

**KONČAR – Electrical Industry Inc. for manufacturing and services**  
**Zagreb, Fallerovo šetalište 22**

Pursuant to the provisions of Article 247a and 269(3) 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, 40/19, 34/22, 18/23, 130/23; 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 18 April 2024, the Supervisory Board of KONČAR – Electrical Industry Inc. for manufacturing and services 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 – Electrical Industry Inc. for manufacturing and services (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 as well. 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 reward policies and practices and on incentives established for risk management, by appointing the members of that 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 reward policy for members of the Management Board;
3. auditing of the reward 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 reward system on behalf of the Supervisory Board;
6. paying special attention to the assessment of reward 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 reward system by internal audit;
8. formal review of a number of possible scenarios to examine how the reward system will respond to future external and internal events.

**Item 3**      *Remuneration policy and business strategy, 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. 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 it 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 paid to the Members of the Management Board does not promote the assumption of high risk.
- (2) Fixed remuneration paid to the Members of the Management Board shall:
  - (1) reflect the value of work, competencies, experience and market contribution;
  - (2) balance the responsibility, knowledge, skills and expertise (market value of the position and the individual's skills);
  - (3) promote work environment within the Company with respect to:
    - a) performance (goal setting, realization of results, providing feedback)
    - b) development (career, employment opportunities) and
    - c) core competencies (fostering growth, responsible conduct, operational excellence, team collaboration).

Fixed remuneration (base pay) paid to the Members of the Management Board is determined in the monthly gross amount. Base pay includes flat compensation for overtime work, annual leave, paid leave, and public holidays as determined by law. Members of the Management Board are not entitled to a special allowance or compensation for overtime work or work exceeding full-time working hours, for the redistribution of working hours, nor to allowances in terms of the provisions of the collective agreement. Furthermore, Members of the Management Board are not entitled to rewards and/or compensation for their work in the bodies of other KONČAR Group companies. All allowances, rewards and compensation are encompassed by the base pay.

**Item 6**      *Variable remuneration*

(1) Contingent on the business results and the performance of the Company, the Members of the Management Board are entitled to variable remuneration (variable pay). The variable pay is performance-based and contingent on the realization of the business plan of KONČAR Group, taking into account the consolidated profit and the revenues from the sales of products and services.

(2) The variable pay, which is performance-based and tied to realized profit, is calculated according to the following criteria:

- a) if the Group realizes 80% of the consolidated net profit as forecast in the Business Plan for the relevant fiscal year or less (realized consolidated net profit  $\leq$  80% of the plan), the Member of the Management Board is not entitled to the performance-based variable pay in relation to that criterion;
- b) if the realized consolidated net profit exceeds 80% but is under or equal to 100% of the profit as forecast in the Business Plan (80% of the Business Plan  $<$  realized consolidated net profit  $\leq$  100% of the Business Plan), the Member of the Management Board is entitled to the performance-based variable pay calculated in relation to that criterion that would have been payable at a 100% ratio, but with a proportional discount of the variable pay. For every full percentage of under-earned profit (compared to the amount representing 100% of the consolidated net profit forecast in the Business Plan), the variable pay in relation to that criterion is discounted by 5%;
- c) if the realized consolidated net profit exceeds 100% but is under or equal to 120% of the profit as forecast in the Business Plan (100% of the Business Plan  $<$  realized consolidated net profit  $\leq$  120% of the Business Plan), the Member of the Management Board is entitled to the performance-based variable pay in relation to that criterion that would have been payable at a 100% ratio, with a proportional increase of the variable pay. For every full percentage of over-earned profit (compared to the amount representing 100% of the consolidated net profit forecast in the Business Plan), the variable pay in relation to that criterion is increased by 1%, up to a maximum of 120% of the variable pay in relation to this criterion;
- d) if the realized consolidated net profit exceeds 120% of the profit forecast in the Business Plan (realized consolidated net profit  $>$  120% of the Business Plan), the Member of the Management Board is entitled to 120% of the full performance-based variable pay in relation to that criterion. In this case, the Supervisory Board of the Company may also decide to allocate additional rewards to the Member of the Management Board.

(3) The variable pay, which is performance-based and tied to sales revenue (hereinafter: consolidated sales revenue), is calculated according to the following criteria:

- a) if KONČAR Group's realized consolidated sales revenue is 85% of the figure forecast in the Business Plan for the relevant fiscal year or less (realized consolidated sales revenue  $\leq$  85% of the plan), the Member of the Management Board is not entitled to the performance-based variable pay in relation to that criterion;
- b) if the consolidated sales revenue exceeds 85% but is under or equal to 100% of the figure forecast in the Business Plan (85% of the Business Plan  $<$  realized consolidated sales revenue  $\leq$  100% of the Business Plan), the Member of the Management Board is entitled to the performance-based variable pay calculated in relation to that criterion that would have been payable at a 100% ratio, with a proportional discount of the variable pay. For every full percentage of under-earned consolidated sales revenue (compared to the amount representing 100% of the consolidated sales revenue forecast in the Business Plan), the variable pay in relation to that criterion is discounted by 6.66%;
- c) if the consolidated sales revenue exceeds 100% but is under or equal to 110%

of the figure forecast in the Business Plan (100% of the Business Plan < realized consolidated sales revenue ≤ 110% of the Business Plan), the Member of the Management Board is entitled to the performance-based variable pay calculated

in relation to that criterion that would have been payable at a 100% ratio, with a proportional increase of the variable pay. For every full percentage of over-earned consolidated sales revenue (compared to the amount representing 100% of the consolidated sales revenue forecast in the Business Plan), the variable pay in relation to that criterion is increased by 2%; up to a maximum of 120% of the variable pay in relation to this criterion;

- d) if the realized consolidated sales revenue exceeds 110% of the figure forecast in the Business Plan (realized consolidated sales revenue > 110% of the Business Plan), the Member of the Management Board is entitled to 120% of the full performance-based variable pay in relation to that criterion. In this case, the Supervisory Board of the Company may also decide to allocate additional rewards to the Member of the Management Board.

(4) The decision regarding the variable part of the salary is made by the Supervisory Board of the Company based on the annual audited consolidated financial statements. The variable part of the salary is paid in cash within 60 days from the determination of the annual financial statements for the previous financial year.

#### **Item 7**      *Maximum remuneration*

The total remuneration of a Management Board member for a particular year may amount to no more than the total base salary of the individual Management Board member on an annual basis, together with the annual variable remuneration linked to the achievement of Končar Group's annual business plan, specifically in terms of the realized consolidated net profit and realized consolidated revenue from product and service sales. A Management Board member may receive a maximum of 120% of the full variable pay based on the criteria outlined in item 6 of this Policy, except in the event of a decision being reached by the Supervisory Board regarding additional remuneration to the Management Board member as referred to in item 6, paragraph 2, indent d) and item 6, paragraph 3, indent d) of this Policy. Depending on the Company's business results according to the Rules on Long-Term Incentive Plan (LTIP), shares will be awarded. The calculation of share allocation in a single year is tied to the increase in market capitalization. A maximum annual increase in market capitalization of 30% has been determined, beyond which there is no increase under the LTIP.

#### **Item 8**      *Deferred and reimbursed remuneration*

- (1) The Company is under no obligation of deferred remuneration or a grace period, and the Company is not entitled to request reimbursement of variable remuneration.

#### **Item 9**      *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 Incentive Plan (LTIP) for the Company's Management Board members, which were adopted by the Company's Supervisory Board at the session held 19 January 2024.

(2) The Rules on Long-Term Incentive Plan (LTIP) for members of the Management Board (hereinafter: LTIP) 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 LTIP, an amount equal to 4.5 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: LTIP 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 (year for which the LTIP of Management Board members is being calculated), 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) 4.5 permille of the amount of AIMC from the previous indent is the LTIP amount, represented as gross I. The LTIP amount is determined by a decision of the Supervisory Board of the Company.
- e) The maximum amount of annual increase of market capitalization of 30% is set, above which there is no increase in the LTIP amount.

(4) The LTIP amount will be distributed to the members of the Management Board in the following proportions:

- a) 28% to the President of the Management Board;
- b) 21% to the member of the Management Board/CFO;
- c) 17% to each of the remaining Management Board members.

President of the Management Board, member of the Management Board/CFO and members of the Management Board are entitled to LTIP for the duration of their terms, unless otherwise specified in the LTIP.

The amount of LTIP determined for each member of the Management Board will be reduced by the amount of taxes and contributions due for each of them, and the reduced amount will be divided by the price calculated as the weighted average of all prices achieved in the regulated market in the last three months of the current year (the year for which the remuneration amount for Management Board members is calculated in accordance with the LTIP), not taking into account block transactions, rounded down to the nearest whole number of shares.

The prescribed taxes and surtaxes 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 two years, starting from the date of share award, during which time members of the Management Board may not sell, donate, pledge and/or otherwise dispose of the shares;

## b) Termination of the Contract Due to Misconduct

If a member of the Management Board's term of office in the Company and/or the contract governing the mutual rights and obligations of the Management Board member with the Company regarding the performance of the Management Board member's duties (hereinafter referred to as the Contract) is revoked due to misconduct and/or the Contract is terminated due to misconduct (hereinafter: Termination), the Management Board member must, without compensation, transfer to the Company all shares allocated in that year in which the Termination occurred.

In any other case of termination of term of office and/or Contract, the Management Board member retains the shares allocated in previous years and will be entitled to a proportional amount of the LTIP in the current year, unless otherwise specified by the LTIP.

The Company and each individual member of the Management Board enter into a separate contract for each year of the LTIP. Along with the conclusion of the contract on all shares from Article 3 of the LTIP simultaneously with the transfer of shares from the Company's name to the name of the Management Board member, in the CCDC depository, a voluntary lien in favour of the Company is established as collateral in accordance with Article 4 of the LTIP. The lien is registered for a period of two years and decreases over time in accordance with Article 4 of the LTIP.

By June 30 of each year, the Company will sign a Protocol together with the members of the Management Board, determining the status of compliance/non-compliance with the conditions from Article 4 of the LTIP and accordingly writing off/deleting the corresponding part of the registered collateral on the shares.

- (6) The LTIP is introduced for a specific period, starting from January 21, 2024, to January 21, 2028.

Before the allocation of shares, the annual schedule of shares allocated for rewarding members of the management board will be determined by the Supervisory Board. Shares will be allocated to members of the Management Board by the end of June for the previous year.

### **Item 10**      *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 11**      *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 (with the insurance period under the policy not being longer than five years);
- 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 EUR 1,500;
  - 3) additional and supplementary health insurance policy which includes, among other things, an annual preventive medical examination;
  - 4) right to use of a Company car (owned by the Company or in its legal possession) for work-related and personal needs 24 hours a day (whereby the use of a vehicle for personal needs is considered a salary in kind);
  - 5) fee for business trips in Croatia and abroad, in accordance with the decision and internal documents of the Company;
  - 6) the right to reimbursement of expenses incurred by members of the Management Board in performing their function.

(2) During the contractual non-compete period, the Company is obliged to pay the member of the Management Board a monthly fee in the amount of the gross base salary of the member of the Management Board, for which the Company calculates and pays all taxes, surcharges and contributions, in accordance with the law.

**Item 12** *Term of manager's contracts*

(1) The term of the manager's 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 discharge of a member of the Management Board or their turning 65 years of age and having 15 years of pensionable service.

**Item 13** *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 base salary during the notice period.

(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 variable pay and severance pay.

**Item 14** *Severance pay*

(1) In the event of the expiration of the term of office and termination of the Contract, if the member of the Management Board's term of office is not extended or if they do not accept any job offered by the Company, the Management Board member is entitled to severance pay amounting to 12 (twelve) gross basic monthly salaries from the Contract.

(2) In the event of the resignation of a member of the Management Board, if the member does not accept any job offered by the Company, the Management Board member is entitled to severance pay amounting to 12 (twelve) gross basic monthly salaries from the Contract.

- (3) In the event of the revocation of a member of the Management Board due to misconduct, the Management Board member forfeits the right to severance pay. In all other cases of revocation, if the member of the Management Board does not accept any job offered by the Company, the Management Board member is entitled to severance pay amounting to 12 (twelve) gross basic monthly salaries under the Contract.
- (4) If a member of the Management Board reaches the age of 65 and completes 15 years of pensionable service during the term of the Contract, the Contract and employment relationship terminate, and the member of the Management Board is entitled to severance pay amounting to 6 (six) gross basic monthly salaries from the Contract.
- (5) The amounts of severance pay from the previous paragraphs of this section of this Policy represent the gross amount of severance pay from which the Company will pay all taxes (income tax and similar), contributions, and/or other similar payments imposed on such payments, in accordance with applicable regulations.

**Item 15** *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 16** *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 outlined in this remuneration policy.

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

**Item 17** *Implementation and oversight of remuneration policy*

The Remuneration Committee of the Supervisory Board and the Supervisory Board oversee the implementation of the remuneration policy by having the Remuneration Committee submit an annual report to the Supervisory Board on the oversight of the implementation of the remuneration policy.

The Remuneration Committee, in the event of significant changes or at least once every four years, analyses and amends the Remuneration Policy.

**Item 18** *Remuneration of Supervisory Board members*

Members of the Supervisory Board receive remuneration for their work in accordance



with the decision of the General Assembly of the Company. According to the decision of the General Assembly of KONČAR – Electrical Industry Inc. dated 12 July 2016, a monthly fee for the work of Supervisory Board members is determined in the gross amount of 1.5 times the average gross salary paid within the KONČAR Group in the month preceding the fee calculation month. Each member of the Supervisory Board is entitled to a fixed monthly remuneration from the day of appointment to the position until the day of cessation of the same. In order to maintain the independence and objectivity of the members, the remuneration of Supervisory Board members does not depend on the results of the Company and does not include a variable part of the compensation.

**Item 19** *Transitional and final provisions*

(1) This remuneration policy applies for the period from 2024 to 2028, subject to approval by the General Assembly of the Company.

(2) Based on this remuneration policy, the President, Management Board member/CFO, and other Management Board members are entitled to a variable part of the remuneration and shares for the entire year 2024, unless otherwise specified in the Contract. The President, Management Board member/CFO, and other Management Board members are not entitled to a proportional amount of the variable part of the remuneration or a proportional amount of the Company's shares for the year 2028 based on this policy.

(3) Regarding the members of the Company's Management Board whose term of office expired in January 2024 and who were not reappointed to the Company's Management Board, the Remuneration Policy dated 28 May 2020, and the Rules on Long-Term Incentive Plan for Management Board members dated 28 May 2020, including its amendments dated 19 July 2022, apply.

(4) With the establishment of this Remuneration Policy by the Supervisory Board and its approval by the General Assembly of the Company, the remuneration policy established by the Supervisory Board on 28 May 2020, ceases to be valid.

President of the Supervisory Board:

Joško Miliša