the LTR, an amount equal to 2.5 permille of the annual increase in market capitalization (hereinafter: AIMC) of the Company's ordinary shares on the Official Market of the Zagreb Stock Exchange (hereinafter: the Stock Exchange) is determined. The AIMC for a given year (hereinafter: the LPR amount) is calculated as follows:

- a) The total number of ordinary shares of the Company is multiplied by the average daily price of ordinary shares calculated as a weighted average of all prices realized on the regulated market in the last three months of the current year, not taking into account block transactions;
- b) The total number of ordinary shares of the Company is multiplied by the average daily price of ordinary shares calculated as a weighted average of all prices realized on the regulated market in the last three months of the previous year, not taking into account block transactions;
- c) The amount of the difference between the calculations from indents 1 and 2 represents the AIMC,
- d) 2.5 permille of the amount of AIMC from the previous indent is the LPR amount as gross I. The LPR amount is determined by a decision of the Supervisory Board of the Company.
- e) The maximum amount of annual increase of market capitalization of 20% is set, above which there is no increase in the LPR amount

- (4) The LPR amount will be distributed to the president of the Management Board, vice president and members of the Management Board in the same proportions of 16,67%.

President of the Management Board, vice president and members of the Management Board are entitled to LPR for the duration of their term.

The amount of LPR determined for each member of the Management Board will be reduced by the amount of taxes and contributions due on each of them, and the reduced amount will be divided by the average price of the Company's ordinary share on the Stock Exchange on the day of allotment, rounded to the first lower number of shares.

The prescribed taxes and contributions of calculation from gross I to gross II will be borne by the Company.

(5) Shares designated for the rewarding of members of the Management Board will be transferred under the following conditions:

*a) Restrictions on the right to dispose of shares*

The restriction on the right to dispose of shares refers to a period of four years, starting from 1 January of the allotment year, during which members of the Management Board may not sell, donate, pledge and/or otherwise dispose of the shares;

*b) Loyalty to the Company*

If a member of the Management Board's term of office ends:

- by resignation or termination of the contract by a member of the Management Board the cause of which is not a serious illness, retirement or death  
or

- by revoking or terminating the employment contract due to misconduct

(further: **Termination**), the member of the Management Board must, free of charge, transfer to the Company:

- all shares, if the Termination occurred in the year in which the shares were allotted to them
- 3/4 of the allotted shares, if the Termination occurred in the second year after the shares were allotted to them
- 2/4 of the allotted shares, if the Termination occurred in the third year after the shares were allotted to them
- 1/4 of the allotted shares, if the Termination occurred in the fourth year after the shares were allotted to them.

In any other case, the member of the Management Board will keep the shares allotted in previous years and will be entitled to a proportional amount of LPR in the current year.

The Company and each individual member of the Management Board will enter into a separate contract for each year of the LPR. Together with the conclusion of the contract, each member of the Management Board will give the Company a promissory note as security for the fulfilment of their obligations to the Company, in accordance with the LPR. Draft agreements on the transfer of shares and agreements on the regulation of mutual relations form Annex 1 to these Rules and are an integral part thereof.

(6) LPR is introduced for a fixed period of time, starting from 20<sup>th</sup> January, 2020 to 20<sup>th</sup> January, 2024.

Prior to the allotment of shares, the annual schedule of allotment of shares designated for the rewarding of members of the Management Board will be determined by the Supervisory Board. The shares will be distributed to board members by the end of June for the previous year.

**Item 9**            *Criteria for the payment of the variable part of remuneration*

(1)        Criteria for the payment of the variable part of remuneration contribute to the realization of the business strategy and long-term development of the Company in such a way that they should constitute motivation for acting in the best long-term interest of the company, in accordance with the duties of each member of the Management Board. The goal of receiving performance-related bonuses must be challenging in order to reward only exceptional results and must be designed so that Board Members are not tempted to take excessive risks that are not in line with the Company's business strategy and do not harm the Company's long-term development.

(2)        The methods used to determine whether the criteria have been met are determined by the adopted annual business plans of the Company. The annual plans are adopted by the Supervisory Board and must be realistic and in accordance with the long-term business and development strategy of the Company.

**Item 10**           *Other rights*

(1)        In addition to fixed and variable remuneration, members of the Management Board exercise the following rights:

- 1) life insurance in the event of death or disability that may occur as a result of an accident or occupational disease in the total amount of the annual premium of not more than half of a monthly gross salary;
- 2) insurance for the needs of additional costs of treatment and/or treatment abroad in the total amount of the annual premium of a maximum of HRK 7,000;
- 3) annual preventive medical examination;
- 4) right to use of a personal motor vehicle owned or possessed by the Company for official and personal needs 24 hours a day (whereby the use of a vehicle for personal needs is considered a salary in kind);
- 5) the right to reimbursement of expenses incurred by members of the Management Board in performing their function.

(2)        During the contractual non-competition period, the Company is obliged to pay the member of the Management Board a monthly fee in the amount of the net average basic salary of the member of the Management Board for which the Company calculates and pays all taxes, surcharges and contributions.

**Item 11**           *Duration of managerial contracts*

(1)        The duration of the managerial contract (hereinafter: the Contract) is conditioned by the length of the period for which the member of the Management Board is appointed, provided that the Company may enter into the Contract for a maximum period of 5 years.

(2)        The contract terminates upon the expiration of the period for which it was concluded, with the resignation of a member of the Management Board, the recall of a member of the Management Board or the fulfillment of conditions for retirement.

**Item 12**           *Notice period*

(1)        The notice period is three months, and the Supervisory Board of the Company may also make a decision on a shorter notice period.

(2) A member of the Management Board is entitled to a basic salary during the notice period, and if the Supervisory Board of the Company has made a decision on a shorter notice period than agreed, the member of the Management Board is entitled to a proportional amount (*pro rata temporis*) of the variable part of the salary, under the conditions and in the manner determined by the Contract.

(3) If the Contract is terminated due to misconduct of a member of the Management Board, the member of the Management Board loses the right to a variable part of salary and severance pay.

**Item 13** *Severance pay*

(1) If the Supervisory Board recalls a member of the Management Board (except in case of dismissal due to misconduct or extraordinary termination) or if a member of the Management Board is not offered a new contract or if a member of the Management Board does not accept the offered new contract, upon expiry of the notice period the Member of the Management Board has the right to a severance pay in the amount of 12 (twelve) gross basic monthly salaries, from which the Company will pay all taxes (income etc.), contributions and/or other similar benefits that are charged for such a payment.

(2) If during the term of the Contract a member of the Management Board, in accordance with positive regulations, fulfils the conditions under which they are obliged to retire, the Contract terminates on the day of retirement, and the member of the Management Board is entitled to severance pay in the amount of 6 (six) gross basic monthly salaries.

**Item 14** *Determining remuneration in relation to workers' remuneration and working conditions*

(1) When adopting the remuneration policy for members of the Management Board, the conditions of workers' remuneration and the working conditions of a circle of workers with similar qualifications, knowledge, skills, competencies and experience, but with a lower level of responsibility are taken into account, i.e. the remuneration and the working conditions of middle management are taken into account.

**Item 15** *Allowed deviation from the remuneration policy*

(1) The Company may temporarily deviate from the remuneration policy if this is necessarily required by the long-term well-being of the Company or circumstances that are unpredictable and may significantly affect the Company's business operations.

(2) In particular, the Company may temporarily deviate from the remuneration policy in the case of reporting on the remuneration policy for the year in which the remuneration policies were determined, and in which in the period from 1 January to the establishment of this remuneration policy, members of the Management Board received remuneration according to criteria different from the criteria and measures in this these remuneration policy.

(3) Deviation from the established remuneration policy is proposed by the Remuneration Committee and approved by the Supervisory Board.

**Item 16** *Implementation and oversight of remuneration policy*

(1) The Remuneration Committee of the Supervisory Board and the Supervisory Board monitor the implementation of the remuneration policy in such a way that the Remuneration Committee submits an annual report to the Supervisory Board on the monitoring of the implementation of the

remuneration policy and shall recommend remuneration policies to the Supervisory Board at least every three years.

President of the Supervisory Board:

Joško Miliša