



**SLOVENSKI DRŽAVNI HOLDING, d. d.**

# RECOMMENDATIONS AND EXPECTATIONS OF SLOVENIAN SOVEREIGN HOLDING

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## INTRODUCTION

The Slovenian Sovereign Holding Act (Official Gazette of RS, Nos. 25/2014 and 140/22, hereinafter referred to as: "ZSDH-1") entered into force on 26 April 2014. Among other matters, ZSDH-1 regulates the status and operation of Slovenian Sovereign Holding (hereinafter referred to as: "SSH") and the management of assets of the state. As stipulated by Article 4 of ZSDH-1, the objectives in managing state asset include increasing the value of assets, generating the highest possible returns for the owners and attaining other potential strategic objectives from assets which are defined as strategic by way of governance documents. The ZSDH-1 also defines the principles pursued in managing state assets (i.e., the principle of responsibility and due care, the principle of independence, the principle of transparency and the principle of cost-effectiveness), and governance documents for managing state asset (these are: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for SOEs).

To a great extent, ZSDH-1 and the above-mentioned documents on asset management regulate the subject matter which relates to the corporate governance of SOEs. Attaining corporate governance objectives and putting in practice the principles of corporate governance dictate the need that some narrower issues, which do not pertain to statutorily defined documents regarding asset management due to their specific content and nature, be regulated by special legal documents. The publication of special legal documents, which, in addition to governance documents, are addressed to SOEs, is also envisaged by Article 32, Paragraph 4 of ZSDH-1.

By means of the Recommendations and Expectations of Slovenian Sovereign Holding (hereinafter referred to as: "the SSH Recommendation and Expectations"), which are characterized by a predetermined and clear structure and public disclosure, SSH communicates to SOES some specific recommendations and expectations which SSH anticipates of being observed by SOEs.

In the SSH Recommendations and Expectations, the number of individual recommendations and expectations may vary, as the content of this document is typically updated once a year.

The SSH Recommendations and Expectations, which is a special asset management document, are addressed to:

- all SOEs regardless of the shareholding or the share of voting rights held by the state or SSH in a company, and regardless of the legal organisational form of the company;
- subsidiary companies in a group in which the position of the controlling company is held by an SOE.

It is evident from the content or context of each recommendation and expectation which type of a company a specific recommendation or expectation pertains to.

In accordance with Article 2 of ZSDH-1, SOEs are legal entities which are the issuers of securities owned by SSH, and companies which are the issuers of securities owned by the Republic of Slovenia and managed by SSH. In accordance with Article 19 of ZSDH-1, SSH is responsible for managing all assets owned by the Republic of Slovenia, except for assets in international financial institutions, capital assets in companies performing the service of general economic interest as a system operator for the transmission and distribution of natural gas and electricity, and in companies performing the service of general economic interest in relation to the organisation of the electricity market in the Republic of Slovenia, or when so stipulated by specific legislation. Capital assets are equity securities or shareholdings.

The SSH Recommendation and Expectations *per se* do not imply the exercise of rights of a shareholder in SOEs and as such do not impose any obligation on companies, regardless of the potentially mandatory form of action of a recommendation or expectation. The SSH Recommendations and Expectations have been adopted in good faith and their implementation shall be considered as a contribution in increasing the quality of corporate governance and improving the performance of SOEs, and shall serve in the interest of companies. Therefore, SSH expects that its addressees will comply with them. SOEs should observe the SSH's recommendations and expectations by applying the "*comply-or-explain*" principle, and disclose its compliance in their Business Report, or provide justified reasons for not complying with specific recommendations and expectations.

## **1. The three-year business planning of the company/group/subsidiary companies within the group**

- 1.1. An SOEs should prepare, approve and submit to SSH draft business plans and the final versions of the approved business plans in a timely manner.
- 1.2. When an SOE is the controlling company within a group, a draft business plan and an approved business plan should also be prepared for the group (a consolidated business plan) and for selected subsidiaries within the group, as determined by SSH through operational instructions. The controlling company within the group shall submit the draft business plan and approved business plans to SSH.
- 1.3. Unless otherwise specified by operational instructions from SSH, draft business plans should be prepared annually for the next two financial years (presented on an annual basis). Draft business plans should be submitted to SSH no later than by 10 September of each year.
- 1.4. Companies should approve business plans for the next three financial years (presented on an annual basis) and additionally, on a quarterly/monthly basis for the first upcoming year, in accordance with operational instructions from SSH. Approved business plans should be submitted to SSH no later than by 15 October of each year.
- 1.5. The complete business plans (including other data and descriptive sections) shall be submitted in printed or electronic form, in accordance with operational instructions from SSH.
- 1.6. The planned income statements, balance sheets (Statements of Financial Position), and performance indicators, in line with the applicable Criteria for Measuring Performance of SOEs, should be reported separately, in an electronic form, using standardized reporting templates provided by SSH.
- 1.7. SSH expects the draft business plans to include, at a minimum, the following elements:
  - a plan of net operating revenues, planning of gross operating profit, planning of operating profit (EBIT), planning of write-offs (depreciation and amortisation expense as well as any other expense), planning of net profit (for banks: net interest, net fees, and net operating result; for insurance companies: calculated gross insurance premiums, net claims expense, and net operating result),
  - a plan of the amount of total assets and equity capital,
  - a plan of all indicators of a company/group in accordance with applicable Criteria for Measuring Performance of SOEs,
  - a short overview of the major planned investments, outlining their nature and purpose,

- a summary of assumptions considered in the preparation of draft business plans, such as economic forecasts, market conditions, regulatory changes, etc.,
  - a concise summary of the key goals and objectives of the company/group for the upcoming business year.
- 1.8. SSH expects the approved business plans to include a comparison of data from periodic reports for SSH and to incorporate the following information for the company and group (adjusted accordingly for banks and insurance companies):
- revenue planning; an overview and presentation of main business transactions with tables/graphs,
  - a detailed breakdown of the planned sales structure by the type of business transactions, markets, etc.,
  - a plan regarding the buy and sell price volatility (when applicable),
  - a detailed presentation, description, and justification of the major planned investments, including their purpose, expected returns, and potential benefits for the company/group,
  - an outline of the planned costs with breakdowns by natural categories (such as personnel costs, material costs, operating expenses, etc.), including descriptions and justifications for each category. This should also include planned sponsorship costs and donation expenses,
  - a plan of potential acquisitions, sales,
  - a plan of the number of employees, the structure and the movement in the number of employees,
  - a presentation of risks identified for the planning period, particularly in regard to operational, legal, liquidity, currency and other market risks as well as a short presentation of measures for managing these risks,
  - income statement projection,
  - balance sheet projection with notes,
  - in case of groups, consolidated financial statement projections; a consolidated balance sheet projection and a consolidated income statement projection,
  - a plan including key financial data and indicators, return on assets (ROA), return on equity (ROE), and added value per employee,
  - an EBIT plan,
  - an EBITDA plan,
  - the expected EBITDA margin,
  - a plan of all indicators of a company/group in accordance with applicable Criteria for Measuring Performance of SOEs,
  - a planned group structure with a display of control,
  - a dividend amount planned to be paid-out,
  - results planned in regard to the achievement of non-financial goals of a company/group,
  - a brief assessment of the future market and competition situation (for the planning period) and a comparison with key competitors in Slovenia and abroad, including key financial data and indicators; it should be an integral part of the annual business plan,
  - a display of existing debts and new ones planned and their repayment schedule.

- 1.9. Data of confidential nature so defined by some special laws (for example, in the field of banking, insurance industry) may be excluded from the draft business plan.
- 1.10. Companies with more than one shareholder should adopt the Shareholder Communication Policy which, observing the principle of equal treatment of shareholders, ensures shareholders to have access to more information about the company's operation than what is required by law.
- 1.11. Listed companies should strive to adapt their financial calendars, planning, and scope of reported data in order to comply with the aforementioned recommendations. The reported data, both for the company itself and the group, should include at least the following information:
- a plan of total assets and equity capital,
  - a revenue plan,
  - EBITDA,
  - planned net profit,
  - planned return on equity (ROE),
  - planned levels of capital adequacy or solvency indicators (for banks or insurance companies).

**Reasoning:**

According to SSH, SOEs mostly have a properly developed business planning system which is why the Recommendation 1 is mainly intended to provide information to SSH on the operation planned by companies and groups. Only by following this approach, SSH will be able to effectively fulfil its obligations as stipulated by ZSDH-1, which among other matters, pursuant to Article 30 of ZSDH-1, also prescribes the preparation of Annual Asset Management Plan, pursuing asset management goals defined in Article 4 of ZSDH-1, and adhering to the principle of diligence outlined in Article 5 of ZSDH-1, and following the principle of cost-effectiveness defined in Article 9 of ZSDH-1.

To ensure consistent records and appropriate monitoring programs for companies' performance, companies are expected to use relevant forms or templates and fully comply with SSH's operational instructions when preparing business plans (for the sections so foreseen by SSH).

SSH expects SOEs to adhere to the three-year business planning expectation and provide the relevant data to SSH. Certain data which are subject to specific legal regimes for the protection of confidential information (e.g., banks, insurance companies, etc.) may be excluded from reporting. Companies subject to legislation on equal treatment of shareholders should develop an appropriate shareholder communication system and regulate it in a publicly disclosed document entitled "Shareholder Communication Policy". This policy should enable other shareholders to access the data provided to SSH in accordance with Expectations No. 1 and No. 2 regarding periodic reporting on operations.

For public companies, the principle of equal treatment is emphasized more due to provisions of the Market in Financial Instruments Act (ZTFI). Therefore, a specific Recommendation 1.11 has been introduced to allow SSH to obtain at least essential information regarding business plans.

## **2. Periodic Reporting on Company/Group/Subsidiaries within the Group Operations**

- 2.1. SSH expects companies to prepare and submit appropriate periodic reports on their operations in a timely manner. The periodic reports shall include quarterly and monthly reports.
- 2.2. SOEs should prepare quarterly reports on their operations. If an SOE is a controlling company within a group, a quarterly report should also be prepared for the group (a consolidated report). Quarterly reports shall be prepared on a cumulative basis, as follows:
  - 1. Quarterly report for the period from January 1 to 31 March,
  - 2. Quarterly report for the period from January 1 to 30 June,
  - 3. Quarterly report for the period from January 1 to 30 September,
  - 4. Quarterly report for the period from January 1 to 31 December.
- 2.3. Companies in which SSH holds a 100% share of voting rights should also provide monthly reports on the operations of the controlling company and subsidiaries, in the scope and manner specified by SSH's operational instructions. Monthly reports shall also be prepared on a cumulative basis, as follows: 1. January – 31. January; 1. January – 28. February; 1. January – 31. March; etc.).
- 2.4. The periodic report should be submitted to SSH no later than:
  - 30 days after the end of the reporting period for parent companies and subsidiaries within the group,
  - 45 days after the end of the reporting period for groups (a consolidated report).
- 2.5. The income statements, balance sheets (Statements of Financial Position), performance indicators, in line with the applicable Criteria for Measuring Performance of SOEs, should be reported separately, in an electronic form, using standardized reporting templates provided by SSH.
- 2.6. In addition to the information mentioned in point 2.5, the quarterly report should also include:
  - a description or overview of the business environment,

- a brief description of significant events,
- a short assessment of the company's market position,
- a presentation of the sales structure by business type, by markets, etc.,
- a presentation of the number of employees, their structure and the changes in the number of employees,
- the total amount of expenses and breakdown of expenses (labour costs, material costs, service costs by type, sponsorship costs, donations, etc.)
- the total amount of donated monies,
- a disclosure of realised risks and a brief description of measures taken to manage these risks or measures abandoned to mitigate risks,
- a disclosure and presentation of newly acquired sources of financing and investments carried out, including the display of financial obligations with maturity dates and the methods for their settlement,
- the presentation of existing and potential newly acquired financial instruments (including derived instruments) for the reporting period,
- results which have been achieved regarding non-financial goals of a company/group with an explanation of reasons for potential deviations from these goals,
- the income statement for the reporting period, comparing it with the planned outcome of the same period of the previous year, with explanations for any deviations from the planned outcome,
- the balance sheet as of the last date of the reporting period, including a comparison of the current position with the position as of 31 December of the previous year, including an explanation on reasons for any potential deviations from the position planned by individual balance sheet items.
- the statement of cash flows,
- in the case of a group, the consolidated financial statements; the consolidated balance sheet and the consolidated income statement,
- a clear organisational structure of the group,
- a competitor analysis and comparison (including a few comparable competitors in Slovenia and abroad) with key financial data and indicators. This analysis should be added to the report as one of the chapters once a year.

The above-mentioned data shall be submitted in a printed or electronic form, in accordance with operational instructions from SSH.

2.7 Periodic reports should be clear, addressing important and essential matters. They should be reliable, consistent, enabling comparisons with set goals and previous periods, and providing an accurate and realistic view of the company/group/subsidiaries in the group. The reports should be reviewed by the members of the management of a company who are responsible for accuracy, completeness, and correctness of the reports.

2.8 The requirement for reporting may exclude data of confidential nature in accordance with special laws (particularly in regard to banking and insurance business). Companies with multiple shareholders should adopt the Shareholder Communication Policy which,

observing the principle of equal treatment of shareholders, ensures shareholders to have access to more information about the company's operation than what is required by law.

2.9 Periodically or when needed, SSH will organise meetings with company representatives to discuss the reported data on the performance of a company, group, or subsidiaries within the group.

2.10 Public companies should strive to adjust their financial calendars and the scope of reported data to comply with the above recommendations regarding periodic reporting to SSH.

### **Reasoning:**

The Recommendation 2 is intended to provide (additional) information to SSH on the performance of companies, groups, or subsidiaries within the group. Only through this approach will SSH be able to effectively fulfil its obligations as imposed by ZSDH-1, in particular, pursuing asset management objectives defined in Article 4 of ZSDH-1, adhering to the principle of diligence as stated in Article 5 of ZSDH-1 and following the principle of cost-effectiveness defined in Article 9 of ZSDH-1, and assessing the satisfaction of performance criteria for SOEs in accordance with Article 17, Paragraph 1 of ZSDH-1.

To ensure consistent data management and the establishment of databases at SSH for monitoring the performance of companies, companies are expected to use appropriate forms or templates and proposals and fully comply with the operational instructions provided by SSH.

## **3. Procurement of goods and services, sponsorship and donations, and certain specific types of services**

### **General**

3.1. Companies shall establish appropriate systems to ensure transparent and cost-effective business operations in relation to contracts involving company expenditures (procurement of goods and services, sponsorship and donations, legal services, services of marketing, advertising, communication companies, and public relations companies), as well as proper control over these systems. The management and supervisory bodies, as well as other oversight bodies (internal audit, audit committees), shall pay particular attention to the supervision and establishment of internal controls which ensure that the services are actually provided in accordance with the actual needs of the company.

- 3.2. Companies are recommended to avoid entering into so-called flat rate contracts unless a clear business economical justification is given from a business and economic perspective (for example, legal advice for companies without an in-house legal department)<sup>1</sup>.
- 3.3. During times of exceptionally uncertain conditions, companies are advised to incorporate appropriate mechanisms for adjusting the price of goods or services in long-term sales or procurement contracts based on changes in relevant market prices in the event of negative price fluctuations for the company. It is also recommended that contracts include appropriate provisions on the possibility of early termination and suitable safeguards for potential risks.
- 3.4. The conditions for expressing interest or submitting bids in invitations to express interest or bidding processes should be determined in a manner that does not exclude potential competition through procedural rules or other means.
- 3.5. Companies should publicly announce information referred to in this Recommendation on their own web site. Announcements should be accessible on their web site for at least 5 years following their publication.
- 3.6. This recommendation does not in any way affect the obligations of companies under the applicable regulations. In exceptional cases, a company may decide not to comply with this Recommendation if the disclosure of certain information would pose a serious threat to the position of the company in the market, potentially causing significant harm to the company, or for other valid and justified reasons. For the sake of transparency, it is expected that an explanation for the exclusion will be provided in such cases.

### **Procurement of goods and services (general)**

- 3.7. If the procurement of goods and services is not subject to the public procurement law, at least the principles of transparency, cost-effectiveness, efficiency, and effectiveness must be considered in the procurement process. The procurement of goods and services shall be conducted based on pre-determined selection criteria and through the comparison of comparable bids obtained.

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<sup>1</sup>The term "flat rate contract" refers to contracts for the provision of advisory services where the payment is independent of the quantity of services actually rendered during the relevant period, or it is deemed that the service can be performed in a particular period simply by the fact that the service provider (permanently) makes a certain type of service available to the client upon request within the framework of a subscription contract.

- 3.8. Immediately after the conclusion of a contract which has the legal nature of a mandate contract (of a general, specific or framework nature) or a contract with the legal nature of a service contract the subject of which are intellectual services, a company, in the capacity of the ordering party, shall publicly disclose the information about the selected contractor and the type of the business transaction (for example, a contract on legal or financial advisory services, the production of an opinion or an expert opinion).
- 3.9. Once a year, companies shall disclose the information on the total value of transactions related to service orders, including the breakdown of the value structured by the type of transaction.

## **SPONSORSHIPS AND DONATIONS**

- 3.10. Companies should establish clear procedures for allocating sponsorship and donation contributions which should be published on the company's web site. Criteria to be observed when allocating sponsorship and donation contributions must be specified, indicating in advance the category of entities and geographical areas to which the sponsorships and donations apply. Current, and if applicable, new objectives of the company, to which a corporate sponsorship and donation policy should contribute, must be defined in advance.
- 3.11. The primary purpose of sponsorship is to contribute to achieving the company's business objectives (especially improving profitability and potentially other business objectives) by raising awareness or improving the company's image or its products. Additionally, it should serve the complementary purpose of making a positive contribution to the social environment (corporate social responsibility). Sponsorship policy should reach the target market (target audience in the designated geographical area) and sponsorship contributions should be granted to entities with which a positive impression, response, or attitude toward the company or its products can be created among the target audience.
- 3.12. There should be no conflict of interest between the decision-maker regarding a specific sponsorship or donation contribution and the recipient of the sponsorship or donation contribution. The Sponsorship Agreement should clearly define the obligations of the sponsored party, which typically include the acknowledgement of the sponsor or its logo on posters, shirts, radio, television, etc., at events or activities sponsored by them.
- 3.13. The management, in agreement with the supervisory board, shall determine the maximum amount or value that can be allocated to each sponsorship and donation contract, as well as the annual sum allocated to sponsorship and separate donations. The following guidelines apply:
- sponsorship and donation contributions shall not be allowed for SOES where SSH holds a majority shareholding or exerts dominant influence, and where 100% of their

financing in the previous fiscal year came from public funds. However; companies falling under this category may donate individual symbolic amounts/values, as long as the total annual amount of donated funds does not exceed 0.03% of the company's revenue for the previous fiscal year.

- In case of SOEs, where SSH holds a majority share or exerts dominant influence, and where at least 80% of their financing in the previous fiscal year came from public funds, the total annual sum of sponsorships and donations must not exceed 0.1% of the company's revenue for the previous fiscal year.<sup>2</sup>

3.14. In these recommendations, the following terms have following meanings:

- The term "majority shareholding of SSH shall have the meaning as defined by the law regulating companies.
- The term "predominant influence of SSH" shall have the meaning as defined by the SSH Asset Management Policy.
- For the purpose of this Recommendation, public funds have been defined as funds which, regardless of their form, are allocated by a state authority or a body of a self-regulating local community to a public corporation or to an operator holding exclusive or special rights or authorisations or to an owner of infrastructure of public significance and transferred to them directly or indirectly through another public corporation. Public funds also include funds collected by these entities in the form of duties, levies and other charges paid by users of public infrastructure or of public services, to the extent that such levies, fees, or payments represent the revenue of these entities. If capitalised own products and services of an enterprise are necessary for rendering services which generate public funds, then revenues generated by a company through capitalised own products and services are considered to be public funds.
- The term "public corporation", "exclusive rights", "special rights", "public authority" and "allocation of public funds" shall have the meaning as defined in the Transparency of financial Relations and Maintenance of Separate Accounts for Different Activities Act (Official Gazette of RS, No. 33/2011).

3.15. In regard to sponsorship transactions, companies should take into account the principle of proportionality (between the sponsored amount and the financial position of a company), the principle of objective eligibility of sponsorship activities in regard to the expected benefits for a company, and the principle of sufficient diversification. In making sponsorship decisions, companies should consider local customs, customs in a certain line of business and the conduct of comparable companies.

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<sup>2</sup>Companies to which the Recommendation 3.13 applies in any event:

- Companies to which the first indent of Recommendation 3.11 applies in any event: KZPS, d. o. o., JP Uradni list d. o. o., Infra d. o. o., RŽV JP za zapiranje rudnika urana d. o. o., RTH, Rudnik Trbovlje Hrastnik d.o.o., DARS, d. d.
- Companies to which the second indent of Recommendation 3.11 applies in any event: DRI, d.o.o, Elektro Ljubljana, d. d., Elektro Maribor, d. d., Elektro Celje, d. d., Elektro Gorenjska, d. d., Elektro Primorska d. d.

- 3.16. As regards donation transactions, the primary focus shall be placed on the social responsibility of a company, which is why no counter obligations are to be required from the recipient of donated funds (except for allowing the event to be mentioned in certain public media, in particular).
- 3.17. In order to achieve a high level of transparency, companies, which are not obligated to do so by the law, are recommended to publish each transaction involving sponsorship and donations on a company's web site immediately after the sponsorship or donation agreement is concluded; such notice should include a brief description of the agreement, the recipient's name, the date of the agreement, the duration of the agreement and the value of the agreement.

### **Marketing, advertising, and public relations services**

- 3.18. Regarding consulting and other services in the field of marketing, advertising, communication, public relations, market research, and similar services, the following standards of care and conduct in the best interest of the company should be inter alia considered:
- to optimize operating costs, services, especially in large companies, should primarily be performed using internal human resources, unless a documented thorough assessment indicates that a certain extent of external service provider is necessary to achieve better business results;
  - a company should directly engage the service provider for the relevant services, rather than engaging an intermediary (organizer) of these services, unless using intermediaries achieves a documented lower cost;
  - when deciding to advertise its services or products, the company should prepare an appropriate plan that determines the financial resources, duration of the campaign, and measurable objectives (reach, target audience, etc.). The selection of target channels (media) should be adapted accordingly, with clear empirical criteria established (viewership, listenership, reach, etc.). The company should also set clear and measurable goals for all other similar services which have been engaged by it;
  - the management should report to SSH once a year on the business transactions and contractual relationships concluded in this field, disclosing the scope of services, partners, extent of collaboration, and key collaboration objectives. Reporting should only include transactions with a partner or a group of related partners whose annual scope exceeds EUR 40,000;
  - the company should regularly and to the greatest extent possible (with planned contract prices) publish the contractual relationships in this field on its website, where it publishes public information.

## Reasoning:

The Recommendation 3 focuses on transparent and cost-effective conduct in concluding transactions which refer to the procurement of goods and services and sponsorships and donations. Transparency in this field forces decision-makers to make prudent decisions as regards company's expenses; it enhances the owner's trust and confidence in management bodies of a company and has a positive impact on decisions and opinions of business partners and potential investors. As regards sponsorships and donations, different amounts are recommended to be allocated for sponsorship and donation contributions. The primary goal of the sponsorship policy is to positively contribute to achieving corporate business goals, particularly to increasing profitability. A subordinated goal of the sponsorship policy and a primary goal of donation is socially responsible activity of a company which may be beneficial for a company in a long term. In case of companies which are mostly or fully financed with public funds, no significant benefits for a company are to be expected with sponsorships and donations, and besides, as regards public funds, other methods are applied to look after the public interest, i.e., through organisations created for that purpose, which is why, such companies are recommended to apply a different system for allocating sponsorship and donation contributions.

In practice, increased corruption risks are present not only in sponsorships and donations but also in various marketing, advertising, communication, PR, and similar services. As regards PR services, there is a risk that the service is not actually provided, not genuinely necessary or economically justified, or not justified to that extent. Therefore, it is recommended that decisions be documented and justified, and the assessment of justification should prioritize utilizing in-house human resources for the service if it is necessary. If it is not economically justified, external providers can be considered, with the services being directly contracted with the service providers, rather than intermediaries, unless documented cost reductions are achieved through intermediaries. This is a new addition to the SSH Recommendations and Expectations, which has been introduced in the updated edition in May 2023.

## 4. Cost optimisation

- 4.1. SSH expects from the members of management and supervisory bodies to prudently oversee the levels of costs incurred by a company and to ensure that there is a proper balance between the costs and the generated revenue and business processes.
- 4.2. SSH expects that companies will carry out activities necessary for the optimisation of labour costs, taking into account the relevant dialogue with social partners. The activities which are required *inter alia* include the assessment of a relevant number of employees who are needed to carry out well-organised business processes in a company and relevant modifications of underlying contracts (including collective agreements) and other legal documents. Relevant measures which aim at labour cost optimisation should include all company levels, i.e., management bodies, employees

and other persons who carry out work on the basis of other legal grounds (for example, copyright agreement, service agreement).

- 4.3. SSH expects from the bodies of management and supervision, within their respective responsibilities, to actively strive to optimise labour costs and to achieve such optimisation in 2017 and appropriately incorporate the implementation of this recommendation into the company/group's annual plan.
- 4.4. The company for itself, whereas the controlling company for the group and for all subsidiary companies within the group, should publicly disclose the information on the execution of employee payments, such as Christmas bonuses, 13th-month salary, similar employee payments and annual leave allowances. This information should be disclosed on their respective websites within 10 days after such payments are made. This disclosure should include information about the total amount of each type of payment, legal basis for the payment, and the methodology used to determine the payment amounts for individuals. Companies should publicly disclose the full text of the binding collective agreements or agreements with employee representatives related to the wage payments. This applies to the company itself, the controlling company within the group, and all subsidiary companies within the group.
- 4.5. Cost optimization also relates to the appropriate organizational structure of the group or an assessment of the justification for establishing or maintaining subsidiary companies.
- 4.6. Cost optimization should not be based on disregarding workers' rights and employees' right to social security. Companies should only use non-standard forms of work and employment when the nature of the business process or type of work does not justify standard employment (permanent, full-time employment where the work is performed under a bilateral legal relationship directly with the employer with whom the worker has an employment contract).

### **Reasoning:**

To ensure the stable operation of companies and achieve the appropriate business results, goals, and expectations set by SDH, the management and supervisory bodies must exercise the utmost diligence and effort in cost optimization, including labour costs, while ensuring adequate concern for the social security of employees. The stability of companies in which the state and SSH hold shares is important not only in terms of providing a satisfactory return for the owner but also for the stability and development of the Slovenian economy.

The careful and responsible actions of the management and supervisory bodies, along with their efforts to implement appropriate measures related to the company/group's operations, are subject to regular evaluation by the competent bodies of the company and are considered

by the general meeting or the founder of the company when deciding on granting discharge or expressing a vote of no confidence.

Parent companies within the group should pursue the objective of a lean organizational structure, which means that the establishment or existence of subsidiary companies must be justified through a thorough analysis of their advantages and disadvantages, including cost analysis.

Cost optimization is an important aspect of managing a company with professional diligence; however, it must not be based on legal violations. This recommendation emphasizes that it should not be based on violations of workers' rights and the right to social security. Companies should use non-standard forms of work and employment in justified cases but should prioritize standard employment. Standard employment refers to indefinite employment, full-time, where work is performed under a bilateral legal relationship directly with the employer with whom the worker has an employment contract. Non-standard forms of employment include fixed-term employment, agency work, part-time employment, as well as student work, work in concealed employment relationships (pseudo-self-employment), work of economically dependent persons, and various contractual work based on civil law contracts if the specific occurrence of these forms of work in practice resembles the characteristics of dependent work in employment relationships.

## **5. Governing corporate culture**

- 5.1. The corporate culture of the company should be managed and developed in a way that promotes the achievement of the company's goals and supports its strategy. This emphasizes the mutual alignment of the company's mission, business strategy, culture, and values.
- 5.2. The company's values should be integrated into all functions and processes at all levels of the business and translated into expected employee behaviours. This should be regularly and consistently supported through communication, including the use of a code of ethics/conduct. The values should also be incorporated into all hiring procedures, employee incentive mechanisms, and reward systems. Particular emphasis is placed on promoting a positive tone at the top, good leadership practices, and concrete actions by members of the supervisory and executive bodies, as well as middle management. These individuals should consistently demonstrate these values in practice through leading by example.
- 5.3. Governing corporate culture should be embedded within the framework of internal governance and internal controls, as part of a well-functioning system of risk management, compliance, business integrity, and regular internal audits.

- 5.4. Companies/competent bodies of companies should monitor the achievement of corporate culture objectives and inform the supervisory board, relevant committees of the supervisory board (such as the risk committee or strategy committee), through comprehensive reports, and in the annual reports they should also inform the shareholders. Monitoring corporate culture should involve regular analysis and interpretation of various sources of information, both quantitative and qualitative.
- 5.5. Achieving of the desired corporate culture should also be included as a long-term objective in the remuneration of the management, which should be transparent and aligned with the achievement of goals set.
- 5.6. When monitoring and overseeing corporate culture, members of supervisory boards should refer to the SDH handbook "Governing Corporate Culture," issued in January 2022.

**Reasoning:**

In February 2022, SSH issued a handbook for supervisory boards of SOEs, which is entitled [Governing Corporate Culture](#). The manual was prepared in cooperation with the Centre of Business Excellence of the Faculty of Economics, the University of Ljubljana. The direct purpose of the above-mentioned handbook is to equip supervisory boards with key guidelines, questions and tools to be considered, asked and used when exercising their duties in terms of governing corporate culture. Recognising that an appropriate organisational culture is an important factor in promoting or inhibiting business performance, the indirect purpose of the said guide is thus also to ensure the effectiveness and efficiency of companies' operations by giving culture an appropriate focus within corporate governance practices. SSH expects the members of the supervisory bodies to study the above-mentioned guide carefully and to monitor and supervise the topic periodically within the established corporate governance system. The members of the management bodies should implement all the necessary measures, including setting the right tone at the top and introducing appropriate (modern) leadership at all levels, to ensure that the desired corporate culture is lived in practice and supports the implementation of the company's strategic objectives.

Quality corporate governance is crucial for a healthy company culture and can be a source of competitive advantage and important for creating and protecting long-term company value. Among other things, corporate culture can also be strengthened through rewarding behaviours that contribute to creating long-term value and encourage openness in overcoming challenges and obstacles. Such a culture is characterized by employees freely expressing their opinions, being heard, sharing their expertise, and having no fear of sanctions. A high level of trust between employees and managerial as well as executive staff contributes to creating a good working environment where problem-solving and efficiency are valued. Considering psychological safety is crucial in creating such a culture. The following characteristics are among the qualities of a healthy corporate culture: a positive tone at the top, clear and consistent communication from the chief operating officers regarding values and culture, open

dialogue between the chief operating officers and employees, employee involvement in goal setting, etc.

Key sources of information for understanding the quality of corporate culture include: turnover and absenteeism rates, data on education and training, employment decisions, rewards and promotions, employee whistleblowing and complaints, data on measuring organizational climate and culture, occupational health and safety data, timely payments to suppliers, attitude towards regulators and supervisory institutions, response to internal audit findings, exit interviews with employees, suggestions for improving operations and innovation, etc.

Signs that may indicate potential issues in the culture can include: silo thinking, dominant and arrogant behaviours of the chief operating officers and middle management, pressure to achieve overly ambitious goals, lack of access to information, resistance to change, tolerance of regulatory and other violations, violation of the ethical code, short-term focus of decision-makers, etc.

Internal auditors can refer to the practical handbook *"Auditing Culture"* published by *The Institute of Internal Auditors (IIA)* in November 2019 when auditing corporate culture.

## **6. General Meeting of Shareholders of Company**

- 6.1. SSH expects companies to consistently comply with all legal provisions and the recommendations listed below when convening and conducting general meetings. These recommendations shall apply to a one-person company by analogy.

### **Convocation of AGM**

- 6.2. The management board of the company is expected to comply with the provisions of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06 and subsequent amendments) regarding the requirement for convening a general meeting initiated by shareholders or members. The notice of the general meeting should be published as soon as possible, but at least within 14 days from the receipt of the request for convening the meeting.
- 6.3. The management board of the company should determine the date of the general meeting, considering the shortest period required by law or the articles of association between the notice and the holding of the general meeting.

### **Accessibility of material and information for shareholders**

- 6.4. The company should publish full explanatory material for the AGM agenda items on its web site as of the day of publication of the notice on the convocation of the general meeting.

### **Questions raised by shareholders**

- 6.5. When the company receives questions from a shareholder or shareholders or their request requiring it to provide an answer or explanation about company's operation, the company should reply as soon as possible and publicly publish well-founded, reliable, clear and comprehensive answers.
- 6.6. If a shareholder has addressed a question to a company and the question has not been suitably and publicly replied to by the company by the time the notice on the convocation of the general meeting is published, an item discussing such a question should be included on the AGM agenda, or the discussion of such a question should be included in one of the already planned items on the AGM agenda.

### **Counter-proposals**

- 6.7. The company should publish a counter-proposal of a shareholder or member on its website within two business days from its receipt.

### **Annual Report**

- 6.8. The company should publish the performance results achieved in an individual year publicly not later than six months after the end of a financial year.
- 6.9. The company should also take a stand about its compliance with recommendations and expectations referred to in this document in the Corporate Governance Statement.

### **Instrument to discharge the management or supervisory board members**

- 6.10. As a rule, the general meeting decides on the conferring of a discharge only to those members of the management and supervisory bodies who carry out their function at the time of the general meeting's decision-making.
- 6.11. A company which is organised as a limited liability company should not include the conferring of a discharge to the management and the supervisory bodies of the company on the agenda of the convened general meeting, unless this is explicitly stipulated by Articles of Association or the contract of members. In this case, the following text should be added to the General Meeting Resolution on the conferring of a discharge: "*Claims related to liability for damages may also be enforced against persons who have been granted a discharge.*"

### **Disclosure of the remuneration policies of the management and supervisory bodies and the actual remuneration paid to the management and supervisory bodies**

- 6.12. Companies inform the general meeting or founder about the policies on remuneration of management and/or supervisory bodies, their amendments, as well as the allocated and actually paid remuneration to the management and supervisory bodies in accordance with the Code and in a manner derived from the SSH Asset Management Policy.

### **Reasoning:**

A standpoint has been established in the German theory and practice that a general meeting decides about conferring a discharge only regarding members of the management and supervisory bodies who continue to exercise their function at the time of the general meeting's decision making. The term used in this Recommendation is generally used in the sense that the general meeting may grant a discharge also to members of the management and supervisory bodies who no longer perform their functions at the time of the general meeting's decision-making. However, situations must be avoided when the decision-making about the conferring of the discharge would lead to a situation that the general meeting rejects the proposal for conferring a discharge to former members who do not hold any position at the time of the general meeting's decision-making.

## **7. Sustainable business operations**

### **Introduction**

- 7.1. SSH expects that a large or medium-sized company incorporates all three aspects of sustainable business (environmental, social, and governance) into its business strategy, or the group's business strategy in the case of affiliated companies.
- 7.2. When formulating a sustainable business strategy, the company establishes specific objectives related to each aspect of sustainable business, as well as planned actions and their timeline for implementation. The environmental aspect of the sustainable business strategy should also include a climate action strategy.
- 7.3. The objectives of sustainable business must be monitored and relevant for achieving the long-term goals of the company or the group. Processes should be established to identify, manage, and monitor aspects of operations that can significantly contribute to achieving sustainable development goals.

### **Assessment of the situation**

- 7.4. The company should identify the impacts which it has in its operations on the economy, nature, and society, both positive and negative, including throughout the entire supply chain and through the impacts of its products and/or services.

- 7.5. The company should assess these impacts in a quantitative manner wherever possible, and in a qualitative manner where quantitative measures are not feasible.
- 7.6. The company should categorize the impacts based on their importance using pre-defined criteria for significance.
- 7.7. For identified significant impacts, the company should determine the baseline against which to measure progress.
- 7.8. The company should identify stakeholders who are significantly affected by its operations or who can significantly influence the company, and involve them in the decision-making process in an appropriate manner.

### **Risk management and sustainable business development**

- 7.9. The company should assess the risks in sustainable business and determine responses to both opportunities and threats.
- 7.10. The company should make a priority list of which negative impacts will be reduced and which positive impacts will be developed, and establish a timeline for implementing such measures.

### **Strategic directions and goals**

- 7.11. The company should establish a sustainable business strategy and integrate it into its overall business strategy. Measurable objectives should be set across all sustainability aspects: environmental, social, and governance. Within the environmental domain, plans for decarbonization should be prepared, including short-term and long-term goals and measures to reduce greenhouse gas emissions.
- 7.12. The company should inform the supervisory board about the sustainable business strategy and obtain its approval.

### **Decision-making**

- 7.13. The company should consider all aspects of sustainable business when making business decisions.

- 7.14. The company should encourage innovation in sustainable business practices (efficient use of resources by the company and users of its products and/or services, internal processes, and business models) and continuously build competencies in this area.

### **Reporting**

- 7.15. The company should monitor the achievement of sustainability goals and include them in its annual business reports, which should be shared with the supervisory board.
- 7.16. The company should report on sustainable business practices in its annual report, utilizing recognized reporting standards to the greatest extent possible.

### **Reasoning:**

The ultimate objective of SOEs being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient management of individual assignments which are performed in public interest. This must be achieved in a sustainable manner, also by taking into account environmental, social and governance considerations.

**Sustainable development** meets the needs of the present without compromising the ability of future generations to meet their own needs.

**Sustainable business practices** contribute to the fulfilment of sustainable development goals by considering the impacts of their operations on the economy, nature, and society at large. The term denotes efforts towards sustainable business practices rather than a static state of affairs.

Companies should contribute to value creation through their business strategies and models by enabling and promoting sustainable development, seizing opportunities for creating sustainable value, and developing new innovative business models that enhance their competitiveness. Crucial for achieving future company goals is their successful transition to a low-carbon and circular economy. Rapid restructuring and successful transition can contribute to reducing risks and costs for the company, owners, and other important stakeholders, while ensuring long-term competitiveness. Ambitious plans by companies to invest in green technologies relevant in the future could also represent a competitive advantage.

When shaping and implementing their business strategies, companies shall consider environmental risks that significantly affect their business environment in the short, medium, and long term, and incorporate them into their existing risk management system.

As regards sustainable business practices, SOEs should lead by example, which means that they consider all three aspects of sustainable business: environmental, social, and governance. In addition to long-term successful and efficient operations, their emphasis is placed on reducing negative environmental impacts, engaging stakeholders and incorporating them, and ensuring a high level of corporate governance and integrity.

These efforts are also pursued by international guidelines, specifically, the 2030 Agenda for Sustainable Development which has set 17 goals of sustainability; the said Agenda was adopted by world leaders of the SDG Summit in September 2015. Slovenia is fully committed to all 17 goals of the 2030 Agenda which is the most comprehensive development call to action so far. Companies should analyse the above-mentioned goals and determine their methods by way of which they can contribute to their achievement.

Likewise, companies committed to sustainability should adapt in a timely manner to legislation that will implement the European CSRD Directive on corporate sustainability reporting and European standards such as ESRS reporting. They should also analyse other relevant international standards in the field of sustainability and climate action that would contribute to the highest quality reporting and enhance the company's position among key stakeholders and capital markets. Scientifically grounded climate targets enhance the reputation and efforts of companies in climate action and are increasingly becoming stakeholders' expectations. Publicly traded companies should also consider obtaining an appropriate ESG rating.

The Code of Corporate Governance for SOEs includes provisions related to sustainable business practices, which companies should adhere to in connection with these recommendations.

## **8. Responsible business conduct and respect for human rights**

- 8.1. SSH expects all SOEs to respect human rights and workers' rights and to be leaders in promoting decent working conditions in their own business activities and supply chains. They are also expected to commit to respecting human rights in their operations in accordance with Recommendation 8.2.
- 8.2. State-owned companies should implement relevant principles from the National Action Plan of the Republic of Slovenia on Business and Human Rights, which they confirm by signing a commitment to respect human rights in business with the Ministry of Foreign Affairs.
- 8.3. By implementing relevant principles, goals and implementation measures are defined regarding responsible business conduct, which have been identified as important in relation to respecting human rights. Progress towards these goals should be reported at least on an annual basis.
- 8.4. Companies operating in two or more international markets should also conduct due diligence in accordance with the United Nations Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct.

8.5. SSH expects all companies, as part of their commitment to respecting human rights in their operations, to pay special attention to respecting the rights related to work and the right to freedom of association of workers. All stakeholders should strive to improve working conditions, provide stimulating employee incentives, increase employee productivity, and reduce the number of injuries and illnesses.

8.6. Companies should:

- prevent discrimination and inequalities and promote equal opportunities;
- take care of environmental protection, nature conservation, and sustainable development;
- ensure the carrying out of due diligence of human rights within the company;
- comply with labour laws<sup>3</sup> and applicable collective agreements when dealing with employees and when regulating their employment relationship;
- engage in fair and respectful social dialogue with representative trade unions, aiming to regulate employment rights on bilateral basis through collective agreements and respecting the agreements reached;
- engage in fair and respectful social dialogue with employee representatives in workers' councils or with workers' trustees, seeking to regulate on a bilateral basis the relevant areas: e.g., participation agreements, the right of employees to participate in the management of their companies;
- provide representative trade unions and works councils or workers' trustees with timely information to which they are entitled under applicable law or other commitments of the company.

In this regard, the handbook titled “Ensuring Equal Opportunities and Preventing Discrimination in Employment and Work” published by the Advocate of the Principle of Equality, can be helpful for employers.

### **Reasoning:**

Responsible business conduct and respect for human rights help strengthen trust in SOEs. Therefore, they should serve as an example to other companies in this field. This means that they shall commit to respect human rights in business and implement all relevant principles from the National Action Plan of the Republic of Slovenia on Business and Human Rights.

The National Action Plan of the Republic of Slovenia on Business and Human Rights (NAP) was adopted by the Government of the Republic of Slovenia in November 2018, and it is aimed to implement the UN Guiding Principles on Business and Human Rights. The essence of the UN Guiding Principles, upon which the NAP is based, consists of three principles: the duty of the state to protect human rights, the responsibility of business enterprises to respect human

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<sup>3</sup>Labour legislation means legislation on labour relations, labour market regulation, legislation on health, pension and invalidity insurance, legislation on occupational health and safety and legislation on workers' participation in management, and any implementing regulations adopted on the basis of this legislation, general acts or agreements deriving from these laws or collective agreements.

rights, and the duty of the state to provide appropriate legal remedies to victims of human rights violations related to economic activities. The Annex I to NAP are the Guidelines on Corporate Human Rights Due Diligence. Human rights due diligence is a process carried out by companies to identify, prevent, and mitigate negative impacts on human rights and report on measures taken to reduce such impacts. Such due diligence involves the following steps: commitment by companies to respect human rights in their operations, setting up a structure for implementing due diligence; the identification of relevant facts; the implementation stage of human rights risk management by establishing a mechanism for detecting disrespect of human rights and a response protocol; and reporting on due diligence and respect for human rights<sup>4</sup>.

By signing the Commitment to Respect Human Rights in Business, enterprises commit to respect human rights in their business operations and to prevent any potential negative impacts on human rights. They position this commitment among the enterprise's values, include it in ethical codes and other relevant internal documents. Large companies should appoint a Human Rights Officer who should monitor and oversee the respect for human rights, organise training sessions and establish a mechanism for dealing with cases of disrespect and implement human rights due diligence<sup>5</sup>.

Human rights due diligence, conducted in accordance with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Responsible Business Conduct, shall include the identification, prevention, and mitigation of actual and potential negative impacts or harm caused by a company's activities on people, society, and the environment. The assessments of due diligence shall also include the establishment of systems to address any negative impact or harm caused by the company's activities.

State-owned enterprises should also set an example for other companies in terms of compliance with labour legislation and collective agreements, and in conducting active social dialogue with employee representatives. One of the key stakeholders of a company are employees and representative trade unions, works councils and workers' trustees, acting within the framework of their right to freedom of association and certain other labour rights. A company's conduct in this area demonstrates the regulation of one of the segments of corporate social responsibility of a company, which is increasingly coming to the forefront of the public's attention in relation to the social and ethical performance of companies, with a significant impact on the management of human resources risks in particular and on the company's long-term performance. By acting in a socially responsible manner, companies build long-term trust with employees and other stakeholders, which helps to build an appropriate broader environment in which companies can thrive in the market, while at the same time improving employee satisfaction and the working environment and working conditions for employees and, consequently, for the society at large.

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<sup>4</sup>Source: Ministry of Foreign Affairs.

<sup>5</sup>Source: Ministry of Foreign Affairs.

## 9. Remuneration policy for management bodies

### Introduction

- 9.1. The purpose of these Recommendations is to set out the framework and guidelines according to which the supervisory bodies of SOEs and supervisory bodies of companies, in which the Republic of Slovenia, acting through those companies, holds a majority stake or has a dominant influence, should formulate the remuneration policy for Management Bodies. The recommendations also aim to set out some basic guidelines for concluding contracts with members of management bodies in the context of the remuneration policies adopted. SSH will strive to have such remuneration policies adopted/approved at the general meetings of companies in which the Republic of Slovenia no longer holds a majority stake or dominant influence, which will largely follow these Recommendations.
- 9.2. On the basis of these Recommendations, the supervisory bodies should draw up a clear and comprehensible remuneration policy for management bodies and submit it to the general meeting for their approval in the case of public limited companies, and to the general meeting or the founder for information in the case of other companies, unless the Articles of Association or a resolution of the general meeting/founder provides otherwise.<sup>6</sup> Remuneration policies for management bodies should not cap the remuneration system or individual components of management bodies' remuneration, as these might arise from an automatic or inappropriate application of these recommendations to individual companies, nor should remuneration policies automatically incorporate all components of remuneration, but should carefully and thoughtfully take into account the company-specific factors that influence the definition of remuneration. The reasons for determining the individual components of remuneration, their levels and the relationships between them, as specified in the submitted remuneration policy, should be documented and disclosed by the supervisory bodies or their committees in the material prepared for the general meeting or the founder, as the case may be, if they are not apparent from the text of the submitted remuneration policy itself.
- 9.3. Remuneration must be defined in the contracts concluded with members of the management bodies within the limits and in accordance with the applicable remuneration policy for Management Bodies. In contracts, remuneration shall not be mechanically regulated at the upper limit as defined in the adopted remuneration policy. Instead, individual members of management bodies are determined based on factors

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<sup>6</sup>In public limited companies, whose securities are not traded on a regulated securities market, the general meeting is authorised to vote on the approval of the remuneration policy for Management Bodies if its authority to approve is provided for in the Articles of Association or in a Resolution of the General Meeting (Article 294a(6) of the Companies Act-1). In this case, the same legal regime applies as for a company whose securities are traded on a regulated market.

that influence their designation and are specific to each member of the management body. Companies shall disclose annually in their Report to the General Meeting on executive remuneration which companies they consider to be comparable with regard to the regulation of executive remuneration in the remuneration policy and contracts.

- 9.4. The adequacy and implementation of the remuneration policy should be reviewed by the supervisory body from time to time and at least every four years after it is resubmitted to the general meeting/funder for its approval, information or adoption.
- 9.5. The aim of these Recommendations is to harmonise the remuneration system of the management bodies of SOEs in a way that is understandable and transparent as well as in line with good corporate practice, and that allows remuneration policies to be designed according to the relevant specificities of each company, while considering the principles set out in these Recommendations. The purpose of the Recommendations is to adopt such Remuneration Policies for Management Bodies which will enable the management of human resources risk.
- 9.6. The remuneration policy for Management Bodies must be prepared, submitted to the general meeting, and adopted as a single document.
- 9.7. The remuneration policy should include a definition of the remuneration system in such a way that the selected components of remuneration and the descriptive information identifying each component are defined in accordance with these Recommendations. The components of remuneration included in the remuneration policy may be regulated in more detail and specifically than provided in these Recommendations, except in cases of deviation justified by law, regulation, regulatory framework, or binding European rules for a particular type of company, with the reasons explained in the materials for the general meeting.

### **Principles for formulating Remuneration Policy**

- 9.8. Supervisory bodies should consistently take into account the following principles when formulating the remuneration policy for Management Bodies:
  - The principle of proportionality: the total remuneration of the members of the management body should be appropriately proportional to the duties of the members of the management body and the financial situation of the company. As a general rule, the total remuneration of the management bodies should not be the leading remuneration in the market in relation to comparable companies. The maximum permissible fixed and variable components of remuneration as well as other elements of total remuneration for members of management bodies should be sufficiently high to enable the supervisory bodies to attract top managers who are motivated to perform their duties in a responsible and active manner. At the

same time, it should prevent unjustifiably high salaries or remuneration and other benefits for members of management bodies in relation to the company's needs, performance, and financial condition.

- The principle of limitation of total remuneration: the remuneration policy must contain all the elements on the basis of which the total amount of remuneration can be determined. All components of remuneration must be subject to a specific or identifiable upward cap. The total amount of remuneration must be directly or indirectly (as the sum of the individual components) capped in a determinable or identifiable manner.
- The principle of linking total remuneration to the long-term performance of a company: in the remuneration policy, the components of total remuneration must be structured in such a way that enables the remuneration policy for Management Bodies to contribute not only to pursuing short-term performance but also to promoting the implementation of the business strategy, particularly long-term performance and development, sustainable operations, and the sustainability of the company.
- The principle of cost-effectiveness: total remuneration is determined up to a maximum amount where the level of remuneration does not have a significant impact on managing HR risks.

## The meaning of terms

9.9. In these recommendations, the following terms have the following meanings:

- **supervisory body of a company**: is a Supervisory Board or a Board of Directors, whereas in a limited liability company acting without the Supervisory Board, such capacity is held by the general meeting of a company or the founder. In relation to a procurator holder, to the extent that such person is deemed to be a member of the management body under these Recommendations, the management body of the company shall be deemed to be the supervisory body as regards the conclusion of a contract with a member of the management body,
- **member of the supervisory body**: is a member of the Supervisory Board in a company with a Supervisory Board and a non-executive member of the Board of Directors in a public limited company with a single-tier management system,
- **management body of the company**: is a Management Board or a Board of Directors in a public limited company and one or more Directors (Managers) in a limited liability company,
- **member of the management body**: is a Director (Manager) in a limited liability company, a member of the Management Board in a public limited company with a two-tier system of governance and an Executive Director in a public limited company with a single-tier system of governance (this recommendation applies equally to Executive Directors acting as members of the Board of Directors as to those who are not members of the Board of Directors). A holder of procurator shall also be considered a member

of a management body if, by virtue of a special contract, business management has been assigned to him in addition to representing a company, and a contract comparable to the contract concluded with a member of the management body has been signed.

- **State-owned enterprise (SOE):** is a legal entity that is the issuer of securities owned by SSH and a company that is the issuer of securities managed by SSH and owned by the Republic of Slovenia.
- **“majority shareholding”:** means a majority shareholding as defined in the Act governing companies. A majority shareholding of SSH is considered to exist if SSH (as the owner) holds a majority stake or if it possesses or exercises a majority of voting rights at its own discretion (regardless of who owns the capital assets), including the shares attributable to its subsidiary and others for the account of this company, as specified in Article 528, Paragraph 4 of the Act governing companies.
- **“dominant influence”:** means a dominant influence as defined in the Act governing companies. It is deemed that SSH has a dominant influence in an SOE if SSH directly or indirectly holds: a majority stake in the subscribed capital, a majority of voting rights, or the right to appoint or dismiss a majority of the members of the management or supervisory board. SSH is also considered to have a dominant influence when it does not hold a majority of subscribed capital or voting rights, but its stake is sufficient for independent adoption of resolutions at the last three general meetings of a company, with the participation of other shareholders or company members, where a simple majority of the represented capital is required for decision-making.
- **contract with a member of the management body:** means a contract concluded with a company by a member of the management body of the company, which sets out the mutual rights and obligations arising from his/her office in the management body of the company (and may be an employment contract or a contract governed by civil law). A contract concluded with a member of the management body shall also be deemed to be a contract concluded with a procurator holder, insofar as he or she is deemed to be a member of the management body under these Recommendations.
- **total remuneration:** means the total remuneration to which an individual member of the company's management body is entitled under the management contract and consists of all or some of the following components: fixed remuneration, variable remuneration, severance payment and other rights.
- **fixed remuneration:** is set out in the contract with the member of the management body in absolute monetary terms, expressed as a gross annual amount. It shall be paid to a member of the management body as a reward for his/her efforts in the performance of the duties assumed by him/her as the member of the management body and may not be unilaterally reduced, withheld, cancelled or terminated, except in cases provided for by law. The fixed remuneration shall include all allowances within the meaning of the Act governing employment relations, irrespective of the instrument which determines the employees' entitlement to allowances. It is paid in 12 monthly instalments. If work is performed for part of a month, the remuneration for such month shall be paid in proportion to the number of days worked.
- **variable component of remuneration** is a portion of earnings which is dependent on the achievement of predetermined performance criteria and is intended to reward members of management bodies based on business performance.

- **profit-sharing:** is the form of payment of the variable remuneration paid by the company to members of the management body out of the balance sheet profit and is paid either in cash or in a non-cash form (shares, stock options, etc.).
- **other rights** are entitlements and specific allowances as defined in the Recommendations from 9.52 onwards.
- **severance payment:** is the remuneration received by a member of the management body in the event of an early termination of their term of office as a member of the management body.
- **deferral period:** is the period which elapses between the allocation of a variable remuneration to the moment of its payment. The deferral period is a minimum of two years from the allocation.
- **HR risk:** is the risk of recruiting, motivating or retaining members of the management bodies.
- **financial criteria:** are performance measures relating to financial targets (e.g., profitability, leverage, liquidity, etc.).
- **non-financial criteria:** are those which relate to non-financial objectives, which can be defined both quantitatively and qualitatively (e.g. safety of service users, employment policy, customer satisfaction, etc.).

### Components of total remuneration

- 9.10. These recommendations refer to the total remuneration that members of the management body may receive. Other remuneration than the total remuneration cannot be received by members of the management body.
- 9.11. Total remuneration is, on the one hand, a remuneration for the work done, the responsibility assumed and the results achieved and, on the other hand, a tool to steer the interests of the management body towards the interests of the principals (the company), also taking into account the interests of all company's stakeholders.
- 9.12. Total remuneration of the management bodies may consist of one or more (but usually all) of the following four components:
- fixed remuneration,
  - variable remuneration,
  - severance payment, and
  - other rights.
- 9.13. As regards the regulation of other rights in the remuneration policy for Management Bodies in SOEs, the supervisory bodies shall take into account the Recommendations regarding other rights for members of the management bodies, as contained in the

Recommendations from 9.52 onwards, in addition to the principles and general recommendations.

### **Fixed remuneration**

- 9.14. The remuneration policy shall set the fixed remuneration for the members of the management bodies of an individual SOEs as an upper limit or within a range, depending on the complexity of tasks and the responsibility of managing the specific company, as determined for each company considering the complexity criteria. The complexity criteria are divided into criteria that define the size of the company and criteria that reflect the complexity of the company's operations.
- 9.15. The complexity criteria defining the size of the company are:
- value of assets at the end of the last financial year;
  - generated net sales revenue in the last financial year;
  - the average number of employees in the last financial year.
- 9.16. The complexity criteria, which reflect the complexity of the company's operations, are:
- organisational complexity (number and size of subsidiaries in the Group, regulatory complexity, complexity of risk management),
  - business internationalisation (number and size of foreign subsidiaries, share of revenues generated abroad),
  - the complexity of the immediate economic environment (degree of competition in the industry, competitiveness in the most important markets, stage of development of the industry, importance of research and development),
  - complexity of key products (stages of development of key products, technological complexity, risks and sales growth potential),
  - regulation of the activity (degree of revenue/cost regulation, public utility).
- 9.17. The complexity of the company's operations shall be defined according to the criteria defined below, taking into account the actual circumstances applicable to an individual company. As a first step when determining the complexity of the business the following process is carried out: as regards quantitative factors, each company shall be classified into one of the Groups from 1 to 5, while as regards qualitative factors, each qualitative factor is first defined by a level of complexity (low, medium, high). Then, secondly, when the level of complexity for each qualitative factor is determined, the company is classified into the corresponding group from 1 to 5.

Table No. 1: Criteria for determining the complexity of a company's business

Size of the company (quantitative factors)		Complexity of the business (qualitative factors)		
Value of assets (EUR million)	Group	Organisational complexity	Level	Group
Up to 0.5	1	Number and size of subsidiaries , regulatory complexity, complexity of risk management...	Low	1-2
Up to 5	2		medium	3-4
Up to 20	3		high	5
Up to 200	4	Business internationalisation	Level	Group
Above 200	5	Number and size of foreign subsidiaries, share of revenues generated abroad, links with the international economic environment, etc.	Low	1-2
			medium	3-4
			high	5
Net sales revenues (in EUR million)	Group	Complexity of immediate economic environment	Level	Group
Up to 1	1	Degree of competition in the industry, competitiveness in the most important markets, stage of development of the industry, importance of research and	Low	1-2
Up to 10	2		medium	3-4
Up to 50	3		high	5
Up to 100	4	Complexity of key products	Level	Group
Above 100	5	Stages of development, technological complexity, risks, growth potential, etc.	Low	1-2
			medium	3-4
			high	5
Number of employees	Group	Regulation of activity	Level	Group
Up to 10	1	Degree of revenue/cost regulation, public utility services, etc.	high	1-2
Up to 50	2		medium	3-4
Up to 250	3		Low	5
Up to 500	4			
Above 500	5			

For credit institutions as defined by the Act governing banking, as well as insurance companies and pension companies as defined by the Act governing insurance, it is considered that they meet all the quantitative factors of Group 5.

9.18. Based on the grouping of a company according to the individual complexity criteria (factors), an average value (one average value for all eight factors) is calculated in a third phase, which reflects the final grouping of the company from Groups 1 to 5. The mid-point values (1.5; 2.5; 3.5 and 4.5) are rounded down. Subject to the final classification of a company in the group, the remuneration policy for Management Bodies shall set the maximum level of the fixed remuneration of the company within the ceilings set out in Table 2 below. Exceptionally, if a company is classified in Group 5 and meets at least all of the following criteria, which must be clearly presented in the documentation for the general meeting: (i) it is a public limited company, (ii) more than 50% of its net sales revenue is generated in foreign markets, (iii) it has more than 5,000 employees in the Group, (iv) and it has at least EUR 500 million of equity capital, the ceiling for the fixed remuneration may also be set at a gross monthly amount higher than EUR 22,000, but not higher than EUR 40,000. In its remuneration policy, a company should not automatically set the cap on the fixed remuneration at the cap set out in these Recommendations. Instead, when determining the final upper limit, the company should consider the level of employee salaries within the company and other relevant circumstances, which should be explained in the remuneration policy. In its remuneration policy, a company may also set a lower limit (or expressed it as a range)

for the fixed remuneration, which shall normally be up to the upper limit of the previous group set out in Table 2. However, it may also be lower for specifically justified reasons, which shall be explained and documented.

Table No. 2: Indicative grades (ceilings) of the fixed remuneration according to grouping:

Group	Gross basic monthly salary (in EUR)
1	Up to 5,500
2	Up to 9,000
3	Up to 13,500
4	Up to 18,000
5	Up to 22,000

- 9.19. Every two years, the values of the upper limits referred to in Table No. 2 and Recommendation 9.18 are increased based on the respective growth of the average Consumer Price Index for the past two years. These Recommendations are considered amended to this extent upon the expiration of a two-year period from the day of adoption and subsequently every two years, with the change taking effect from the day when SSH publishes the new values of the upper limits informatively on its website.
- 9.20. In the contracts concluded with members of the management bodies, the fixed remuneration shall be set within the cap as defined in the remuneration policy for Management Bodies. The part of the range up to the cap, within which the fixed remuneration of each member of the management body will be determined, depends on the tasks and responsibilities of the individual member of the management body (e.g. taking into account whether he/she is the chairman of the management body or a member, taking into account the sectoral distribution of duties), his/her individual qualities (knowledge, experience, references, skills) and the remuneration of members of management bodies in comparable companies in the sector in Slovenia and in the region (the latter depending on the sector).

### **Variable remuneration**

- 9.21. The remuneration policy shall set out a system of criteria against which the performance of the management body and of the members of the management body is measured and the achievement of which determines the entitlement of the members of the management body to a variable remuneration. The system of criteria set out in the remuneration policy and the defined structure of the variable remuneration must enable the supervisory bodies to conclude contract with the members of the management bodies in such a way that the variable remuneration will steer the management bodies towards the achievement of the company's business strategy and, in particular, towards the achievement of the long-term performance and development, the sustainability of the business and the sustainability of the company.

- 9.22. In addition to financial criteria, non-financial criteria should be defined in the remuneration policy and contracts concluded with members of management bodies. Non-financial criteria should also include measures aimed at achieving goals in the environmental, social, and governance areas. In the remuneration policy and in the contracts concluded with the members of the management bodies, the variable remuneration should be structured in such a way that the gaining of the right to a significant portion of the variable component is dependent on the achievement of strategic (long-term) goals or goals that contribute to their realization. As regards all financial and non-financial criteria, the remuneration policy for Management Bodies must describe, how the selected criteria and the defined structure of the variable remuneration are expected to contribute to the promotion of the business strategy, in particular the long-term performance and development, sustainable business operations and the sustainability of the company.
- 9.23. In contracts with members of the management body, based on the criteria system referred to in the remuneration policy, the criteria can be selected and tailored to the duties and responsibilities of each member of the company's management body, thereby reflecting the performance of each member of the management body of the company. However, in order to support a team leadership approach, criteria can also be formulated equally for all members of the management body.
- 9.24. In SOEs which generate the majority (over 50%) of their operating income on the market, it is recommended that the proportion of the influence of non-financial criteria on the total variable component of remuneration be at least 30%, while in other companies, this proportion should be at least half. At least in companies in which SSH holds a majority stake, the criteria for the variable remuneration should also include the criteria set out in each applicable SSH document, i.e., "*Criteria for Measuring the Performance of SOES*", as well as criteria that adequately address the significant SSH's expectations of the company as set out in each applicable "*SSH Annual Asset Management Plan*".
- 9.25. The criteria system should be defined in such a way that the criteria related to the achievement of long-term (strategic) goals contribute to at least half of the total variable component of remuneration for each business year. The criteria system may stipulate that the fulfilment of individual criteria is a prerequisite for eligibility for the variable component of remuneration, regardless of the fulfilment of other criteria. Similarly, the criteria system may determine that the amount of the variable component of remuneration is proportionally dependent on the degree of achievement of individual or all criteria.
- 9.26. The remuneration policy should limit the variable component of remuneration that can be allocated for a specific business year based on the fulfilment of performance criteria, by defining an upper limit in the form of a percentage relative to the basic component of remuneration paid in the previous year (hereinafter referred to as the maximum permissible variable component of remuneration). Specifically, in SOEs which generate

over 80% of their operating income through the provision of an economic public service or through an actual or legal monopoly or as an internal provider, the maximum permissible variable component of remuneration should not exceed 40%, while in other companies, this proportion should not exceed 60%. In the case of public companies with a significant portion (over 50%) of their global ownership structure or which generate over 50% of their net sales from foreign markets, or in case of banks and insurance companies, the maximum permissible variable component of remuneration may be up to 100% of the basic component of remuneration paid in the preceding year.

### **Deferral of the variable remuneration**

9.27. The remuneration policy should stipulate that at least 50% of the variable component of remuneration allocated to a member of the management body for each business year is deferred for a minimum of two years. The specific duration of the deferral period is determined by each individual company in its remuneration policy. If a member of the management body has served for a period less than the deferral period, they are not entitled to the deferred portion of the variable component of remuneration.

### **Shares and share purchase options**

9.28. The Remuneration Policies of companies whose shares are traded on a regulated market may provide that a maximum of 50 % of the allocated variable component of remuneration is granted in the form of share options or shares, or as a combination of both. The exercise of share options or the issuance of shares must be tied to a shareholder-approved stock or option-based incentive program.

9.29. The share or option-based incentive program must specify at least the following elements:

- the method for determining the (initial) value of the share (on the date of allocation) and the method of allocation,
- the conditions to be satisfied for its allocation for the year in question,
- the time limit for the exercise of the option entitlement, which may not be shorter than the deferral period,
- the method of providing shares for the execution of option entitlement,
- the conditions to be fulfilled for the exercise of the option entitlement,
- the retention of a portion of the shares after their acquisition.

9.30. At a minimum, the remuneration policy should specify the following elements with respect to share-based remuneration schemes:

- The conditions to be satisfied for the allocation of shares in the respective year and the method of allocation,

- the period for the payment of the shares, which may not be shorter than the deferral period,
  - the retention of a portion of the shares after their acquisition.
- 9.31. Remuneration policies should stipulate that recipients retain at least 50 percent of the shares paid/received for at least two years from their acquisition. Additionally, during this period, they should not dispose of the option rights.
- 9.32. In the case of implementing a share option or stock option reward program in companies whose shares are not listed on a regulated capital market or in non-stock companies, the principles presented in this section for public limited companies should be applied accordingly. Special emphasis should be placed on determining the market value of equity units and the method of trading with them in such cases.

### **Profit-sharing schemes for management bodies**

- 9.33. Profit-sharing must be provided for in the company's Articles of Association and is usually set as a percentage of the company's annual net profit.
- 9.34. The participation of members of the management bodies in the profit is determined by the company's general meeting as part of the decision-making process regarding the allocation of retained earnings.
- 9.35. The remuneration policy should provide that (depending on the legal form of the company) the participation in profit may be paid in cash and/or in shares of the company, provided that an appropriate share scheme is adopted in accordance with the remuneration policy of the company whose shares are traded on a regulated securities market. Recommendations 9.28 to 9.31 of these Recommendations shall apply *mutatis mutandis* as regards the above stated.
- 9.36. The remuneration policy may provide that profit-sharing is one of the possible ways of remunerating members of the management body, in which case profit-sharing is placed within the variable remuneration component, subject to the recommendations regarding the (total) variable remuneration cap. Therefore, if the variable component of remuneration has already been allocated to its maximum extent for a particular year, the general assembly cannot distribute retained earnings for that year for the purpose of rewarding members of the management body.

### **The method of assessing the achievement of goals set in the criteria for determining the variable component of remuneration**

- 9.37. The remuneration policy should specify the method of assessing the achievement of goals set in the criteria for determining the variable component of remuneration. This includes presenting the methods used to determine the fulfilment of criteria, in accordance with good corporate governance practices.
- 9.38. The determination of the eligible variable remuneration based on the achievement of of criteria is done annually, based on the (audited) annual report and other materials that demonstrate goal attainment.

### **Recovery of variable remuneration (claw-back)**

- 9.39. The remuneration policy should stipulate that a company has the right to reclaim the already paid variable component of remuneration or its proportional part, and that the allocated but unpaid portion of the variable component of remuneration may not be paid in full or in proportion if:
- if the annual report is declared null and void by a final decision, and the reasons for nullity relate to the items or facts that formed the basis for determining the variable component; or
  - based on the report of a special auditor, it is determined that the criteria for determining the variable component of remuneration were incorrectly applied or that the decisive accounting, financial, and other data and indicators were not properly ascertained or considered.
- 9.40. The repayment of the variable remuneration already paid may be claimed within three years from the date on which the remuneration or part of it was paid. The repayment of the already paid variable component of remuneration is usually executed by offsetting the allocated but unpaid portions of the variable component of remuneration, whereby the possibility of offsetting is also agreed upon in the employment contract or civil contract.
- 9.41. The remuneration policy may set out additional grounds for the repayment of variable remuneration which has already been paid; these grounds shall be included in the contracts concluded with members of the management bodies.

### **Severance payment due to an early termination of term of office**

- 9.42. The remuneration policy should stipulate that members of management bodies are not entitled to severance payment in cases specified by the Act governing companies (in

such case, the provisions applicable to the management board of a public limited company shall apply to all management bodies). Under no circumstances are members of management bodies entitled to severance payment in the case of regular completion of the mandate or when members of the management body resign voluntarily. The remuneration policy should specify the cases in which a member of the management body is entitled to severance payment and the amount thereof. The justifiable reasons may include dismissal for economic or business reasons and mutually agreed termination of the mandate in the absence of culpable reasons for dismissal.

- 9.43. The remuneration policy may determine that the maximum amount of severance payment in the case of dismissal for economic or business reasons shall not exceed a six-month gross fixed remuneration as stipulated in the contract with the member of the management body. The amount of the severance payment may in no case exceed the total amount of the gross fixed remuneration that would have accrued to the member of the management body for the remainder of the term of office under the contract if the term of office had been terminated on a regular basis.
- 9.44. In the event of early termination of the mandate of a member of the management body who has served for less than one year, the maximum amount of severance payment may be equivalent to a three-month gross fixed remuneration as stipulated in the contract with the member of the management body.
- 9.45. The remuneration policy should specify that a member of the management body who, following the early termination of the management body member's contract, is employed by the company or its subsidiary or other related company, may be entitled to severance payment up to a maximum of the difference between the amount of the gross fixed remuneration of the previous contract and the amount of the gross fixed remuneration of the new contract multiplied by the relevant multiplier, without affecting Recommendations 9.43 and 9.44 of these Recommendations. This means that the difference is applied to the number of months when the salary is received in the new position, up to the number of monthly severance payments the member would be entitled to.
- 9.46. The remuneration policy may determine that, if there are no culpable reasons for dismissal, an agreement on early termination of the mandate may be reached at the initiative of either party and if it is in the interest of both parties. Such action will particularly occur in cases where, based on the reasonable judgement of the supervisory board, the member of the management body does not achieve optimal results in business management, lacks the best insight into the company's development, lacks optimal organizational skills, there is no special trust between the member of the management body and the supervisory board, or if decisions made within the scope of independent business judgement later prove to be suboptimal, and therefore, the supervisory board assesses that it would be possible to find someone who will lead the business better than the member of the management body with whom a mutually agreed early termination of the mandate will be concluded. The expected

benefits must outweigh the amount of severance payment and any other expenses that need to be paid upon the conclusion of the agreement. In such cases, the Recommendations applicable to dismissal for economic or business reasons are applied accordingly for determining the amount of severance payment in the agreement.

### **Non-compete clause**

- 9.47. If provided for in the Articles of Association, the remuneration policy may stipulate that contracts with members of management bodies include a non-compete clause even after the termination of their mandate as a member of the management body. In the case of dismissal by the company, the non-compete period shall not exceed six months. In other cases, it shall be set for a duration of no less than six months and no longer than two years. During the enforcement of the non-compete clause, the member of the management body shall be entitled to a monthly compensation of up to 75% of their monthly fixed remuneration.
- 9.48. Regardless of whether a non-compete clause is agreed upon, the supervisory board waives the enforcement of the non-compete obligation after the termination of the mandate if, considering all known circumstances, there is no real threat to the company's interests due to the non-enforcement of the non-compete obligation for a particular member of the management body. The enforcement of the non-compete clause must not be exploited as a concealed form of (additional) severance payment.

### **Remuneration of members of management and supervisory bodies in Group companies**

- 9.49. The parent company, especially in group-controlled companies, shall adopt guidelines for the formulation of Remuneration Policies for Management Bodies at the group level, which should be taken into account by subsidiary companies when formulating their own Remuneration Policies for Management Bodies or when entering into contracts with members of management bodies. The management body of the parent company shall ensure the adoption of Remuneration Policies for Management Bodies in subsidiary companies. In this respect, the guidelines for the formulation of remuneration for management bodies in subsidiaries, which are located abroad, should consider the specificities of the business environment in which those companies operate, as well as the specificities of local legislation in this area. The fixed remuneration of management bodies in subsidiary companies, regardless of the complexity factors mentioned in these Recommendations, should not exceed 90% of the upper permissible limit of the fixed remuneration of the management body of the parent company, except in specifically justified cases.

## **Remuneration of members of management bodies in the case of dual or multiple mandates within a Group**

9.50. The basic principle for determining the remuneration of members of the management bodies in the case of dual or multiple mandates in management and supervisory bodies within a group is that the remuneration is based on the complexity of the duties and responsibilities, as set out in Recommendation 9.14. In the case of dual mandates within the Group, each position entails its own duties and responsibilities and, as a rule, positions in subsidiaries are fully remunerated. An exception to this rule applies if the time spent, tasks and responsibilities, which refer to the positions held in the subsidiaries, are included in the tasks, time spent and responsibilities of the parent and thus in the remuneration of the parent (in particular where the criterion for determining the fixed remuneration is the organisational complexity arising from the management of the Group companies). If the latter is partially the case, the remuneration in the subsidiary is reduced proportionately. The presumption should be that at least part of the duties and responsibilities are covered by the duties and responsibilities of a member of the parent company's management body in the case of contractual and, to some extent, de facto holding companies. The remuneration policy includes the definition of the supervisory body of the upper limit of remuneration that members of management in the parent company can receive in subsidiary companies, or approves the level of remuneration in the subsidiary company before the mandate is assumed.

## **Remuneration in companies undergoing financial restructuring**

9.51. As regards the remuneration of the members of the management bodies of companies undergoing financial restructuring, whose business objectives are largely defined by an appropriate restructuring programme, the supervisory body may set specific criteria for their remuneration, taking into account the specificities of the situation, the restructuring objectives set, and the dynamics of their implementation aimed at improving the economic situation of the company. The total remuneration of the members of the management bodies of such a company should not exceed the total remuneration they would have received if the company had not been undergoing financial restructuring by more than 50%.

## **Other rights**

9.52. In the remuneration policy, the other rights to which members of management bodies are entitled should be determined by the supervisory body, by considering these Recommendations. When determining them, various factors must be considered, including the size, activity, complexity of operations, and financial position of the company. The supervisory body shall not automatically define all rights determined in this Recommendation nor its upper permissible limit set forth in this Recommendation. Instead, following the principle of prudent consideration and acting in the best interest

of the company, it shall assess the need for other rights and the appropriateness of including individual other rights in the rules on other rights as well as assess the permissible upper limit within the recommended framework.

9.53. For the purposes of the Recommendations on other rights, individual terms shall have the following meanings:

- **entitlements:** are rights to use company-owned items for private purposes and payments by a company to third persons of which, as a rule, a member of the management body derives a certain personal non-monetary benefit (for example, a company car for private use, the payment for preventive medical examination, the payment of social, medical and other insurance policies, supplementary training expenses). Regardless of the definition from the previous sentence, the following are also considered entitlements: the right to use company resources for representation purposes, the right to use corporate credit cards, the right to reimbursement of membership fees in professional organizations related to the performance of a management position, as well as other non-monetary rights that do not meet the definition of entitlements. However, it is customary in business practice for the supervisory body to decide on the right to use these entitlements during the contracting phase with members of the management body.
- **specific allowances:** are holiday pay, retirement benefit, reimbursement of expenses related to the performance of duties, wage compensation paid by a company for a period of absence (for example, due to illness, annual leave, education), specific allowances which are summarised from or determined with reference to a collective agreement or to the employer's general corporate policy, and all other allowances which are not included in any of the following group of remuneration payments neither by their nature, nor by their definition, i.e., fixed remuneration, variable remuneration, severance payment and entitlements.

## Entitlements

9.54. The remuneration policy may include the following entitlements:

- the right to **use a mobile phone** also for private purposes, including the right to subscription, call charges and data transmission charges;
- the right to **use a laptop and/or a tablet** also for private purposes;
- the right to **use a company car** also for private purposes (including the right for the payment of car running expenses - fuel costs for and foreign business journeys and for private domestic journeys, fee for the use of vehicles in road traffic; the company shall also pay for the car registration, maintenance, technical and regular inspections of a company car, for motor vehicle liability insurance and comprehensive insurance. This right shall be attributed in the following manner:
  - in a large company carrying out complex operations, which also includes its organisational complexity (a member of a Group), with good financial standing and when the company itself or a Group generates more than 50% of its revenue by selling goods and services in competitive markets:

the right to use a company car also for private purposes in the amount of a vehicle retail value of up to EUR 70,000.00 or EUR 90,000.00 (including VAT) in case of an eco-friendly car;

- in other large and medium-size companies with good financial standing: the right to use a company car also for private purposes in the amount of a vehicle retail value of up to EUR 50,000.00 or EUR 60,000.00 (including VAT) in case of an eco-friendly car;
- in other companies: the right to use a company car also for private purposes in the amount of a vehicle retail value of up to EUR 40,000.00 or EUR 45,000.00 (including VAT) in case of an eco-friendly car;

in which case a **company car** being also used for private purposes should not be **replaced** prior to three years or until the mileage of 150,000 kilometres is reached; exceptions may only be permitted in justified cases and with the consent of the supervisory body; In the case of acquiring or leasing a car **based on a leasing agreement/business lease**, the aforementioned monetary limitations refer to the purchase value of the car at the time of concluding the contract. Regarding leasing, monthly amounts paid to the lessor must not exceed EUR 2,000 in a large company, EUR 1,600 in a medium-sized company, and EUR 1,300 in a small company.

- the right to **the reimbursement of all costs for supplementary training and education** to enable more efficient performance of duties, up to the annual sum of EUR 20,000.00, including the right to wage compensation for such absence, if it lasts for up to 10 days per year. When assessing this right, a supervisory body shall take into account the characteristics of the market and the industry in which a company or a group operates. The rules may also determine that in case of justified business reasons this right may be attributed in higher amounts and in a higher number of days; upon a proposal by a management body such decision shall be taken by a supervisory body in a resolution;
- the right for **preventive manager's health check-up**: in a company running complex business operations or carrying out a prolonged restructuring process of a complex nature, such right shall be attributed every year, whereas in other companies it shall be granted every second year;
- The right to receive **payments for various insurance premiums** (collective supplementary pension insurance, accident insurance, additional health insurance, traditional life insurance) is granted, except for premiums paid for any form of insurance that entitles the recipient to a payout based on the policy (such as investment-linked life insurance, individual pension insurance, etc.). In the remuneration policy, the value of all insurance premiums should be limited either in monetary terms or as a percentage of the fixed remuneration. The total value of all premiums annually must not exceed 1/12 of the recipient's annual fixed remuneration.
- the right to the **D&O liability insurance**;
- the right to **use a payment card** for certain expenses (for example, fuel costs for a company car, education-related expenses), including entertainment expenses, in accordance with the business and financial plan, ensuring the necessary traceability of expenditure;

- the right to **incur and reimburse the entertainment expenses** in accordance with the business and financial plan, ensuring the necessary traceability of expenditure;
- the right to **reimburse costs for membership in professional organisations** which are connected with exercise of the duties of a management body's member, up to the maximum of EUR 3,000 per annum. When assessing this right, the supervisory body shall take into account the characteristics of the market and the industry, in which a company or a group operates, and business practice connected with such area of operation. The Rules may also determine that in case of justified business reasons this right may be attributed in higher amounts; in actual case, such decision shall be taken by a supervisory body in a resolution, upon a proposal by a management body;
- the right to the **reimbursement of expenses for legal protection** in case of lawsuits and reports lodged with respect to the management body member's performance of duties for a company in various legal proceedings by third parties (not by a company itself), unless the content of this right is already meaningfully covered under D&O insurance. in case when the liability is delivered by way of a final judgement, the reimbursement of costs is not permissible. A supervisory body may also stipulate that enforcing such right may include the advance payment of expenses for legal protection in which case the management body's member shall be obliged to repay such costs to the company in case when liability is finally ruled. When expenses for legal protection are not charged according to the applicable tariff system and the management body's member freely negotiates such expenses, such agreement on expenses should be authorised in advance by a supervisory body.

9.55. The Recommendation 9.54 shall equally apply to rules which refer to the employment contracts and to the civil agreements assuming that a working week lasts for at least 40 hours. If a shorter working week has been agreed upon in the employment contract, this condition is taken into account when assessing the granting of suitable other rights, that is, as regards the right itself as well as the rules on any limitations (for example, the highest permissible amount attributed to an individual right).

### **Specific allowances**

9.56. The remuneration policy may include, among other rights (unless expressly excluded by law), the following specific allowances, which are regulated by the Employment Relationships Act (ZDR-1), up to the following maximum amounts:

- the right to a **holiday pay**: it shall be granted to a member of a management body under the same terms and conditions and in the amount as granted to other employees in a company. When the holiday pay is paid to employees in various sums, the holiday pay is determined in the amount of the lowest holiday pay paid to an employee with a full working time arrangement with the entitlement to receive the holiday pay in full;

- the right to **the retirement benefit**: with respect to terms and conditions for the retirement benefit's payment and its amount, the provision of ZDR-1 shall apply; more favourable terms and conditions regulated under a collective agreement or the employer's general corporate policy should not be considered by neither party;
- the right to **the reimbursement of expenses related to holding a position**: a member of a management body shall be entitled to be reimbursed for all necessary expenses incurred while holding or in relation with holding such a position; this right shall be granted under terms and conditions and in the amount which apply to other employees in a company, except when the amount to be paid to members of the management body is determined by a special regulation in a mandatory manner (for example, for public companies). Such expenses are: daily allowance for business trips, vehicle mileage expenses, reimbursement of accommodation expenses, reimbursement of expenses for travel to and from work, expenses for meals during work. If a member of the management body uses a company vehicle for private purposes, he/she is not entitled to the reimbursement for expenses for travel to and from work;
- the right to **wage compensation due to absence**: it should be granted to a member of a management body in cases, for the duration of absence and in the amounts which are granted to other employees in a company.

9.57. Acting at its own discretion, the supervisory body may exclude individual specific allowances referred to in Recommendation 9.56 which are otherwise regulated by the Employment Relationship Act -- ZDR-1.

9.58. The remuneration policy should stipulate not to include rights referred to in the Recommendation 9.56 in civil agreements. The Act governing contractual obligations shall apply for the right to reimburse expenses related to holding the position of a member of the management body based on a civil contract. However, the parties can also regulate this matter in a different manner, provided that the right to reimburse expenses is suitably adjusted to the nature of the legal relationship (for example, a member of a management body who carries out the duties under a civil contract, should not be entitled to be reimbursed for expenses for meals during work, etc.). During periods of absence, the member of the management body may be entitled to full payment, unless otherwise agreed upon by the parties.

9.59. Subject to the company's financial position, In the remuneration policy, other rights may include, among other things, and subject to the company's financial position, some specific allowances which are usually regulated by a collective agreement or the employer's general corporate policy as well as other monetary allowances which, by their very nature or basis, do not fall within any of the following groups of payments: fixed remuneration, variable remuneration, severance payment and entitlements.

- **the jubilee premium**: under the same terms and conditions and in the amount as granted to other employees in a company.
- **special awards for holidays, for example Christmas benefit**: under the same terms and conditions and in the amount as granted to other employees in a

company, unless a collective agreement, the employer's general corporate policy or a resolution by the management body defines such benefits as performance-based allowances on account of the company's performance or the employee's performance, or this arises from other circumstances. For such allowances it is not important how they are named as this may be misleading; it is essential that the purpose for granting them does not represent a benefit that may be considered a variable part of the remuneration;

- **performance-related bonus** in accordance with a collective agreement or the the employer's general corporate policy, provided that it is paid to all employees in the company and thereby achieves a more favourable tax treatment for the respective bonus for all employees in the company. For members of the management body, the performance-related bonus is included in the maximum permissible variable component of their remuneration for that year;
- **the award for the employer's anniversary or the Employer Day:** under the same terms and conditions and in the amount as granted to other employees in a company, in accordance with a business and financial plan.
- **the right to the family separation allowance:** in cases and in the amount as granted to other employees in a company.

However, the following allowances should be excluded (or rather, they should not be included):

- **other specific allowances**, when the reason for regulating the right to such payment in a collective agreement or in the employer's general corporate policy is the actual or presumed lower salary or poorer financial position of the employee. The rules regarding other rights should specify that such rights are not included in the contract or that they are explicitly excluded from the contract (if the contract refers to collective agreements and/or the employer's general corporate policy).

9.60. The rights outlined in Recommendation 9.59 should not be included in civil contracts.

### **Alignment of Remuneration Policy with the provisions of ZPPOGD**

9.61. The supervisory bodies of SOEs, which are subject to the remuneration provisions of ZPPOGD<sup>7</sup>, shall continue to consider the provisions of ZPPOGD when determining the components of remuneration and their maximum permissible amounts, in addition to these Recommendations, unless they, based on a diligent assessment, determine that it is necessary to deviate from the ZPPOGD frameworks for all or specific components due to the HR risk management. In such cases, the formulated remuneration policy for the management bodies shall be submitted to SSH prior to its approval at the general

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<sup>7</sup> Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette of RS, No. 21/10, 8/11 – ORZPPOGD4 and 23/14 – ZDIJZ-C).

meeting, accompanied by a detailed justification for the necessary deviations from ZPPOGD and a proposal for SSH to obtain the consent of the Government of the Republic of Slovenia for voting on the remuneration policy of the management bodies or for its approval as the founder. Based on the assessment of the justifiability of reasons for deviating from ZPPOGD, taking into account all the characteristics of the company and the business environment, SSH may decide to submit the remuneration policy that deviates from ZPPOGD for consideration by the Government of the Republic of Slovenia. After obtaining the consent of the Government of the Republic of Slovenia, the company shall submit the aligned remuneration policy for the management bodies to the general meeting/founder for its approval. If the consent of the Government of the Republic of Slovenia is not granted, the supervisory board shall adopt the remuneration policy for the management bodies within the framework of ZPPOGD and, depending on the allocation of competencies, submits the revised remuneration policy for the management bodies for its approval at the general meeting or informs the general meeting about it. Deviation from ZPPOGD shall not be possible for subsidiary companies of SOEs. The remuneration policy should clearly indicate the extent to which ZPPOGD has influenced the determination of remuneration components and their amounts.

### **Implementation of these Recommendations**

- 9.62. If the remuneration system for members of management bodies, which is in force at the time of publication of these SSH Recommendations, allows for an individual member of the management body to receive a higher amount of the fixed and/or variable component of the remuneration than would be allocated to the member of the management body under the remuneration policy adopted by such company in accordance with these SSH Recommendations, the remuneration policy adopted on the basis of these Recommendations may stipulate that the remuneration of the members of the management body, which exceeds the remuneration framework set out in the company's remuneration policy, must be aligned with the latter, i.e. reduced, no later than with the commencement of the new term of office of the respective member of the management body. Furthermore, in order to establish a unified system as soon as possible, both among different companies and among the members of the management body within the company, it is also specified that the competent bodies of the company are obliged to endeavour to adjust the existing remuneration of a member of the management body, i.e., to negotiate a reduction as soon as possible after the remuneration policy has been adopted, that is, during the term of office of the current member of the management body.
- 9.63. All companies addressed by these Recommendations shall adopt a remuneration policy for the management bodies in accordance with these Recommendations no later than by the end of 2023. Unless otherwise specified in the company's Articles of Association or by a resolution of the general meeting/founder, or unless it pertains to actions in accordance with Recommendation 9.61, in non-public joint-stock companies and limited liability companies, the remuneration policy for the management bodies

shall be adopted by the supervisory board, and the general meeting/founder shall be informed about the adopted remuneration policy.

### **Explanation of changes to Recommendations in 2023:**

#### **Recommendations under the heading “*Introduction*”:**

The text, which has been added in Recommendation 9.1, is of educational nature, as the first sentence determines that the Recommendation applies to all SOEs, regardless of the size of the stake or the influence that SSH has in managing the company.

#### **Chapter “*Meaning of terms*”:**

The definition of “*majority shareholding*” is more precisely defined; the definition specifies when SSH is considered to have a majority stake in a company, which refers not only to ownership of a (majority) stake but also to the possession/exercise of voting rights at the discretion of SSH, including stakes from companies which are the subsidiaries of SSH.

The definition of “*dominant influence of SSH*” has been supplemented. It explains that SSH has a dominant influence through a majority shareholding or a majority of voting rights or the ability to dismiss a majority of members of the management board or supervisory board. Where SSH does not have a majority, the dominant influence of SSH may arise from other circumstances, where SSH, as a minority shareholder, can independently vote for the adoption of certain resolutions at the general meeting, considering the presence of other shareholders.

The definition of variable remuneration is changed so that the determination of the variable component is linked to the achievement of performance criteria, both of the company as a whole and the individual performance of each member of the management body, in line with Recommendation 9.23.

The definition of “*deferral period*” is also changed. The deferral period is extended from one year to at least two years from the allocation. However, not only the definition of deferral period is changed, but also the concept of the deferral institute, as explained further.

#### **Recommendations under the heading “*Fixed remuneration*”:**

At the initiative of companies and after examining domestic and foreign regulations, a new paragraph is added to Recommendation 9.17, which states that banks and insurance companies are considered to meet all maximum quantitative factors for determining the fixed component of remuneration for the management bodies. This change makes sense considering the high complexity of operations and the extensive organization of these companies, as well as the very strict conditions for occupying positions in the management bodies in these companies.

### **Recommendations under the heading “*Variable remuneration*”:**

Recommendation 9.25 has been partially amended. In this recommendation, as before, it is recommended that criteria for achieving long-term goals contribute to at least half of the variable component of remuneration for each business year. A sentence has been added, which states that the criterion system may determine criteria that are so important that they must be fully met for the allocation of a portion of the variable component of remuneration, regardless of the fulfilment of other criteria. The criterion system may determine the proportionality of the variable component of remuneration depending on the degree of achievement of individual or all criteria. Such regulation gives the supervisory body certain flexibility in shaping and evaluating criteria for determining the variable component of remuneration.

The methods of deferring the payment of the variable component of remuneration are deleted from Recommendation 9.25, which is related to the changed concept of deferral.

### **Recommendations under the heading “*Deferral of the variable remuneration*”:**

The concept of conditional allocation of the variable component of remuneration, which refers to the achievement of intermediate milestones for the long-term performance of the company, and in this regard, the concept of *bonus-malus*, which was intended to allow for retroactive adjustment of this portion of remuneration based on the final result of the entire measurement period, is abandoned. Henceforth, the payment of at least 50% of the variable remuneration awarded for a particular year shall be deferred for a minimum of two years (regardless of whether the variable component rewards short-term or long-term performance, the total amount awarded is considered). The deferral function is twofold. Firstly, if a member of the management body serves for less than the deferral period, they are not entitled to the deferred portion of the variable remuneration (this aspect is in line with ZPPOGD but applies to all companies), thereby motivating stability and loyalty. Secondly, the deferral is associated with a *claw-back* provision, where the deferred remuneration can be offset in case a *claw-back* clause is invoked, resulting in a repayment claim.

### **Recommendations under the heading “*Shares and share purchase options*”:**

Recommendation 9.32 provides the possibility of share or option-based rewards also for non-public companies.

### **Recommendations under the heading “*Claw-back*”:**

The option of offsetting awarded but unpaid portions of variable remuneration is added, and such offset must also be agreed upon in the employment contract. This option allows the company to withhold payment of the unpaid portions of remuneration if the recipient was not entitled to receive the variable remuneration (in whole or in part).

**Recommendations under the heading "*Severance payment for an early termination of term of office*":**

Termination of the contract by a member of the management body is now explicitly included as a reason that disqualifies them from receiving severance payments, which was implicitly valid previously. Examples of cases where a member is entitled to severance payments and the amount thereof should be regulated in the remuneration policy. Only dismissal due to economic or business reasons and mutual termination without fault can be considered valid reasons. A new explanatory provision is added regarding cases when a member of the management body is employed by the company after the early termination of their term of office. In such cases, the severance payment can amount to a maximum of the difference between the gross fixed remuneration according to the previous contract and the gross basic salary according to the new contract, multiplied by the relevant number of months. The difference between the remuneration from the position of a member of the management body and the new salary is applied to the number of months the salary is received in the new position, up to the monthly severance payment to which they would be entitled.

A new recommendation (9.46) is added, which specifies the conditions under which an agreement on the early termination of the mandate can be concluded at the initiative of one or both parties, provided that it is in the interest of both parties. The key condition for concluding such an agreement is the absence of any fault-based reasons for dismissal. In the case of such an agreement (similar to dismissal for economic or business reasons), the member of the management body is entitled to a maximum of six months' gross fixed remuneration as determined in the contract with the member of the management body. An exception is made for agreements concluded in the first year of the mandate, where the severance payment may amount to a maximum of three times the gross fixed remuneration as defined in the contract. Another exception applies to agreements concluded during the last six months before the expiration of the mandate when the severance payment, in accordance with Recommendation 9.43, gradually decreases on a monthly basis.

**Recommendations under the heading "*Non-compete clause*":**

These two new recommendations regulate the non-compete clause, which companies agree with members of their management bodies based on remuneration policies and Articles of Associations. The first recommendation specifies that the duration of the non-compete restriction depends on the manner of termination of the term of office for the position and is shorter in the case of dismissal by the company. Compensation for the duration of the non-compete restriction is also specified, which must not exceed 75% of the monthly fixed remuneration. The aim of this recommendation is to limit the duration of the non-compete restriction and the amount of compensation to avoid potential excessive or unjustified payments. It also recommends that the company consider whether it is reasonable to enforce the non-compete restriction in specific cases when a term of office for a member of the management body is discontinued, even if it is agreed upon.

The second recommendation gives the supervisory board the option to waive the enforcement of the non-compete clause if it assesses that the company's interests are not endangered by not enforcing it. This prevents the disguised payment of additional severance payment, which

would not be due to a member of the management body whose mandate has ended due to (imprudent) enforcement of the non-compete clause.

**Recommendation under the heading "*Remuneration of members of management and supervisory bodies within a Group*":**

A limitation on the amount of fixed remuneration for management bodies of dependent companies has been added to prevent cases where the remuneration of members of management bodies in subsidiaries exceeds the remuneration of members of management bodies in controlling companies, except in specific justified cases. It is considered that the responsibility, scope, and complexity of duties for members of management bodies in controlling companies are significantly greater than for members of management bodies in dependent companies, except in rare exceptions.

**Recommendations under the Chapter "*Other Rights*":**

The chapter title has been changed so that it now reads "Other rights". The term is defined in Recommendation 9.9. The terms "*benefits*" and "*entitlements*" have been harmonized and the unified term "*benefits*" is used to avoid confusion with terms from tax legislation. The definition of entitlements has been broadened to include certain rights that do not actually fall within the category by their nature. The aim is to harmonize the legal regime for all such rights, for which the supervisory board wants to retain authority when concluding an employment contract or a civil law contract.

**Recommendations under the heading "*Specific allowances*":**

The right to receive performance-based bonuses has been added among the rights usually provided for by collective agreements or internal corporate documents. However, such bonuses may only be granted if they are paid to all employees in the company. A more favourable tax treatment is thus achieved for all recipients of such payments, in accordance with applicable tax legislation. Performance-based bonuses are included in the maximum permissible variable remuneration for members of management bodies.

**New Recommendation "*Alignment of Remuneration Policy with the provisions of ZPPOGD*":**

The Recommendation stipulates that companies which are obliged to comply with the ZPPOGD provisions regarding the remuneration of management bodies should also take into account this Act, in addition to these Recommendations, unless they consider it necessary to deviate from the ZPPOGD framework due to HR risk management. In such cases, the remuneration policy for management bodies must be first submitted to SSH, and SSH, based on the justification for deviating from ZPPOGD, may decide to submit such a remuneration policy for review by the Government of the Republic of Slovenia. Deviation from ZPPOGD shall not be possible for subsidiary companies of SOEs, according to the position of the Ministry of Finance. This Recommendation enables companies to regulate the remuneration policy of management bodies outside the framework of ZPPOGD, in case of justified reasons. However, in order to vote on such a remuneration policy at the company's general meeting, in

accordance with Article 90 of ZSDH-1, SSH must obtain the consent of the Government of the Republic of Slovenia.

### **Taking into account inflation or individual price increases**

The recommended amounts of the fixed remuneration have been increased in the Recommendations due to inflation (taking into account the growth of the average consumer price index, with amounts appropriately rounded), since the last issuance of these Recommendations. Additionally, the amounts related to other rights have been adjusted due to the rise in prices of goods and services.

## **10. Remuneration Policy for supervisory bodies**

10.1. SSH expects the general meetings of companies to adopt remuneration policies for supervisory boards (or resolutions) in accordance with the law and the recommendations of the Corporate Governance Code for SOEs, in accordance with which such remuneration policies will stipulate the remuneration of supervisory boards to consist of fees for the performance of functions and attendance fees, as well as reimbursement of actual transportation and accommodation expenses incurred in the performance of their duties as supervisory board members. The amounts of remuneration for supervisory boards have been determined in accordance with these Recommendations.

10.2. The recommended basic earning levels for the performance of functions of a member of the Supervisory Board in state-owned enterprises (SOEs) on an annual basis are as follows:

Company size	Basic payment for holding the position and the performance of duties
micro and small enterprises – poor financial condition	up to EUR 5,500 gross per annum
micro and small enterprises – good financial condition	up to EUR 6,800 gross per annum
medium-sized enterprises – poor financial condition	up to EUR 8,100 gross per annum
medium-sized enterprises – good financial condition	up to EUR 10,700 gross per annum
medium-sized enterprises – good financial condition (satisfying one criterion for large enterprises)	up to EUR 13,300 gross per annum
large enterprises – poor financial condition	up to EUR 14,300 gross per annum
large enterprises – good financial condition	up to EUR 16,900 gross per annum
large enterprises – good financial condition (their securities are traded on regulated market, or banks, insurance companies)	up to EUR 21,000 gross per annum

10.3. The recommended attendance fees for supervisory board members in state-owned enterprises (SOEs) are as follows:

Company size	Attendance fee
micro and small enterprises	EUR 195 gross
medium-sized enterprises	EUR 260 gross
large enterprises	EUR 360 gross

10.4. The general meeting of the company may set the basic payment for the performance of functions for members of the board of directors who are not concurrently serving as executive directors of the same company, to be 25% higher than the recommended amount for members of the supervisory board as stated in Recommendation 10.2.

10.5. The president of the supervisory board shall be entitled to a supplement amounting to 50% of the basic payment for the performance of functions of the supervisory board member, while the vice president/deputy president of the supervisory board shall be entitled to a supplement amounting to 10% of the basic payment for the performance of functions of the supervisory board member.

10.6. The members of the supervisory board's committee shall receive a supplement for the performance of functions amounting to 25% of the basic payment for the performance of functions of the supervisory board member. The president of a committee shall be entitled to receive a supplement amounting to 37.5% of the basic payment for holding the position the performance of functions of the supervisory board member. Regardless of the above mentioned and regardless of the number of committees they belong to or chair, each member of a supervisory board's committee shall be entitled to receive supplements for their role during each business year until the total amount of such supplements reaches 50% of the basic payment for holding the performance of functions of a supervisory board member on an annual basis.

10.7. If the mandate of a particular supervisory board member is shorter than the business year, that member of a supervisory board's committee, regardless of the above and regardless of the number of committees they belong to or chair, shall be entitled to receive supplements for their role during the business year until the total amount of such supplements reaches 50% of the basic payment for the performance of functions for that supervisory board member based on the justified payments for the duration of their mandate in the respective business year.

10.8. The supervisory board members shall be entitled to reimbursement of travel and accommodation expenses incurred in relation to their services carried out for the supervisory board, specifically, up to the amount stipulated by regulations governing reimbursement of work-related expensed and other income which is not included in the taxable base (provisions which apply for the transportation during business trips and

overnight stays on business trips). The amount due to a member of the supervisory board according to the cited regulation is calculated in such a way that the net payment represents reimbursement of actual travel expenses.

- 10.9. SSH adjusts the upper recommended amounts for remuneration and attendance fees (as listed in tables in Recommendations 10.2 and 10.3) in accordance with the growth of the consumer price index for the previous year in these Recommendations every year.

### **Reasoning:**

The fundamental document in which SSH recommends a system for regulating the remuneration of supervisory bodies in SOEs is the Corporate Governance Code for SOEs (hereinafter referred to as: “the Code”). The Code specifies the recommended components of remuneration for supervisory bodies and the function of each component. Based on the Code, these Recommendations determine the recommended amounts of remuneration for each component. The regulations in the Code and the SSH Recommendations and Expectations provide a framework for determining the remuneration of supervisory board members in SOEs and a framework for establishing remuneration policies for supervisory bodies in such companies, as explicitly stated in Recommendation 6.10 of the Code. Public companies are required to adopt remuneration policies for supervisory bodies in accordance with the Companies Act (ZGD-1), while for other companies, a resolution of the general meeting/founder is sufficient to determine the remuneration of supervisory board members.

The regulations in the aforementioned SSH documents are in line with Article 22, Paragraph 2 of ZSDH-1, which stipulates that the remuneration of supervisory board members should consist exclusively of payment for the performance of functions and attendance fees. In this regard, the ZSDH-1 further specifies: *“The remuneration for performing their supervisory function includes a basic payment for performing the function and bonuses for special tasks or functions of the member, such as performing the function of president, deputy president or for membership of commissions of the supervisory body. The remuneration for performing functions of members of supervisory bodies and session fees shall be determined by considering the size and financial state of the company.”* The wording of Article 22, Paragraph 1 of ZSDH-1 also states: *“The SSH shall vote on the remuneration system which is to apply to the most senior and independent experts of supervisory boards who are motivated to do responsible and active work, but shall not simultaneously vote on the adoption of decisions of the general assembly which would enable unduly high remuneration to members in supervisory boards with regard to the needs and financial state of the company.”*

These Recommendations determine the recommended amounts of remuneration for supervisory bodies in all SOEs, which are categorized according to their size and financial condition regarding the recommended remuneration for the performance of functions of members of the supervisory board.

In addition to the basic categories of remuneration (payment for the performance of functions) and attendance fees), these Recommendations also specify the amount of supplements for performing additional services as members of the supervisory board, including the position of the president and deputy president of the supervisory board. Furthermore, the Recommendations also cover additional payments for serving as the president or members of supervisory board committees, as well as reimbursement of transportation and accommodation expenses incurred by supervisory board members in relation to their work on the supervisory board.

The content of Recommendation 10, together with Annex 1 to the SSH Recommendations and Expectations, is identical in substance to the former Annex 1 and Annex 2 of the Code of Corporate Governance of State-Owned Enterprises, with the only change being the transfer of content to a more appropriate document.

In 2023, SSH conducted a brief analysis of the remuneration systems of supervisory bodies domestically and internationally, assessing the appropriateness of the components of their remuneration and their levels. The analysis confirmed the appropriateness of the components of the remuneration of supervisory bodies in terms of compliance with domestic and international legislation and best practices, as already contained in the previously applicable SSH recommendations. Furthermore, the analysis confirmed the hypothesis regarding the erosion of the value of remuneration for supervisory bodies. The recommended levels of remuneration for supervisory bodies, as recommended by the SSH, have not changed since November 2011 when they were adopted by the Capital Assets Management Agency of the Republic of Slovenia (AUKN). During this time, based on publicly available data (SURs), the average monthly salaries of employees in Slovenian legal entities increased by 32.7% from 2011 to 2022, while inflation amounted to 27% over the same period. Therefore, in the updated edition of the Recommendations of April 2023, SSH increased the recommended upper limits of remuneration for supervisory bodies by 30% from the previously applicable recommendations. For large companies listed on the stock exchange and with a strong financial position (including banks and insurance companies), the increase was set at 40%.

## **11. Risk management**

- 11.1. A risk management system shall be established by the company's management, which is also responsible for ensuring its effectiveness and successful operation. Risks shall be managed by the company's management when making specific business decisions. When needed, hedging against key risks shall be provided for by the company's management.

- 11.2. Depending on the nature and scope of the company's operations, it is the responsibility of the company's management to ensure that risk management measures shall be carried out by the company. Such measures may include as follows:
- establishing an appropriate organization of the risk management process and defining the responsibilities and tasks of all stakeholders involved in the risk management process,
  - ensuring adequate training of employees for quality risk management,
  - appointing a coordinator of risk management activities (or responsible person or organizational unit) who is responsible for establishing and coordinating the continuous functioning of the risk management system in the company,
  - ensuring professional development, regular maintenance, and upgrading of the established risk management system,
  - regular monitoring, evaluation, and analysis of existing risks and identification of ways to identify new risks,
  - regular measurement of the company's exposure to risks, determining measures to manage, reduce, or eliminate the possibility of risks occurring, appointing responsible persons for the measures, and setting reasonable deadlines for their implementation,
  - establishing and regularly updating a risk register (risk register, risk catalogue),
  - defining the method of reporting on risks,
  - disclosing significant risks in the annual report and describing their management, including the description of the internal control system,
  - The company's management regularly and timely informs the supervisory board about all significant risks and their management methods, as well as about the established risk management system at least once a year.

**Reasoning:**

The operations of companies are directed towards achieving set goals through prudent business practices. Regardless of business goals, the company is always exposed to various risks that may hinder the achievement of those goals. The task of the company's management body is to respond appropriately to risks, thereby increasing the likelihood of achieving the goals set. The task of risk management is to manage the exposure of business operations to risks and limit risks to an acceptable level. Managing the exposure of business operations to risks involves identifying elements of risk exposure, evaluating identified risks, and classifying them according to the probability and severity of potential consequences. Based on such analysis, an appropriate system for managing risks is established.

**12. Entering into agreements for the early termination of mandates of members of the management body, employing members of the management body for a specific period, dismissing members of the management body from their positions, and providing guidelines for preparing contracts for the performance of duties by members of the management body are measures taken to manage certain risks associated with dismissals.**

#### **Employment of members of the management bodies for a specific period of time**

12.1. Upon appointment to a position, the company generally enters into an employment contract or a specific-term civil law contract (for the duration of a mandate for performing the duties) with the members of the management bodies.

#### **Dismissal of members of the management bodies from their positions**

12.2. If the law does not prescribe reasons to dismiss members of the management bodies from their positions (this applies to limited liability companies and to public limited companies which have chosen the one-tier management system), the Articles of Association or the contract generally do not regulate the reasons to dismiss members of the management bodies from their positions. In such cases, reasons for their dismissal are only regulated in relation to the issue of severance payment for early termination of the mandate.

12.3. The supervisory body, while monitoring the work of the management body, is always attentive to the possible existence of culpable reasons for the dismissal of members of the management bodies. Culpable reasons include serious breaches of obligations, incompetence in managing business affairs, or a justified vote of non confidence by the general meeting. If a culpable reason for the dismissal of a member of the management body from the previous paragraph exists, the supervisory body generally dismisses the member from their position. The criterion for deciding on the dismissal is acting in the best interest of the company and the diligence of a conscientious and honest businessperson (in Slovenian: "*skrbnost vestnega in poštenega gospodarstvenika*"). If the law or the Articles of Association only allow for the dismissal of a member of the management body for justified reasons (in addition to culpable reasons, other economically-business reasons are also considered justified), or if it is significant for determining the right to severance payment, the supervisory body specifies the (legal) reason for the dismissal and justifies its decision in the Resolution on Dismissal. The Resolution on Dismissal specifies the moment of dismissal (usually immediate). If there are no justified reasons for the dismissal, the supervisory body shall not dismiss the members of the management body. An alternative to the dismissal of a member of the management body is the conclusion of an agreement on the early termination of the mandate, but only in accordance with the guidelines set out in Recommendation 12.6.

12.4. A member of the management body who is dismissed for culpable reasons is not offered an employment contract or any other contract in the company from which they

were dismissed, or in any affiliated company. This potential reservation is appropriately included in the employment contract or civil law contract which is concluded with the member of the management body upon assuming the position.

- 12.5. If a member of the management body is dismissed, and the culpable reason for the dismissal is a serious breach of obligations that constitutes a criminal offence or incur substantial harm to the company (EUR 50,000 or more) in which SSH holds a majority stake or dominant influence, this circumstance is taken into account by SOEs within the framework of assessing the integrity of that person as a job seeker/worker for at least 5 years from the date of dismissal, if this circumstance is known to them.

### **Conclusion of agreements on the early termination of the mandate of members of the management bodies**

- 12.6. The supervisory body may conclude an agreement on the early termination of the mandate of a member of the management body if such a conclusion is in the best interest of the company and in line with the diligence of a conscientious and honest businessperson, taking into account the following guidelines:
- as a general rule, an agreement is not concluded if there are culpable reasons for the dismissal of the member of the management body;
  - regardless of the guideline stated in the previous indent, the agreement may be concluded in these cases if the parties agree that no severance payment will be paid due to the early termination of the mandate. Depending on the type of culpable reason and other relevant circumstances, the supervisory body shall strive to include in the agreement the termination of the member's entitlement to the unpaid portion of variable remuneration, either in whole or in part. The guiding principle in this regard is that the agreement has the same financial consequences for the company as if the supervisory body had dismissed the member of the management body and resolved the issue of variable remuneration according to general rules, and
  - if there are no culpable reasons for dismissal, an agreement on early termination of the mandate may be reached at the initiative of either party and if it is in the interest of both parties. Such action will particularly occur in cases where, based on the reasonable judgement of the supervisory body, the member of the management body does not achieve optimal results in managing business affairs, lacks the best perspective on the company's development, lacks optimal organizational skills, there is no special trust between the member of the management body and the supervisory body, or if decisions made within the scope of independent business judgement later prove to be suboptimal. Therefore, the supervisory board makes an assessment that it would be possible to find someone who will lead the business better than the member of the management body with whom a mutually agreed early termination of the mandate is to be concluded. The expected benefits must outweigh the amount of severance payment and any other expenses that need to be paid upon the conclusion of the agreement. In such cases, the Recommendations applicable to dismissal for economic or business

reasons are applied accordingly for determining the amount of severance payment in the agreement.

### **Recommendations for concluding contracts for the performance of functions by members of the management bodies to manage certain risks related to dismissals**

- 12.7. In order to manage certain risks associated with the dismissal of members of the management bodies from their positions (especially the risk of unjustified dismissal and the risk of payment of severance payment in unjustified cases), the following guidelines shall be taken into account when concluding employment contracts or civil law contracts with members of the management bodies:
- the guideline from Recommendation 12.1, which states that the employment contract or civil law contract with a member of the management body should be concluded for a specified time period, that is, for the duration of their mandate;
  - The guideline from Recommendation 12.2, which states that reasons for dismissal should always be regulated in connection with severance payment (even if a member of the management body can be dismissed at any time), specifying the cases in which the member is entitled to severance payment and the amount thereof, as well as the cases in which severance payment is not granted to the member of the management body. In this regard, Recommendation 12.6 shall be taken into account;
  - in employment contracts or civil law contracts with members of the management bodies, their duties and powers shall be specified to a sufficient extent, reducing the likelihood of disputes on when the duties are breached or when the member of the management body is incapable of fulfilling their tasks.

#### **Reasoning:**

It is in the interest of the company to conclude an employment contract or civil law contract for a specified time period with members of the management bodies who were not previously employed by the company, i.e., for the duration of their mandate. This eliminates the risk of unnecessary accumulation of personnel in the organization or other problems that may arise upon the termination of their mandates.

The Companies Act (ZGD-1) provides for the dismissal of members of the management bodies without cause in limited liability companies and in one-tier system public limited companies. As a general rule, provisions that would alter this legal regime should not be added to the Articles of Association. However, this does not mean that supervisory bodies in these types of companies should dismiss members of the management bodies without providing justified reasons. It means that members of the management bodies cannot challenge the decision to dismiss them.

If there are culpable reasons to dismiss members of the management body, the supervisory body will generally act in a diligent manner by dismissing them. The three reasons defined in the Companies Act (ZGD-1) are considered culpable reasons: serious breach of obligations, incapacity to manage business affairs, or justified vote of non confidence by the general meeting. On the other hand, the supervisory body will act in a diligent manner by not dismissing members of the management bodies without having justified reasons to do so. This principle

applies particularly to two-tier system public limited companies, as unjustified dismissal usually results in severance payments and usually high court costs. However, as mentioned above, the same principle should also apply to limited liability companies and one-tier system public limited companies, even if the law and the Articles of Association allow dismissal without stating the cause for it. It is impossible to prescribe an absolute rule for how the supervisory body should act regarding dismissals. Therefore, the fundamental guiding principles in every case shall be acting in the best interest of the company and applying the standard of care of a conscientious and honest businessperson. The decision to dismiss a member of the management body is not a legally binding decision but falls within the realm of the supervisory body's discretionary judgement. It is also important that the grounds for the decision are appropriate and that the thought process is based on the law, good practice, and logical reasoning. The Recommendation 12.3 provides some guidance regarding the drafting of a resolution on dismissal.

With regard to the conclusion of agreements on the early termination of mandates (hereinafter referred to as "the Agreements"), Recommendation 12.6 contains a fundamental general guideline that Agreements should not be concluded as a general rule if there are culpable reasons for the dismissal of a member of the management body. However, there are exceptions to this general rule. The first exception is to stipulate in the Agreement that the member of the management body shall not be entitled to severance payment due to the early termination of the mandate. This prevents the member of the management body from receiving financial benefits that they are not entitled to in the event of a culpable reason for the dismissal. In such cases, the Agreement is usually financially neutral and legally secure for the company. In certain cases, the Agreement will only be financially neutral for the company where the member of the management body also waives, either fully or partially, the variable portion of the remuneration that has not yet been determined (has not been allocated) or has been deferred. The Recommendation provides guidance on when the conclusion of the Agreement is generally in the company's interest if there are no culpable reasons for dismissal but there are nevertheless reasons for parting ways with a member of the management body. These are typical cases where it is in the company's interest to motivate the member of the management body, through an appropriate severance payment, to leave the company as soon as possible so that someone who can perform the duties better according to the supervisory body's assessment can take over the business affairs.

It is recommended that the circumstances of the dismissal for culpable reasons, which have a more severe manifestation, should also be taken into account in companies with a majority stake or dominant influence by SSH in the potential employment of that individual for at least 5 years after the dismissal.

The Recommendation 12.7 provides some recommendations for the conclusion of employment contracts or civil law contracts for members of the management body with the purpose of managing certain risks related to dismissal (particularly the risk of unjustified dismissal and the risk of severance payments in unjustified cases). The aim of these recommendations is therefore to reduce the risk of the supervisory body's resolution on dismissal being overturned by a court as unjustified. The aim is also to prevent the company from facing failure in disputes with dismissed members of the management body regarding the entitlement and amount of severance payment.

### **13. Diversity, equity, and inclusion, as well as ensuring gender balance in management and supervisory bodies**

- 13.1. Companies should have clearly defined goals to promote diversity, equity, and inclusion. The measures which are considered the most appropriate ones should be, among other things, tailored to the size of the company, industry challenges, and internal challenges within each company.
- 13.2. Companies should create an environment that promotes diversity, equity, and inclusion and eliminate barriers to the inclusion of under-represented groups.
- 13.3. Goals related to diversity should be measurable, and comprehensive annual reporting on their progress should be conducted in accordance with recognized reporting standards.
- 13.4. SSH expects the competent bodies of SOEs and subsidiaries within the group, where the controlling company is a state-owned company, to strive for gender-balanced representation within the management bodies and to prepare appropriate measures for this purpose. The bodies responsible for appointing employee representatives to management and supervisory bodies should also strive for overall representation of both genders within the bodies.
- 13.5. Companies should also consider other important aspects of diversity as criteria for selecting members of the management bodies.

#### **Reasoning:**

Diversity, equity, and inclusion are three closely related values embraced by many companies which aim to support various groups of individuals, regardless of age, gender, disability, nationality, religion, or other status. They are an important aspect of good human resources management.

**Diversity** of knowledge and experiences contributes to the presentation of different perspectives, providing the company with a broader foundation for making sound business decisions. Companies that can attract employees from different segments of society may have a better position in talent acquisition and be seen as more attractive employers, giving them a competitive advantage.

The definition of diversity may vary between companies. Some common aspects include different experiences, education, values, gender, age, disability, and sexual orientation, among others, which can contribute to providing diverse perspectives and, ultimately, good company results. Companies that employ various categories of diverse individuals should strive to develop an **inclusive culture** where groups or individuals feel respected. Feeling **respected**

**and included** is a fundamental human need. An inclusive company has plans to promote a sense of belonging, respect, dignity, and equal treatment for all employees.

Inclusion and diversity can only be achieved through pay equality for work of equal value, regardless of the different dimensions of employee diversity. **Equity** refers to the fair treatment of all employees, where existing norms, practices, policies ensure that an individual's identity does not impact their opportunities or performance in the workplace. Equity differs subtly but significantly from **equality**. While equality, which is a constitutional and legal category, implies treating all people equally, equity takes into account an individual's unique circumstances and appropriately adjusts treatment to ensure an equal outcome. Managing diversity involves fulfilling commitments that go beyond legal obligations and recognizing the benefits for employees and the business's performance.

Creating a diverse, fair, and inclusive culture enables companies to foster a sense of belonging, motivating employees and ultimately impacting business success. SSH therefore expects SOEs to appropriately address the importance of diversity for business performance and address this area **by defining categories for monitoring diversity, setting goals, implementing measures, and reporting in accordance with recognized standards**, in connection with their needs and specific business operations.

**Companies should seek guidance from the handbook for employers which has been published by the Advocate of the Principle of Equality when managing diversity and ensuring equal opportunities.** Another useful approach is the "shadow board," which involves younger generations providing insights for diversifying perspectives in decision-making, potentially bridging generational gaps among employees.

**One important aspect of diversity for a company's success is gender diversity of the management and supervisory bodies.** In accordance with Article 70 of the Companies Act (ZGD-1) and governance code recommendations, supervisory boards of audited companies should specify target gender diversity, a time frame, and methods to achieve this goal in their diversity policy for management and supervisory bodies.

An important aspect of achieving gender diversity in decision-making bodies is the effective use of predetermined and transparent selection criteria for appointing members to management and supervisory bodies, where candidates' qualifications, knowledge, and skills are treated equally regardless of their gender. This means that candidates are evaluated in an objective manner and based on individual competencies, regardless of their gender. However, when selecting candidates for positions in supervisory and management bodies, preference should be given to equally qualified candidates of the under-represented gender.

SS can significantly contribute to gender diversity in leadership and supervisory bodies within the limits of its shareholder's entitlements. SSH has already confirmed its awareness of the importance of this area by joining the Initiative for voluntarily pursuit of targeted gender diversity in leadership bodies. The said initiative is also supported by the Slovenian Directors' Association, Managers Association of Slovenia, LJSE and the Ministry of Labour, Family, Social Affairs and Equal Opportunities. The aim of this initiative is to achieve gender diversity with the proposed structure by the end of 2026: 40% for members of supervisory boards and

a total of 33% for members of supervisory boards and management boards of the under-represented gender in public limited companies and state-owned companies. In November 2022, the Directive on ensuring a balanced gender representation among directors of listed companies and related measures was adopted, which will regulate this area upon its transposition into domestic legislation.

## **Annex 1**

### **GENERAL MEETING RESOLUTION SAMPLE - REMUNERATION FOR SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS**

#### **REMUNERATION FOR SUPERVISORY BOARD MEMBERS:**

1. The Supervisory Board members receive the attendance fee for their participation at a session which amounts to EUR \_\_\_\_\_ gross per an individual member. The members of a Supervisory Board's committee receive the attendance fee for their participation at a session of the committee which, per an individual member, amounts to 80% of the attendance fee for the participation at a session of the Supervisory Board. The attendance fee for a meeting by correspondence amounts to 80% of the regular attendance fee. Regardless of the above mentioned, that is, regardless of the number of sessions in which he/she participates, in an individual business year, an individual Supervisory Board member is entitled to receive the payment of attendance fees up to a total amount of attendance fees that reaches 50% of the basic payment for the performance of the functions of a Supervisory Board member at the annual level. Regardless of the above mentioned, that is, regardless of the number of sessions of the Supervisory Board and committees in which he/she participates, in an individual business year, an individual Supervisory Board member, who is a member of a Supervisory Board committee or committees, is entitled to receive the payment of attendance fees related to his/her participation at the sessions of the Supervisory Board and committees up to the total amount of attendance fees that reaches 75% of the basic payment for the performance of the functions of a Supervisory Board member at the annual level.

2. In addition to attendance fees, the Supervisory Board members receive a basic payment for the performance of functions in the amount of EUR \_\_\_\_\_ gross per year per an individual member. The President of the Supervisory Board is also entitled to receive an additional payment in the amount of 50% of the basic payment for the performance of the functions of the Supervisory Board member, while the Vice President/Deputy of the Supervisory Board President, is entitled to receive the additional payment in the amount of 10% of the basic payment for the performance of functions of the Supervisory Board member.

The members of the Supervisory Board's committee receive the additional payment for the performance of services which amounts to 25% of the basic payment for the performance of the functions of the Supervisory Board member. The President of a committee is entitled to receive the additional payment for the performance of the services in the amount of 37.5% of the basic payment for the performance of the functions of the Supervisory Board member. Regardless of the above mentioned, that is, regardless of the number of sessions in which he/she is a member or a President, in an individual business year, an individual member of a Supervisory Board's committee is entitled to receive additional payments of up to a total amount of such additional payment that reaches 50% of the basic payment for the performance of the functions of a Supervisory Board member at the annual level. If the mandate of an individual Supervisory Board member is shorter than the business year, the individual member of a Supervisory Board's committee, irrespective of the above mentioned, that is, regardless of the number of committees in which he/she is a member or a President, is entitled to receive additional payments in an individual business year up to a total amount of such payments that reaches the value of 50% of the basic payment for the for the performance of the functions of the individual Supervisory Board member for the duration of the time for which his/her mandate lasted in the relevant business year.

3. In addition to the above-mentioned payments, Supervisory Board members shall also be entitled to receive additional payments for special assignments. Special assignments are assignments which include actual carrying out of unusual, longer lasting and in terms of complexity above average type of assignments, as a rule, lasting for at least one month. Having obtained a consent by an individual Supervisory Board member, a Supervisory Board shall be authorised to decide on the allocation of

special assignments to the individual Supervisory Board Member, the duration of such special assignments and on the additional payment for special assignments, in accordance with the General Meeting Resolution. The Supervisory Board shall be authorised to make decision on additional payments for special assignments due to temporarily objective circumstances faced by a company. Additional payments for special assignments shall be permissible only for the time period when such special assignments are actually carried out about which the Supervisory Board may exceptionally also make a retroactive decision (particularly in case of special assignments due to objective circumstances), however, not more than for the past financial year. In an individual financial year, total additional payments for special assignments for an individual Supervisory Board member may amount to the maximum of 50% of the basic payment for the performance of the services of a Supervisory Board member, irrespective of the number of such special assignments. The additional payment for an individual special assignment shall be determined by taking into account the complexity of the assignment and the associated increased workload and responsibility involved. Additional payments shall always be calculated in suitable proportion with regard to the actual active performance of such special assignment.

4. The Supervisory Board members shall receive the basic payment, the additional payment for the performance of the functions and the additional payment for special assignments in the proportional monthly payments to which they are entitled until they carry out the function and/or special assignment. The monthly payment amounts to one twelfth of the above-mentioned annual sums. Considering circumstances, additional payment for special assignments may also be paid in the one-off total eligible amount, after the special assignment is completed.

5. The limitation of the amount of the total payments for attendance fees or additional payments for a Supervisory Board member must not in any way influence his/her obligation regarding active participation at all Supervisory Board sessions and committees' sessions in which he/she is a member, and his/her statutorily stipulated responsibility.

6. The Supervisory Board members are entitled to receive the reimbursement of travel and accommodation costs incurred in relation to their services in the Supervisory Board, specifically, up to the amount stipulated in regulations regulating the reimbursement of work-related costs and other income which is not included in the tax base (provisions which apply for the transportation during business trips and accommodation during business trips). The amount attributable to a Supervisory Board member under the quoted regulation shall be made gross so that the net payment reimburses the actual travel costs. The distance between destinations as calculated at the AMZS web site is taken into account for the determination of the mileage. The accommodation costs may only be refunded if the distance of the permanent or temporary residence of a Supervisory Board member or a member of a Supervisory Board committee from the location of the work of the body amounts to a minimum of 100 kilometres, if the member of the Supervisory Board was unable to return to their place of residence because of the lack of any scheduled public transport, or for other objective reasons.

7. This Resolution shall enter into force and apply from the day of its adoption at the General Meeting. By way of this Resolution, the Resolution No. \_\_\_\_\_ adopted by the General Meeting on \_\_\_\_\_ (date) is revoked.

**PAYMENTS TO MEMBERS OF MANAGEMENT BOARD:**

In regard to the payment to members of a Management Board, the same form of a resolution shall be used *mutatis mutandis* as the form used for Supervisory Board members, taking into account the following adjustments:

- instead of terms "a member/president/vice-president/ deputy president of a Supervisory Board", "a member/president of a Supervisory Board's Committee" and the term "a Supervisory Board", the following terms shall be used: "a member/president/vice-president/deputy president of a Management Board", "a member/president of a Management Board's Committee" and "a Management Board".
- In Item 1 of the resolution form, the following text: "*Regardless of the above mentioned, that is, regardless of the number of sessions in which he/she participates, in an individual business year, an individual Supervisory Board member is entitled to receive the payment of attendance fees of up to a total amount of attendance fees that reaches 50% of the basic payment for the performance of the functions of a Supervisory Board member at the annual level. Regardless of the above mentioned, that is, regardless of the number of sessions of the Supervisory Board and committees in which he/she participates, in an individual business year, an individual Supervisory Board member, who is a member of a Supervisory Board committee or committees, is entitled to receive the payment of attendance fees related to his/her participation at the sessions of the Supervisory Board and committees up to the total amount of attendance fees that reaches 75% of the basic payment for the performance of the services of a Supervisory Board member at the annual level.*" shall be **replaced with the following text:** "*Regardless of the above mentioned, that is, regardless of the number of sessions in which he/she participates, in an individual business year, an individual Management Board member is entitled to receive the payment of attendance fees of up to a total amount of attendance fees that reaches 50% of the basic payment for the performance of the functions of a Management Board member at the annual level without an Increase. Regardless of the above mentioned, that is, regardless of the number of sessions of a Management Board and committees in which he/she participates, in an individual business year, an individual Management Board member, who is a member of a Management Board committee or committees, is entitled to receive the payment of attendance fees related to his/her participation at the sessions of the Supervisory Board and committees up to the total amount of attendance fees that reaches 75% of the basic payment for the performance of the functions of a Management Board member at the annual level without an Increase.*"
- In Item 2 of the resolution form, the sentence which reads as follows: "In addition to attendance fees, the Supervisory Board members shall receive a basic payment for the performance of their functions in the amount of EUR \_\_\_\_\_ gross per year per an individual member." shall be **replaced with the following sentence:** "In addition to attendance fees, Management Board members shall receive a basic payment for their services in the amount of EUR \_\_\_\_\_ gross per year per an individual member, increased by \_\_\_\_\_.% (in this Resolution, the abbreviated term "**the Increase**" shall be used for the said Increase of basic payment.)"
- When a Management Board is composed of members who simultaneously hold the role of executive directors in the same company, a new item 6 is added to a Resolution which shall read as follows:" 6. *The basic payment for a member of the Management Board for the performance of functions and for simultaneously holding the position of an executive director of this company, shall amount to EUR \_\_\_\_\_ gross per year and the first sentence of Item 2 of this Resolution shall not apply in this case. A member of the Management Board, who simultaneously holds the function of an executive director of this company, for his attendance at sessions of Management Board, is not entitled to receive attendance fees referred to in Item 1 of this Resolution, however, he/she is entitled to receive attendance fees for any membership in the Management Board's committees, specifically, in the amount of 50% of the sum payable to the remaining members of the Management Board. In such case, regardless of how many times a member attended*

*sessions, in an individual business year, a member is entitled to receive attendance fees until the total amount of attendance fees reaches 25 % of the basic payment for the performance of the services of a Management Board member at the annual level. A member of the Management Board, who simultaneously holds the function of an executive director of this company, is entitled to receive a supplement for the performance of functions of a member in a Management Board's Committee in the same amount as it applies to members of the Management Board not holding an executive function. In accordance with Item 5 of this Resolution, such member is entitled to receive reimbursement of costs arising from carrying out the function in the Management Board or in its Committees only when he/she has not received any reimbursement of costs for the same event for his/her attendance in the capacity of an executive director of this company."*

In such case, Item 6 shall become Item 7 of the Resolution.

**REMUNERATION POLICY FOR THE MANAGEMENT BODY IN COMPANY X  
AND MANAGEMENT BODIES IN SUBSIDIARIES WITHIN GROUP X**

*(template - an example for a public company which is the controlling company within the group)*

**I. GENERAL ON REMUNERATION POLICY FOR MANAGEMENT BODIES**

The Remuneration policy for the management body of Company X, d. d.<sup>8</sup> (hereinafter referred to as: "the Company"), whose shares are listed on the organized securities market, contains principles and rules that are observed in regulating the remuneration of the management body in the Company. The Company is the controlling company within Group X (hereinafter referred to as "the Group"), and therefore, this Remuneration Policy for the management body also regulates the framework (guidelines) regarding the remuneration of the management bodies in the subsidiary companies of the Group.

The Company has formulated the Remuneration Policy for the management body of the Company based on and in accordance with Article 294a of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06, as amended; hereinafter referred to as "the ZGD-1") and taking into account the SSH Recommendations and expectations of XX.XX.XXXX. Since the Company is majority-owned by the state, and the subsidiary companies of the Group are also majority-owned by the state, all with their registered offices in the Republic of Slovenia, the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic as amended; hereinafter referred to as "the ZPPOGD") and the Regulation on setting the highest correlation of basic payments and the rate of variable remuneration of directors (Official Gazette of the Republic of Slovenia, No. 34/10 and 52/11) were also taken into account when formulating this Remuneration Policy.

The Company did not seek the consent of the Government of the Republic of Slovenia to deviate from the framework of the ZPPOGD under Article 90 of the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, Nos. 25/14 and 140/22; hereinafter referred to as: "the ZSDH-1"), as the supervisory body has assessed that the framework of ZPPOGD is not limiting for the Company to such an extent as to significantly increase HR risks.

The Remuneration Policy for the management body of the Company was adopted by a resolution of the supervisory body and will enter into force upon submission to the Company's general meeting after the voting on this agenda item at the general meeting. The Company will submit the Remuneration Policy for the management body to the general meeting for voting in case of any significant changes, and in any case, every four years and at the next general meeting if it is not approved by the general meeting.

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<sup>8</sup>Fields marked in yellow shall be customized for each company.

In subsidiary companies, the competent body shall adopt the Remuneration Policy for the management bodies in accordance with the framework or guidelines from this Remuneration Policy for the management bodies which has been formulated by the management body of the Company, taking into account the legal form of each individual subsidiary company.

The adequacy of the Remuneration Policy for the management body of the Company will be annually reviewed by the supervisory body, and the adequacy regarding the guidelines for the subsidiary companies of the Group will be reviewed by the management body of the Company.

The Supervisory Board of the Company shall further specify individual issues regarding the remuneration of the management body of the Company, particularly the selection of criteria for short-term and long-term business performance, their target values for each year, the weighting of criteria based on their importance, the evaluation system for achieving the criteria, the method of calculating the variable component of the remuneration based on the achieved assessments, and other necessary content (hereinafter referred to as “**Regulation of Supervisory Board on Determining Criteria for Variable Remuneration of the Company's Management Board**”). The content of the aforementioned legal document shall be reconsidered by the Supervisory Board, taking into account the annual business plan and other relevant documents, and it shall be appropriately supplemented/modified no later than by the end of March.

## **II. MEASURES TO AVOID CONFLICT OF INTEREST AND ITS CONTROL**

The Company has adopted an internal regulation which regulates the handling of potential conflicts of interest. The Company shall be bound by the relevant provisions of ZSDH-1 regarding conflicts of interest.

During their term of office, members of the Company's management body must avoid conflicts of interest, which means that in specific matters where they have a personal interest conflicting with the Company's interest, they must not act, make decisions, or exert influence.

Members of the Company's supervisory body shall not receive remuneration dependent on the Company's or Group's performance, thereby preventing conflicts of interest between the supervisory body and the Company's interests in determining the Remuneration Policy for the management body.

## **III. OBJECTIVES AND PRINCIPLES OF REMUNERATION POLICY FOR MANAGEMENT BODIES**

### **1. Objectives of Remuneration Policy**

Objectives of the Remuneration Policy are as follows:

- attracting suitable professionals to the management bodies and determining the level of their remuneration to enable competent work and financial sustainability;

- motivating members of the management bodies to perform their work in a responsible and active manner, and to achieve the goals set, thereby promoting the company's business strategy, its long-term development, and sustainability;
- preventing premature departures of skilled, motivated, and successful members of the management bodies.

## **2. Principles of Remuneration Policy**

In determining the total remuneration within the Remuneration Policy for the management bodies, the principle of proportionality is considered in connection with all components of remuneration, whereby the total remuneration of members of the management bodies is in appropriate proportion to the tasks of each member and the financial condition of the company.

The principle of limitation of total remuneration is also taken into account, as the Remuneration Policy for the management bodies sets upper limits for all components of remuneration.

Furthermore, the principle of linking the total remuneration to the long-term performance of the company is considered, as a significant component of remuneration includes variable pay for long-term performance. The principle of aligning the remuneration system of the company's management bodies with the company's and group's strategy is also taken into account.

The principle of cost-effectiveness is considered, as the principles and rules of the Remuneration Policy for the management bodies provide an appropriate tool for managing HR risks and form the basis for considering the remuneration of management bodies in competitive companies.

## **3. Components of remuneration and their functions**

When determining the components of remuneration in the Remuneration Policy for the Company's management body, taking into account the established structure of remuneration in the Slovenian business environment (as indicated by ZGD-1<sup>9</sup> and ZPPOGD), the Supervisory Board has considered the functions of individual components of remuneration and included in remuneration four recommended components. Firstly, the fixed remuneration, which represents compensation for the effort put into performing the duties of a member of the management body, and is received by the member of the management body regardless of results achieved. Secondly, the variable portion of remuneration, the allocation of which depends on the company's performance and the individual performance of each member of the management body in relation to predetermined goals. Thirdly, other right, which are divided into entitlements and special allowances. Lastly, severance payment, which a member of the management body may receive in certain cases instead of the previous three components in the event of early termination of their mandate.

## **4. The maximum permissible amount of the fixed portion of remuneration for a member of management body, which enables the supervisory bodies to attract top professionals to the management bodies, who are motivated to perform their duties**

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<sup>9</sup>Companies Act (Official Gazette of RS, Nos. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – CC Dec., 82/13, 55/15, 15/17, 22/19 – ZPosS, 158/20 – ZIntPK-C and 18/21).

**in a responsible and active manner, while preventing unjustifiably high payments to members of the management bodies considering the needs, performance, and financial condition of the company**

When determining the upper limit of the fixed remuneration for the Company's management body, the supervisory body considered the complexity of the Company's operations, taking into account its financial condition. The supervisory body based its assessment on the complexity system established by the SSH in SSH Recommendations and Expectations, which defines the factors by which the complexity of a company's operations is measured.

The financial condition of the Company and its subsidiaries within the Group is good. The Company has been achieving a stable profit, and the forecasts for the future are also positive. The proportionality of the management body's remuneration to the Company's financial condition is indirectly reflected in the ratio of the management body's remuneration to the average salary in the Company. This ratio is typically for the industry in which the Company operates, as well as in comparison to remuneration in competitive companies.

When formulating the Remuneration Policy for the Company's management body, the Company has taken into account the remuneration levels in the following competitive companies: [insert companies]. The Company will also consider the remuneration in competitive companies when entering into contracts with members of the management body. This will ensure that the remuneration for the management body in the Company is comparable to similar companies, which in turn will enable to manage HR risks.

#### **5. The maximum permissible amount of the variable remuneration for a member of the management body**

The variable portion of remuneration is limited by the maximum permissible percentage in relation to the fixed remuneration. When determining this ratio, the Company has taken into account the HR risks in the Company, the SSH Recommendations and Expectations, and the provisions of ZPPOGD.

#### **6. The maximum permissible severance payments**

The Remuneration Policy specifies the maximum permissible severance payments and the rules for when they can be paid out.

### **IV. CONTRIBUTION OF THE REMUNERATION POLICY TO PROMOTING BUSINESS STRATEGY, LONG-TERM DEVELOPMENT, AND SUSTAINABILITY OF THE COMPANY**

On XX.XX.XXXX [insert date], the Company adopted a multi-year business strategy that defines the Company's strategic objectives, key measures (activities), and responsible parties for implementing the measures. The components of remuneration in the Company's Remuneration Policy for the management bodies are defined so that the business strategy adopted is encouraged to be fulfilled. The key division of remuneration components in the Company's Remuneration Policy for the management bodies is the division into the fixed remuneration and the variable remuneration. The fixed remuneration does not have a specific

incentive function, as the payment of this part of remuneration is not dependent on business results. The variable remuneration has an incentive effect, as its allocation depends on predetermined criteria which are defined in the Remuneration Policy so that a connection between the performance in achieving annual business goals and the goals of the business strategy is established on one hand, and remuneration on the other hand. In this way, members of the management body shall receive a larger variable part of remuneration and, consequently, a higher total remuneration if the management body is successful in achieving annual goals and the goals of the business strategy adopted, which is defined in a way that promotes the long-term development, long-term performance, sustainable operations, and sustainability of the Company.

The variable remuneration consists of two parts: one that promotes short-term business performance (criteria are defined to measure success in the business year) and one that promotes long-term business performance (criteria for allocation are defined to encourage the achievement of strategic goals for a longer period, i.e., at least 3 years). Both parts contribute to the achievement of the goals of the Company's business strategy, with the part promoting long-term business performance being particularly important, as it aligns with the multi-year goals set by the strategy.

**V. REMUNERATION OF MEMBERS OF THE MANAGEMENT BODY**

**1. PRESENTATION OF THE MANAGEMENT BODY**

The management body in the Company is the Management Board, which consists of X members, one of whom is the President of the Management Board. The Management Board independently and at its own responsibility conducts business in the best interest of the Company, in accordance with the limitations set out in the Articles of Association. The President of the Management Board represents the Company independently, while the other members of the Management Board act jointly with the President of the Management Board.

**2. FIXED REMUNERATION**

The fixed remuneration for the management body is determined in the contract with each member of the management body as an absolute gross annual amount. It shall be paid to a member of the management body as compensation for performing the duties assumed of the member of the management body and may not be unilaterally reduced, withheld, revoked or terminated, except in cases provided for by law. The fixed remuneration shall include all allowances within the meaning of the Act governing employment relations, irrespective of the instrument which determines the employees' entitlement to allowances. It is paid in 12 monthly instalments. If work is performed for part of a month, the remuneration for such month shall be paid in proportion to the number of days worked.

In this Remuneration Policy for the management body of the Company, the fixed remuneration is determined as an upper limit that can be agreed upon in the contract with each member of

the management body. In this Remuneration Policy, the upper limit for the fixed remuneration is determined so that the criteria of complexity have been taken into account.

Based on the matrix from the SSH Recommendations and Expectations and as determined by the Company's Supervisory Board, the overall assessment of complexity criteria for the Company, is 4. In accordance with the SSH Recommendations and Expectations, this means that in the contracts concluded with the members of the management body in the Company, the fixed remuneration can be agreed upon up to EUR 16,000 gross per month or up to EUR 192,000 gross per year.<sup>10</sup> Considering the average salary in the Group and the size and activities of the Company, these amounts are also within the provisions of ZPPOGD. The complexity of the Company's operations is reviewed at least every four years, and the overall assessment is adjusted if necessary.

Taking into account all relevant factors, the Supervisory Board has decided to limit the fixed remuneration of the President of the Management Board to EUR 14,000 gross per month, which is approximately 4.5 times the average gross salary of the employees in the Company in the business year 2022.

Furthermore, the Supervisory Board has decided that the fixed remuneration of the other members of the management body should not exceed 90% of the fixed remuneration of the President of the Management Board.

In the contracts concluded with members of the management bodies, the fixed remuneration shall be set within the upper limit as defined in the Remuneration Policy for management bodies. The specific position of each member of the management body (e.g., whether they are the President of the Management Board or a member of the Management Board, considering the division of responsibilities if the complexity of the areas differs, or whether they are a member of the Management Board representing employees) and their individual qualities (knowledge, experience, length of service in the Company, references, skills) determine the part of the range up to the upper limit that is allocated as the fixed remuneration. Additionally, a reassessment is conducted to determine the reasonableness of the payment compared to the remuneration in competitive companies.

The remuneration of employees did not directly influence the determination of the maximum fixed remuneration, but a comparison was made with the average salary of employees in the Company, and it represents a customary ratio.

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<sup>10</sup> This assessment must be specified and supported by numbers and facts, which form the basis for the assessment, and presented in the materials for the general meeting at which the remuneration policy is approved.

### 3. VARIABLE REMUNERATION

The variable component of remuneration is the part of the remuneration that is determined based on the Company's performance and may also depend on the individual performance of each member of the management body.

The variable remuneration for the members of the Company's management bodies amounts up to a maximum of 30% of the fixed remuneration, which was paid in the previous business year, and depends on the achievement of performance criteria. Of this figure, a maximum of 50% of the variable remuneration can be allocated for achieving short-term performance (for the period of the business year), and at least 50% for achieving long-term performance (for a period of at least 3 business years).

The eligibility for the variable remuneration will be assessed based on performance criteria, which are divided into financial and non-financial criteria. Furthermore, the criteria are divided into those intended to measure short-term performance (short-term criteria) and those intended to measure or contribute to the achievement of strategic or long-term goals (long-term criteria).

In the document in which the criteria for the payment of variable remuneration are defined, the Supervisory Board specifies the criteria and weights them by the end of March each year, in such a way that the criteria selected guide the management body towards achieving business objectives and long-term success, while taking into account the applicable strategy at the time. The goals set for individual criteria will be based on the approved annual business plan, adopted business strategy or medium-term business plan, as well as on the goals and expectations defined in the respective annual asset management plan prepared by SSH.

When determining the criteria, the Supervisory Board has considered the following groups of criteria:

**Financial criteria:**

Group of criteria	Initial contribution to the overall assessment based on financial criteria
Criteria related to the growth of business volume (e.g., growth in net sales revenue, etc.)	20%
Criteria related to cash flow generation ability (e.g., EBITDA, etc.)	40%
Criteria related to financial strength (e.g., net financial debt / EBITDA, etc.)	25%
Criteria related to the ability to create value-added (e.g., value-added per employee, etc.)	15%

The above-selected financial criteria aim to pursue financial goals by way of which business volume growth, cash flow generation ability, financial strength, and value-added creation is promoted in a balanced manner.

Financial criteria contribute from 40% to 50% to the total variable component of remuneration. The actual contribution of each group of criteria should not deviate by more than 5 percentage points upward or downward from the initial representation of variable remuneration.

The criteria which measure long-term or strategic goals or contribute to their achievement must contribute at least 50% to the overall assessment based on financial criteria.

**Non-financial criteria:**

Group of criteria	Initial contribution to the overall assessment based on non-financial criteria
Criteria related to the market position (e.g., market share movement, acquisition of new customers, etc.)	20%
Development criteria (e.g., launch of new products/services, entry into new markets/sales channels, execution of investment xxx, etc.)	20%
Criteria related to organizational efficiency (e.g., organizational measures, implementation of a new ERP system, execution of significant projects, salary system redesign, new job classification, etc.)	15%
Criteria related to environmental responsibility (e.g., carbon footprint, waste management, etc.)	15%
Criteria related to social responsibility (e.g., corporate culture development, employee development, organizational climate, employee education, diversity promotion, etc.)	15%
Criteria related to governance responsibility (e.g., compliance and integrity measures, quality of stakeholder communication, etc.)	15%

The above-selected non-financial criteria aim to pursue business goals related to market position, development, organizational efficiency, environmental responsibility, social responsibility, and governance responsibility.

Non-financial criteria contribute from 50% to 60% to the total variable component of remuneration.

The actual contribution of each group of criteria should not deviate by more than 5 percentage points upward or downward from the initial representation of variable remuneration.

The criteria which measure long-term or strategic goals or contribute to their achievement must contribute at least 50% to the overall assessment based on non-financial criteria.

When specifying the criteria in the document of the supervisory board regarding the determination of criteria for the payment of variable remuneration to the management body, a minimum threshold of success in achieving goals may be set to allow for the allocation of the variable remuneration. The document of the Supervisory Board may determine that meeting individual criteria is a prerequisite for eligibility for the variable component of remuneration, regardless of meeting other criteria. The entire variable component of remuneration is awarded

to a member of the management body only upon achieving or surpassing the goals. Intermediate achievements of goals affect a correspondingly lower allocation of the variable component of remuneration. The supervisory board has the discretionary power to decide whether and how exceeding one or more goals may partially compensate for lower achievement of one or more other goals.

- **EXCEPTIONAL AND CHANGED CIRCUMSTANCES**

The Supervisory Board may, for justified reasons, adjust the criteria or their target values for the payment of variable remuneration to the management body during the year due to exceptional and changed circumstances which are valid for the business year under consideration. This adjustment should take into account the market, asset, financial, and other relevant conditions. The main criteria for assessment are that the change in goals is required by the long-term interests of the company (long-term success) and the sustainability of the company. Justified reasons include circumstances which could not objectively be foreseen during business planning, which were justifiably not included in the risk management system, and for which it was justifiably not possible or reasonable to take effective measures to reduce the level of risk. This discretionary power of the supervisory bodies should also be appropriately regulated in the contracts concluded with members of the management bodies. The supervisory body must provide appropriate justification for its decision.

- **DISCRETION OF THE SUPERVISORY BODY**

Based on the performance, financial condition, and other circumstances, the supervisory body may decide to pay a higher or lower variable component of remuneration to individual members of the management body than calculated based on the predetermined objective criteria in this Remuneration Policy and the valid document determining the criteria for the payment of variable remuneration to the management body if it deems there are significant justified reasons for doing so. However, deviations should not be significant in relation to the assessment of success indicated by the system of criteria which has been established in an objective manner. Deviations are considered significant if they exceed 20% of the variable component of remuneration based on the predetermined criteria and target values which have been measured in an objective manner. Such a decision is made if the established system of criteria and goals does not adequately reflect the business results achieved at the end of the relevant period or the contribution of an individual member of the management body to their achievement, or if the financial condition undergoes significant changes. In making this decision, the supervisory body considers the overall success of the management body and/or the success of individual members of the management body, as well as the following circumstances:

- successful implementation of significant initiatives and measures aimed at realizing the business strategy,
- achievement of strategic goals,
- completion of key projects,
- achievement of major sustainability objectives,
- outperforming competitors,
- impact of exceptional events.

A resolution by the supervisory body to pay a higher or lower variable component of remuneration in accordance with their discretionary powers must be reasoned and adopted in accordance with the principles of diligence, loyalty, and fairness. The contract with each member of the management body stipulates that the discretionary decision of the supervisory body cannot be subject to dispute. In any case, the limitations stated in other parts of this Remuneration Policy for the management bodies apply.

- **DEFERRAL OF VARIABLE REMUNERATION**

The payment of 50% of the variable remuneration which has been allocated to a member of the management body for each business year shall be deferred for two years (deferral period). If a member of the management body has been in office for a period less than two years, they are not entitled to the deferred portion of the variable component of remuneration.

- **METHOD OF ASSESSING ACHIEVEMENT OF GOALS BASED ON CRITERIA FOR DETERMINING VARIABLE REMUNERATION**

The determination of eligible variable remuneration based on the achievement of performance criteria for members of the Company's management bodies is carried out annually based on the audited annual report and other materials in which the attainment of goals has been demonstrated.

- **RECOVERY OF VARIABLE REMUNERATION (CLAW-BACK)**

The Company may require members of the management bodies to return already paid variable remuneration or its proportionate part and may withhold the allocated but not yet paid portion of the variable remuneration in whole or in part if:

- the annual report is finally declared null and void and the grounds of nullity relate to items or facts which formed the basis for the determination of the variable remuneration; or
- based on the report of a special auditor, it is determined that the criteria for determining the variable component of remuneration were incorrectly applied or that the decisive accounting, financial, and other indicators were not properly ascertained or considered.

The repayment of the variable remuneration already paid may be claimed within three years from the date on which the remuneration or part of it was paid. The repayment of the already paid variable component of remuneration is usually executed by offsetting the allocated but unpaid portions of the variable component of remuneration, whereby the possibility of offsetting is also agreed upon in the employment contract or civil contract.

- **SHARES, SHARE OPTIONS, AND PROFIT PARTICIPATION**

The Company does not have an adopted stock or share option reward program, nor does it provide profit participation as a form of remuneration for members of the management body.

## 4. OTHER RIGHTS

Other rights include entitlements and specific allowances.

**Entitlements** are the rights to use company-owned assets for personal purposes and company payments (to third parties), from which members of the management body usually derive personal non-monetary benefits. Regardless of the definition from the previous sentence, the following are also considered entitlements: the right to reimbursement of membership fees in professional organizations related to the performance of a management position, and other non-monetary rights that do not meet the definition of entitlements. However, it is customary in business practice for the supervisory body to decide on the right to use these entitlements during the contracting phase with members of the management body.

**Specific allowances:** are holiday pay, retirement benefit, reimbursement of expenses related to the performance of duties, wage compensation paid by a company for a period of absence (for example, due to illness, annual leave, education), specific allowances which are summarised from or determined with reference to a collective agreement or to the employer's general corporate policy, and all other allowances which are not included in any of the following group of remuneration payments neither by their nature, nor by their definition, i.e., fixed remuneration, variable remuneration, severance payment and entitlements.

### 4.1 ENTITLEMENTS

The members of the Company's management body may in particular have the following entitlements, which are specified in employment contracts, up to the following limits:

- the right to **use a mobile phone** also private purposes, including the right to subscription, call charges and data transmission charges;
- the right to **use a laptop and/or a tablet** also for private purposes;
- the right to **use a company car** also for private purposes up to the retail price of the vehicle of up to **EUR XX.XXX** or **EUR XX.XXX** (including VAT) in the case of environmentally friendly personal vehicles. in which case a **company car** being also used for private purposes should not be **replaced** earlier than three years or until the mileage of 150,000 kilometres is reached; exceptions may only be permitted in justified cases and with the consent of the supervisory body; In the case of acquiring a car **based on a leasing agreement**, the aforementioned monetary limitations refer to the purchase value of the car at the time of concluding the contract, provided that in the case of a lease, the monthly amounts paid to the lessor must not exceed EUR **X.XXX**;
- the right to **the reimbursement of all costs for supplementary training and education** to enable more efficient performance of duties, up to the annual sum of **EUR XX XXX**, including the right to wage compensation for such absence, if it lasts for up to **XX days** per year. When assessing this right, a supervisory body shall take into account the characteristics of the market and the industry in which a company or a group operates. In justified business cases, the right can be granted in a higher amount or for a longer period, which should be decided by the supervisory body on a case-by-case basis upon the proposal of the management body;

- the right to **preventive management health examinations**, carried out every **XX years**, with the value of each examination not exceeding **EUR X.XXX**;
- the right to the **payment of premiums for the following insurances**:;
  - The collective supplementary pension insurance up to the maximum legally allowed amount that enables obtaining tax benefits;
  - accident insurance, with the annual premium not exceeding **XX%** of the monthly gross fixed remuneration;
- the right to the **D&O liability insurance**;
- the right to **use a payment card** for certain expenses (for example, fuel costs for a company car, education-related expenses), including entertainment expenses, in accordance with the business and financial plan, ensuring the necessary traceability of expenditure;
- the right to incur and reimburse the entertainment expenses in accordance with the business and financial plan, ensuring the necessary traceability of use;
- the right to **reimburse costs for membership in professional organisations** which are connected with the exercise of the duties of a management body, up to the maximum of **EUR X XXX** per annum. When assessing this right, the supervisory body shall take into account the characteristics of the market and the industry, in which a company or a group operates and business practice connected with such area of operation. In justified business cases, the also right can be granted in a higher amount, which should be decided by the supervisory body on a case-by-case basis upon the proposal of the management body;

These rules apply to cases related to employment contracts and civil contracts, assuming a minimum weekly working time of 40 hours. If a shorter working week has been agreed upon in the employment contract, this condition is taken into account when assessing the granting of appropriate other rights, that is, both as regards the right itself and the rules on any limitations (for example, the highest permissible amount attributed to an individual right).

#### **4.2 SPECIFIC ALLOWANCES REGULATED BY EMPLOYMENT RELATIONSHIP ACT -- ZDR-1**

The members of the Company's management body are also entitled to the following entitlements:

- **the jubilee premium**: under the same terms and conditions and in the amount as granted to other employees in a company.
- **the Christmas benefit**: under the same terms and conditions and in the amount as granted to other employees in the Company.
- **performance-related bonus** in accordance with a collective agreement or the employer's general corporate policy, provided that it is paid to all employees in the company and thereby achieves a more favourable tax treatment for the respective bonus for all employees in the Company. For members of the management body, the performance-related bonus is included in the maximum permissible variable component of their remuneration for that year;
- **the right to the family separation allowance**: in cases and in the amount as granted to other employees in the Company.

## **5. SEVERANCE PAYMENT DUE TO EARLY TERMINATION OF TERM OF OFFICE**

The severance payment for an early termination of the term of office is not granted to members of management body in cases specified by the law governing companies. The severance payment to members of management bodies is not granted in any case of regular completion of the mandate or when members of the management body resign voluntarily. The severance payment to members of the management body is granted in the event of dismissal for economic and business reasons and in the case of mutually agreed termination of the mandated, provided that there are no grounds for dismissal, as further specified below.

The maximum amount of the severance payment in the case of dismissal for economic or business reasons is six times the monthly gross fixed remuneration as stipulated in the contract with the member of the management body. The amount of the severance payment may in no case exceed the total amount of the gross fixed the remuneration that would have accrued to the member of the management body for the remainder of the term of office under the contract if the term of office had been terminated on a regular basis. In the event of early termination of the mandate of a member of the management body who has served for less than one year, the maximum amount of severance payment may be equivalent to a three-month gross fixed remuneration as stipulated in the contract with the member of the management body.

If, following the early termination of the management body member's contract, the member of the management body is employed by the Company, no severance payment is granted. If, following the early termination of the management body member's contract, the member of the management body is employed by the subsidiary or other related company, he/she may be entitled to severance payment up to a maximum of the difference between the amount of the gross fixed remuneration of the previous contract and the amount of the gross fixed remuneration of the new contract multiplied by the relevant multiplier. This means that the difference is applied to the number of months when the salary is received in the new position, up to the number of monthly severance payments to which the member would be entitled according to the above rules of this Remuneration Policy.

If there are no culpable reasons for dismissal of the member of the management body, an agreement on early termination of the mandate may be reached at the initiative of either party and if it is in the interest of both parties. Such action will particularly occur in cases where, based on the reasonable judgement of the supervisory board, the member of the management body does not achieve optimal results in business management, lacks the best insight into the company's development, lacks optimal organizational skills, there is no special trust between the member of the management body and the supervisory board, or if decisions made within the scope of independent business judgement later prove to be suboptimal, and therefore, the supervisory board assesses that it would be possible to find someone who will lead the business better than the member of the management body with whom a mutually agreed early termination of the mandate will be concluded. The expected benefits must outweigh the amount of severance payment and any other expenses that need to be paid upon the conclusion of the agreement. In such cases, the Recommendations applicable to dismissal for economic or business reasons are applied accordingly for determining the amount of severance payment in the agreement.

## **6. OTHER SELECTED ELEMENTS OF EMPLOYMENT CONTRACTS**

### **6.1 NON-COMPETE CLAUSE**

The employment contracts with members of the management body should also regulate non-compete obligations after the termination of their mandate as members of the management body. In the case of dismissal by the company, the non-compete period shall not exceed six months, while in other cases, the contract shall specify a duration of not less than six months and not more than two years. During the enforcement of the non-compete clause, the member of the management body shall be entitled to a monthly compensation of up to 75% of their monthly fixed remuneration.

Regardless of whether the non-compete obligation is agreed upon in the contract, the supervisory body waives the enforcement of the non-compete obligation after the termination of the mandate if, considering all known circumstances, there is no real threat to the Company's interests due to the non-enforcement of the non-compete obligation for the individual member of the management body.

### **6.2 DUAL OR MULTIPLE MANDATES**

In the case of dual or multiple functions within the Group, such positions and services performed by members of the Company's management body shall be remunerated, however, the payments shall be adjusted accordingly for the time spent, tasks, and responsibilities which have already been fully or partially covered by the tasks and responsibilities based on the position as a member of the management body or any other mandate paid on any other position assumed.

The Supervisory Board of the Company must give prior consent for the performance of services on each additional position and determine the remuneration for it. If necessary, the amount of such remuneration shall also be taken into account when determining the remuneration for that person in the capacity of a member of the Company's Management Board.

## **7. REGULATION OF REMUNERATION OF MANAGEMENT BODY IN GROUP SUBSIDIARY COMPANIES**

In this Remuneration Policy, acting as the controlling company within the Group, the Company establishes guidelines for the formulation of remuneration policies for the management bodies in subsidiary companies and for entering into contracts with members of the management bodies in Group subsidiary companies. The management body of the controlling company shall ensure the adoption of appropriate remuneration policies for the management bodies in subsidiary companies. The management body of the controlling company annually verifies compliance with these guidelines and remuneration policies for the management bodies in subsidiary companies.

## 7.1 FIXED REMUNERATION

The fixed remuneration of the management bodies in subsidiary companies of the Group is determined taking into account the factors of complexity according to the SSH Recommendations and Expectations. The fixed remuneration of the management bodies of subsidiary companies in the Group may not exceed **XX%** of the upper permissible limit of the fixed remuneration of the management body of the controlling company, regardless of the factors of complexity mentioned above.

Considering the mentioned, the highest permissible fixed remuneration of the management bodies in subsidiary companies of the Group is:

- up to **EUR XX.XXX** gross per month in subsidiary companies **X, Y, Z..;**
- up to **EUR XX.XXX** gross per month in subsidiary companies **X, Y, Z..**

Considering the average wages in these companies, their size, and activities, the above-mentioned amounts are also set within the highest permissible amounts according to ZPPOGD.

## 7.2 VARIABLE REMUNERATION

The variable remuneration of the members of the management bodies in subsidiary companies of the Group may not exceed **15%** of the annual gross value of the fixed remuneration of the members of the management bodies. The structure of criteria and the assessment of performance are determined based on the same principles as specified in this Remuneration Policy for the Company.

This regulation is within the framework of the provisions of ZPPOGD.

## 7.3 OTHER RIGHTS

In their employment contracts, the members of the management bodies of subsidiary companies may be granted the same rights as the members of the management bodies of the Company, with the following additional limitations:

- upon its acquisition (purchase, lease), the retail price of a vehicle, including VAT, does not exceed **EUR XX.XXX** or **EUR XX.XXX** for environmentally friendly personal vehicle;
- **other possible restrictions.**

This regulation is within the framework of the provisions of ZPPOGD.

## 7.4 SEVERANCE PAYMENT

Regarding the severance payment in the event of early termination of the mandate, the regulation of the Company's Remuneration Policy is applied in the subsidiary companies of the Group. This regulation is within the framework of the provisions of ZPPOGD.