



SLOVENIAN SOVEREIGN HOLDING

# 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 in Article 4 of ZSDH-1, the objectives of state asset management include increasing the value of assets, generating the highest possible returns for the owners and pursuing other potential strategic objectives for assets which are defined as strategic under relevant governance instruments. 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). Additionally, it establishes key governance instruments for managing state asset, which include: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for SOEs.

To a significant extent, ZSDH-1 and the aforementioned documents on asset management govern corporate governance matters concerning state-owned enterprises (SOEs). Achieving corporate governance objectives and applying corporate governance principles necessitate the regulation of specific issues that, due to their content and nature, fall outside the scope of statutory asset management 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 Recommendations and Expectations"), which follow a clear structure and are publicly disclosed, SSH communicates specific recommendations and expectations that SOEs are expected to observe.

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.

**As a specific governance instrument, the SSH Recommendations and Expectations 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 irrespective of the company's legal form of organisation;
- 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. Furthermore, 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 refer to equity securities or shareholdings.

The SSH Recommendation and Expectations do not, in themselves, constitute the exercise of shareholder rights in state-owned enterprises (SOEs), and, as such, do not impose any direct obligation on companies, regardless of the prescriptive nature of a specific recommendation or expectation. These recommendations and expectations have been adopted in good faith, with the aim of enhancing the quality of corporate governance and improving SOE performance. Their implementation serves the interests of companies, and SSH therefore expects its addressees to comply with them. SOEs should adhere to the SSH's Recommendations and Expectations under the "comply-or-explain" principle, and disclose its compliance in their business Report, or provide justified reasons for any non-compliance.

## 1. THREE-YEAR BUSINESS PLANNING FOR COMPANIES, GROUPS AND SUBSIDIARIES

- 1.1** SOEs are required to prepare, approve and submit draft business plans and the final approved business plans to SSH 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 is responsible for submitting these 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, which must also be approved by the company's Supervisory Board, should be submitted to SSH no later than 10 September.
- 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. Final business plans, which must also be approved by the company's Supervisory Board, should be submitted to SSH no later than 15 October.
- 1.5** All business plans, including all relevant data and descriptive sections must be submitted in an electronic form, in accordance with operational instructions from SSH.
- 1.6** SOEs must separately report planned income statements, balance sheets (Statements of Financial Position), and performance indicators using standardized electronic templates provided by SSH, aligned with the applicable Criteria for Measuring Performance of SOEs.
- 1.7** SSH expects the draft business plans to include, at a minimum, the following elements:
- projections of net operating revenues, gross operating profit, operating profit (EBIT), write-offs (depreciation and amortisation expense as well as any other expense), net profit (for banks: net interest, net fees, and net operating result; for insurance companies: gross insurance premiums, net claims expense, and net operating result);
  - a plan of the amount of total assets and equity capital;
  - a plan of key performance indicators for the company/group in accordance with the applicable Criteria for Measuring Performance of SOEs, as well as any additional indicators specified in SSH's operational instructions;
  - a detailed overview of all major planned investments, including their source of funding;
  - a summary of key 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 coming financial year.
- 1.8** SSH expects the approved business plans to include a comparison of data from periodic reports submitted to SSH and to incorporate the following information for the company and group (adjusted accordingly for banks and insurance companies):
- revenue projections, including an overview of key business transactions presented in tables/graphs;
  - a detailed breakdown of the planned sales structure by type of business transactions, markets, etc.;
  - a pricing strategy, including projections of buy and sell price volatility (where applicable);
  - a comprehensive investment plan with a detailed overview of the major planned investments, including justification, descriptions, and sources of funding;

- a detailed cost structure, broken down by categories (such as personnel costs, material costs, operating expenses, etc.), including descriptions and justifications for each category. This should also include projections for sponsorships and donations;
- a plan of potential acquisitions and asset sales;
- workforce planning, including headcount projections and employee structure analysis;
- an assessment of operational, legal, liquidity, currency, and market risks, along with planned mitigation measures;
- financial projections, including income statements;
- balance sheets with notes (Statements of Financial Position) ;
- and consolidated financial statements for groups: a consolidated balance sheet and a consolidated income statement;
- a plan including key financial data and indicators, return on assets (ROA), return on equity (ROE), and added value per employee;
- EBIT projections;
- EBITDA projections,
- the expected EBITDA margin;
- all key financial indicators for a company/group in accordance with the applicable Criteria for Measuring Performance of SOEs and any additional SSH's operational instructions;
- an overview of the planned corporate structure, including control relationships;
- the expected dividend payout;
- performance targets for non-financial objectives of a company/group;
- an analysis of market and competitive positioning (for the planning period), including a comparison with key domestic and international competitors, and key financial data and indicators; this analysis should be an integral part of the annual business plan;
- a debt overview, including existing and planned debt and a repayment schedule.

**1.9** Data classified as confidential under specific laws (for example, in the fields of banking and the insurance industry) may be excluded from draft business plans.

**1.10** Companies limited by shares with more than one shareholder should adopt a Shareholder Communication Policy to ensure transparency and equitable treatment of shareholders. This policy should provide shareholders with access to company information beyond what is legally required, reinforcing good governance practices.

**1.11** Public limited companies should strive to align their financial calendars, planning processes, and reporting scope with the aforementioned recommendations. The reported data, covering both the company and the group, should include at a minimum the following information:

- a plan of total assets and equity capital;
- a revenue plan;
- EBITDA projection;
- planned net profit;
- projected return on equity (ROE) ;
- planned levels of capital adequacy or solvency indicators (for banks or insurance companies).

## REASONING:

According to SSH, SOEs generally have well-developed business planning system. Therefore, Recommendation No.1 primarily serves to provide SSH with insights into companies' and groups' planned operations. This approach enables SSH to effectively fulfil its obligations as stipulated by ZSDH-1, which, among other requirements mandates: (i) the preparation of Annual Asset Management Plan (pursuant to Article 30 of ZSDH-1); (ii) the pursuit of asset management goals (as defined in Article 4 of ZSDH-1); (iii) compliance with the principle of diligence (as outlined in Article 5 of ZSDH-1); and (iv) adherence to the principle of cost-effectiveness (as defined in Article 9 of ZSDH-1).

To ensure consistent record-keeping and effective performance monitoring, companies are expected to use relevant forms or templates and fully comply with SSH's operational instructions when preparing business plans (for the designated sections).

SSH also expects SOEs to adhere to the three-year business planning framework and submit the required data to SSH in a timely manner. Certain information that falls under specific legal confidentiality protections (e.g., data related to banks, insurance companies) may be excluded from reporting. Companies limited by shares, subject to legislation on equal treatment of shareholders, should establish a formal 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 submitted to SSH in accordance with Expectations No. 1 and No. 2 regarding periodic reporting on operations. In limited liability companies, shareholders are legally entitled to comprehensive information on the company's affairs under Article 512 of the Companies Act (ZGD-1).

In public limited companies, the principle of equal treatment is applied more rigorously due to the provisions of the Market in Financial Instruments Act (ZTFI). To address this, Recommendation No. 1.11 has been introduced to ensure that SSH has access to at least key business planning information.

## 2. PERIODIC REPORTING REQUIREMENTS FOR COMPANY/GROUP/SUBSIDIARIES WITHIN THE GROUP

- 2.1** SSH expects companies to prepare and submit timely and appropriate periodic reports on their operations. These periodic reports shall consist of both quarterly and monthly reports.
- 2.2** SOEs are expected to prepare quarterly reports on their operations. If an SOE is a controlling company within a group, it must also prepare a consolidated quarterly report for the group. Quarterly reports should be prepared on a cumulative basis, as follows:
- Quarterly Report No. 1 for the period from 1 January until 31 March;
  - Quarterly Report No. 2 for the period from 1 January until 30 June;
  - Quarterly Report No. 3 for the period from 1 January until 30 September;
  - Quarterly Report No. 4 for the period from 1 January until 31 December.
- 2.3** Companies where SSH holds a 100% of voting rights are expected to also submit 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, following a calendar-based structure: e.g., 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** Income statements, balance sheets (Statements of Financial Position), and performance indicators must be reported separately in electronic form, using SSH's standardized reporting templates, in line with the applicable Criteria for Measuring Performance of SOEs.
- 2.6** In addition to the standard financial data outlined in Point 2.5, the quarterly report should also include:
- a description or overview of the business environment;
  - a summary of significant events impacting business performance;
  - a short assessment of the company's market position;
  - a breakdown of the sales structure by business type, by markets, etc.;
  - a detailed report on workforce metrics, including headcount, employee structure, and turnover trends;
  - the breakdown of total expenses, covering labour costs, material costs, service costs (by type), sponsorship costs, donations;
  - a statement of total donated funds;
  - a review of identified risks, including a summary of risk management measures and any adjustments made;
  - a report on newly acquired financing sources and executed investments, including an overview of financial obligations, repayment schedules, and settlement methods;

- a presentation of existing and potentially acquired new financial instruments, including derivative instruments (for the reporting period);
- review of progress towards non-financial objectives of a company/group, with an explanation of any deviations;
- a comparative income statement for the reporting period, showing performance against planned figures and prior-year results, with explanations for discrepancies;
- a balance sheet as of the last reporting date, including a comparison of the current company's position with the previous year's end-of-year figures (31 December of the previous year) and planned balance sheet items, along with explanations for any potential deviations;
- a statement of cash flows;
- in the case of a group, consolidated financial statements, including a consolidated balance sheet and a consolidated income statement;
- a clear organisational structure of the group;
- a competitor analysis and benchmarking, covering key competitors in Slovenia and abroad), along with key financial data and indicators. This analysis should be included at least once per year as a dedicated report chapter.

All reports should be submitted in electronic form, in line with SSH's operational instructions.

- 2.7** Periodic reports must be clear, concise, and focused on key matters. They should be reliable and consistent, enabling comparison against planned objectives and past performances while providing an accurate and realistic view of the company, group, or subsidiaries within the group. The reports should be reviewed by the members of the company's executive management who are responsible for ensuring the accuracy, completeness and correctness of the reports.
- 2.8** In regard to confidentiality considerations, certain legally protected information, particularly in the banking and insurance sectors, may be excluded from reporting, as stipulated by sector-specific laws. Companies with multiple shareholders should establish and adopt a Shareholder Communication Policy ensuring equal treatment and providing shareholders with access to company data beyond statutory requirements.
- 2.9** SSH may periodically or as needed arrange meetings with company representatives to discuss reported data and company performance at the group or subsidiary level.
- 2.10** Public limited companies should strive to align their financial calendars and reporting scope with these recommendations to ensure compliance with SSH's periodic reporting requirements.

#### REASONING:

Recommendation No. 2 aims to provide SSH with additional information 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. This approach enables SSH to effectively fulfil its obligations under ZSDH-1, particularly in pursuing asset management objectives outlined in Article 4, adhering to the principle of diligence as stipulated in Article 6, following the principle of cost-effectiveness defined in Article 9, and assessing compliance with performance criteria for SOEs in accordance with Article 17, Paragraph 1 of ZSDH-1.

To ensure consistent data management and the establishment of reliable databases for performance monitoring, companies are expected to use designated forms or templates and fully comply with SSH's operational instructions.

### 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-effectiveness in their business operations in relation to contracts involving company expenditures, including procurement of goods and services, sponsorship and donations, legal services, marketing, advertising, communication, and public relations services. An effective internal control mechanism must also be in place to oversee these processes. The management and supervisory bodies, along with other oversight bodies (internal audit, audit committees), shall pay particular attention to overseeing and establishing internal controls to ensure that the services are actually provided in accordance with the company's actual needs.
- 3.2** Companies are advised to avoid entering into so-called flat rate contracts unless a clear business and economic justification is provided (e.g., legal advisory services for companies without an in-house legal department)<sup>1</sup>.
- 3.3** During periods of exceptional uncertainty, companies are advised to include appropriate price adjustment mechanisms in long-term sales or procurement contracts. These mechanisms should account for changes in relevant market prices, particularly in the event of adverse price fluctuations that could negatively impact the company. Additionally, contracts should incorporate provisions allowing for early termination and include suitable safeguards to mitigate potential risks.
- 3.4** The conditions for expressing interest or submitting bids in invitations to tender or bidding processes should be designed in a manner that does not unduly restrict competition through procedural rules or other barriers.
- 3.5** Companies are advised to publicly disclose the information outlined in this recommendation on their official websites. Such announcements should remain accessible for a minimum of five years following their publication.
- 3.6** This recommendation does not in any way override or affect companies' obligations under applicable regulations. However, in exceptional circumstances, a company may choose not to comply with this recommendation if disclosing certain information would seriously jeopardise its market position, cause significant harm, or for other valid and justified reasons. In such cases, the company is expected to provide a transparent explanation for the decision to withhold information.

## PROCUREMENT OF GOODS AND SERVICES (GENERAL)

- 3.7** Where the procurement of goods and services is not subject to public procurement law, the principles of transparency, cost-effectiveness, efficiency, and effectiveness must still be adhered to throughout the procurement process. Procurement activities shall be conducted based on pre-determined selection criteria, ensuring a fair comparison of comparable bids.
- 3.8** Immediately after concluding a contract with the legal nature of a mandate contract (whether general, specific, or framework) or a service contract involving intellectual services, the company, acting as the ordering party, must publicly disclose information about the selected contractor and the nature of the business transaction. Examples include contracts for legal or financial advisory services, the production of opinions, or expert reports.
- 3.9** Additionally, companies are required to disclose, on an annual basis, the total value of transactions related to service orders. This disclosure should include a breakdown of the value structured by the type of transaction.

<sup>1</sup> The term "a flat rate contract" refers to agreements for the provision of advisory services where the payment is not contingent on the actual volume of services delivered within a specified period. Alternatively, it may imply that the service is considered fulfilled simply by the service provider ensuring the availability of a specific type of service to the client upon request, typically within the framework of a subscription model.

## SPONSORSHIPS AND DONATIONS

- 3.10** Companies should establish and publish clear procedures for allocating sponsorship and donation contributions on their official websites. These procedures must specify the criteria for allocation, including the categories of entities and geographical areas eligible for sponsorships and donations. The objectives of the company's sponsorship and donation policy should be defined in advance, aligning with both current and, where applicable, new strategic goals.
- 3.11** The primary purpose of sponsorship is to support the company's business objectives, such as improving profitability, raising awareness, or enhancing the company's image and that of its products. Additionally, sponsorships should contribute positively to the social environment, reflecting the company's commitment to corporate social responsibility. Sponsorship activities should target the designated market or audience within the specified geographical area. Contributions should be granted to entities that can generate a positive impression, response, or attitude toward the company or its products among the target audience.
- 3.12** It is essential to avoid any conflict of interest between the decision-maker responsible for approving a specific sponsorship or donation and the recipient of such contributions. Sponsorship agreements must clearly outline the obligations of the sponsored party. These typically include the acknowledgement of the sponsor or its logo on promotional materials such as posters, clothing, or media channels (e.g., radio, television) during sponsored events or activities.
- 3.13** The management body, with the approval of the Supervisory Board, is responsible for setting the maximum amount or value that may be allocated to individual sponsorship and donation agreements. A separate annual budget must be established for sponsorships and donations. For state-owned enterprises where the Sovereign Holding (SSH) holds a majority stake or controlling influence, and where at least 80% of the funding in the previous financial year was derived from public sources, the total annual expenditure on sponsorships and donations must not exceed 0.1% of the company's revenue from the previous financial year.
- 3.14** In the recommendations of Chapter 3, the following terms shall have the meanings specified below:
- "majority shareholding" of SSH: this term shall have the meaning as defined by the law regulating companies;
  - "dominant influence" of SSH: this term shall have the meaning as defined by the law regulating companies;
  - for the purposes of this Recommendation, public funds are defined as funds allocated by a state authority or a body of a self-regulating local community to a public corporation, an operator holding exclusive or special rights, or an owner of infrastructure of public significance. These funds may be transferred directly or indirectly through another public corporation. Public funds also include revenues collected by these entities in the form of duties, levies, or other charges paid by users of public infrastructure or services, to the extent that such payments constitute revenue for these entities. If capitalised own products and services of an enterprise are necessary for rendering services that generate public funds, the revenues derived from such capitalised products and services are also considered public funds;
  - the terms "public corporation", "exclusive rights", "special rights", "public authority", and "allocation of public funds" shall have the meanings 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** The restrictions outlined in point 3.13 on donation agreements do not apply to legally defined natural or other disasters, provided that the donation is intended to support recovery efforts and that entering into the agreement does not significantly deviate from the business objectives of the state-owned enterprise. Companies must properly document the circumstances of the disaster that justify the allocation of funds for this purpose.
- 3.16** When engaging in sponsorship transactions, companies should adhere to the following principles: (i) proportionality: the sponsored amount should be proportionate to the financial position of the company; (ii) objective eligibility: sponsorship activities should be objectively justified in terms of the expected benefits for the company; (iii) sufficient diversification: sponsorship activities should be sufficiently diversified to avoid over-concentration in specific areas. In making sponsorship decisions, companies should also consider local customs, industry practices, and the conduct of comparable companies.



- 3.17** For donation transactions, the primary focus should be on the social responsibility of the company. As such, no counter obligations should be required from the recipient of donated funds, except for allowing the event to be mentioned in certain public media.
- 3.18** To ensure a high level of transparency, companies that are not legally obligated to do so are recommended to publish each sponsorship and donation transaction on their official website immediately after the agreement is concluded. The notice should include: (i) a brief description of the agreement; (ii) the recipient's name, (iii) the date of the agreement; (iv) the duration of the agreement, and (v) the value of the agreement.

### MARKETING, ADVERTISING, AND PUBLIC RELATIONS SERVICES

- 3.19** When engaging consulting and other services in the fields of marketing, advertising, communication, public relations, market research, and similar activities, companies should adhere to the following standards of care and conduct to ensure actions are taken in the best interest of the company:
- cost optimization: services, particularly in large companies, should primarily be performed using internal human resources. External service providers should only be engaged if a documented and thorough assessment demonstrates that their involvement is necessary to achieve better business outcomes;
  - direct engagement of service providers: companies should directly engage service providers for relevant services rather than using intermediaries (organizers), unless the use of intermediaries is documented to achieve lower costs;
  - advertising and campaign planning: when deciding to advertise its services or products, the company should prepare a detailed plan outlining the financial resources, duration of the campaign, and measurable objectives (e.g., reach, target audience). The selection of target channels (media) should be based on clear empirical criteria (e.g., viewership, listenership, reach). Measurable goals should also be set for all other similar services engaged by the company;
  - annual reporting: the executive management should submit an annual report to SSH in January for the preceding year, in accordance with operational instructions. This report should detail transactions and contractual relationships in this area, including the scope of services, partners involved, the extent of cooperation, and key objectives of the collaboration. Reporting should only include transactions with a partner or a group of related partners whose annual volume exceeds EUR 40,000;
  - transparency and publication: the company should regularly publish, to the greatest extent possible, contractual relationships in this field on their official websites, where public information is disclosed. Planned contract prices should be included where applicable.

### REASONING:

Recommendation No. 3 emphasizes transparent and cost-effective practices in procuring goods and services, as well as in sponsorships and donations. Transparency in these areas encourages prudent decision-making regarding company expenses, enhances the owner's trust in management, and positively influences the perceptions of business partners and potential investors. For sponsorships and donations, different allocation amounts are recommended. The primary goal of sponsorship policies is to contribute to achieving corporate business objectives, particularly profitability. A secondary goal of sponsorship, and the primary goal of donations, is to engage in socially responsible activities that may benefit the company in the long term. Companies that are primarily (over 80%) or fully publicly funded are advised to adopt a distinct approach to allocating funds for sponsorships and donations.

In practice, increased corruption risks are not only associated with sponsorships and donations but also with marketing, advertising, communication, PR, and similar services. In the case of PR services, there is a risk that the service may not be genuinely necessary, economically justified, or provided to the agreed extent. Therefore, to mitigate these risks, decisions should be thoroughly documented and justified. The assessment should prioritize the use of in-house human resources for the services, provided such services are necessary. If the use of in-house resources is not economically justified, services may be directly contracted with the external providers rather than with intermediaries, unless intermediaries can demonstrably achieve cost reductions.

## 4. COST OPTIMISATION



- 4.1** SSH expects the management and supervisory bodies to diligently oversee all company expenses, ensuring they remain proportionate to business operations and generated revenue.
- 4.2** Additionally, SSH expects them to actively pursue cost optimisation within their respective competencies and to incorporate the implementation of this recommendation into the company's or group's annual plan.
- 4.3** SSH further expects companies to undertake activities necessary for the optimisation of labour costs, taking into account the relevant dialogue with social partners. These activities include, among other things, assessing the appropriate number of employees required to carry out well-organised business processes, as well as making relevant modifications of underlying contracts (including collective agreements) and other legal documents. Measures aimed at labour cost optimisation should encompass all levels of the company, including management bodies, employees, and other individuals who perform work under other legal arrangements (e.g., copyright agreements, service agreements).
- 4.4** The company, or the controlling company in the case of a group, must publicly disclose information regarding the execution of employee payments, such as Christmas bonuses, 13th-month salaries, similar employee payments, and annual leave allowances. This information should be published on their respective websites within 10 days of such payments being made. The disclosure must include the total amount of each type of payment, the legal basis for the payment, and the methodology used to determine the payment amounts for individuals. Companies are also required to publicly disclose the full text of binding collective agreements or agreements with employee representatives related to wage payments. This obligation applies to the company itself, the controlling company within the group, and all subsidiary companies within the group.
- 4.5** Cost optimization also pertains to the appropriate organisational structure of the group and the assessment of the justification for establishing or maintaining subsidiary companies.
- 4.6** However, cost optimization must not be pursued at the expense of workers' rights or employees' right to social security. Companies should only utilise non-standard forms of work and employment when the nature of the business process or type of work does not justify standard employment (i.e., 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 SSH, 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 by way of 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 a company should be managed and developed in a manner that supports the achievement of its goals and aligns with its overall strategy. This requires a mutual alignment of the company's mission, business strategy, culture, and values.
- 5.2** The company's values must be integrated into all functions and processes at every level of the organisation and translated into expected employee behaviours. This integration should be consistently reinforced through regular communication, including the use of a code of ethics or conduct. Additionally, these values should be embedded into hiring procedures, employee incentive mechanisms, and reward systems. Particular emphasis should be placed on promoting a positive tone at the top, fostering good leadership practices, and ensuring specific actions by members of the supervisory and executive bodies, as well as middle management. These individuals must lead by example, consistently demonstrating the company's values in practice.
- 5.3** Governing corporate culture should be embedded within the framework of internal governance and internal controls, forming part of a well-functioning system of risk management, compliance, business integrity, and regular internal audits.
- 5.4** Companies, or their competent bodies, should monitor the achievement of corporate culture objectives and provide comprehensive reports to the Supervisory Board and its relevant committees (such as the risk committee or strategy committee). Progress should also be communicated to shareholders through annual reports. Monitoring corporate culture should involve regular analysis and interpretation of various sources of information, both quantitative and qualitative sources.
- 5.5** The achievement of the desired corporate culture should be included as a long-term objective in the remuneration of management, ensuring transparency and alignment with the goals set.
- 5.6** When monitoring and overseeing corporate culture, members of Supervisory Boards should refer to the SSH 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 primary purpose of the handbook is to provide Supervisory Boards with key guidelines, questions, and tools to consider, ask, and use when fulfilling their duties related to governing corporate culture. Recognising that an appropriate organisational culture is a critical factor in enhancing or hindering business performance, the handbook's secondary purpose is to ensure the effectiveness and efficiency of companies' operations by giving corporate culture the attention it deserves within governance practices. SSH expects members of supervisory bodies to **carefully study the handbook and to periodically monitor and oversee corporate culture as part of the established corporate governance framework**. Members of management bodies, in turn, should implement all necessary measures, including setting the right tone at the top and fostering modern leadership practices at all levels, to ensure that the desired corporate culture is actively practised and supports the achievement of the company's strategic objectives.

A healthy corporate culture is characterised by a positive tone at the top, clear and consistent communication from leadership regarding values and culture, open dialogue between the leadership and employees, employee involvement in goal setting, other supportive practices.

To understand the quality of corporate culture, key sources of information include the following elements: 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.

Indicators of potential cultural problems may include as follows: 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, inappropriate mutual communication, resistance to change, tolerance of regulatory and other violations, violation of the ethical code, short-term focus of decision-makers.

## 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.

### CONVOCAATION OF AGM

- 6.2** The Management Board of the company is expected to adhere to the provisions of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06 and subsequent amendments) regarding the requirement to convene a general meeting initiated by shareholders or members. The notice of the general meeting should be published as soon as possible, but no later than 14 days from the receipt of the request to convene 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 company's Articles of Association between the notice and the holding of the meeting.

### QUESTIONS RAISED BY SHAREHOLDERS

- 6.4** When the company receives questions or requests for explanations from shareholders regarding its operations, it should respond promptly and publicly publish well-founded, reliable, clear, and comprehensive answers.
- 6.5** 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

- 6.6** The company should publish a shareholder's or member's counter-proposal on its website within two business days of receiving it.

### INSTRUMENT ON GRANTING DISCHARGE TO MANAGEMENT OR SUPERVISORY BOARD MEMBERS

- 6.7** The general meeting decides on granting discharge to the management and supervisory bodies as a whole. Discharge is considered granted only to those members of the management or supervisory bodies who served during the financial year in question and who remain in their positions at the time of the general meeting's decision.

A separate vote on discharge for individual members currently holding their positions may be conducted if the general meeting so decides, or if shareholders collectively holding at least one-tenth of the share capital request it. SSH recommends a separate vote if there is a reasonable likelihood that discharge would not be granted to a specific member of the management or supervisory body currently in office, based on certain grounds.

The general meeting may also refrain from deciding on granting discharge to an individual management or supervisory body if, at the time of the decision, the body is entirely composed of new members.

- 6.8** For limited liability companies, the agenda of the general meeting should not include the conferring of discharge to the management and supervisory bodies unless explicitly stipulated by the Articles of Association or the contract of members. In such cases, 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 REMUNERATION POLICIES AND ACTUAL REMUNERATION PAID TO MANAGEMENT AND SUPERVISORY BODIES

- 6.9** Companies must inform the general meeting or founder about the remuneration policies for the management and/or supervisory bodies, any amendments to these policies, and the allocated and actually paid remuneration, in accordance with the Code.

### REASONING:

The standard practice is for the general meeting to decide on granting discharge to the management or supervisory body as a whole, with a separate resolution for each body. Company law includes a statutory provision that allows for separate, individual voting. This option is particularly relevant when there is a likelihood that discharge will be granted to some members of the management or supervisory body but not to others.

To prevent situations where discharge might not be granted to a member of the management or supervisory body who is no longer in office at the time of the decision, the resolution on discharge can be framed to grant discharge to all members who served during the previous financial year under review and who remain in office at the time of the decision. This approach ensures that no decision is made regarding the granting of discharge to former members of the management or supervisory body.

Furthermore, if the management or supervisory body is entirely composed of new members at the time of the decision on discharge, the general meeting has the option to refrain from making a decision on discharge for that body altogether. In limited liability companies, the decision on granting discharge is not mandatory unless stipulated in the Articles of Association.

## 7. SUSTAINABLE BUSINESS OPERATIONS

### INTRODUCTION

- 7.1** SSH expects large and medium-sized companies to integrate all three aspects of sustainability—environmental, social, and governance (ESG)—into their business strategies. In the case of affiliated companies, this integration should extend to the group's overall business strategy.
- 7.2** When formulating a sustainable business strategy, the company must establish specific objectives for each aspect of sustainability, along with planned actions and a timeline for their implementation. The environmental aspect of the sustainable business strategy should also include a climate action plan.
- 7.3** The objectives of sustainable business must be monitored and aligned with the company's or group's long-term goals. Processes should be established to identify, manage, and monitor operational aspects that can significantly contribute to achieving sustainable development goals.

### ASSESSMENT OF SITUATION

- 7.4** The company should identify the impacts of its operations on the economy, natural environment, and society, both positive and negative. This assessment should encompass the entire supply chain and the impacts of its products and/or services.
- 7.5** Where possible, the company should quantify these impacts. In cases where quantitative measures are not feasible, qualitative assessments should be used.
- 7.6** The company should categorise the impacts based on their significance using predefined criteria.
- 7.7** For significant impacts, the company must establish a baseline against which progress can be measured.
- 7.8** Additionally, the company should identify stakeholders who are significantly affected by its operations or who can significantly influence the company. These stakeholders should be appropriately involved in the decision-making process.

### RISK AND OPPORTUNITY MANAGEMENT, MEASURES TO MITIGATE NEGATIVE IMPACTS

- 7.9** The company should integrate sustainability-related risks into its risk management framework.
- 7.10** It must identify which negative impacts to prioritise for mitigation and which positive impacts to develop, establishing a clear timeline for implementing these measures. Additionally, the company should implement systems to monitor the effectiveness of actions taken to address risks, impacts, and opportunities.

### STRATEGIC DIRECTIONS, OBJECTIVES, SSH EXPECTATIONS, AND INCENTIVE SYSTEMS

- 7.11** The company should develop a sustainability strategy and embed it within its overall business strategy. Measurable objectives should be set across all dimensions of sustainability: environmental, social, and governance (ESG). Specifically, within the environmental domain, the company should prepare decarbonisation plans outlining targets and measures to reduce greenhouse gas emissions in the short, medium, and long term.

- 7.12** The sustainability strategy must be presented to the Supervisory Board for review and approval.
- 7.13** When defining sustainability objectives, companies should align with the expectations of SSH.
- 7.14** Moreover, companies should link their sustainability objectives to incentive systems, including those governing the remuneration of executive management and other employees.

## DECISION-MAKING

- 7.15** The company should incorporate all dimensions of sustainable business practices into its decision-making processes.
- 7.16** It must actively encourage both technological and non-technological innovations in sustainability, including the adoption of new technologies, efficient resource utilisation, circular economy initiatives, process improvements, and organisational and workforce innovations. Furthermore, the company should focus on continuously developing the competencies of its employees in these areas to drive long-term progress.

## REPORTING

- 7.17** 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.
- 7.18** The company is required to report on its sustainable business practices in its annual report, adhering to the prescribed standards.

## REASONING:

The primary objective of SOEs, managed by SSH, is to achieve successful, profitable, and efficient operations, create value, and, in many cases, deliver specific public services effectively. These goals must be pursued in a sustainable manner, incorporating environmental and social considerations alongside robust governance practices.

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

**Sustainable business practices** reflect companies' contributions to achieving sustainable development goals by addressing the impacts of their operations on the economy, the environment, and society as a whole. The concept of sustainability refers to ongoing efforts towards sustainable business practices rather than a fixed state.

Companies should, through their business strategies and models, contribute to value creation by enabling and promoting sustainable development, leveraging opportunities to generate sustainable value, and developing innovative business models that enhance their competitiveness. A key factor in achieving future corporate objectives is the successful transition to a low-carbon and circular economy. Rapid restructuring and effective transition can help mitigate risks and costs for the company, its owners, and other key stakeholders, while also bolstering long-term competitiveness. Ambitious investment plans in green technologies, which are increasingly relevant for the future, can also serve as a source of competitive advantage.

When developing and implementing their business strategies, companies should consider environmental and climate risks that significantly influence their operating environment in the short, medium, and long term. These risks should be incorporated into the company's existing risk management framework.

Certain procedures and measures already adopted by companies in the field of sustainability align with the principles of sustainability due diligence (e.g., managing sustainability risks within risk management systems or stakeholder relationships as outlined in the company's Corporate Governance Policy or other relevant documents). However, companies may not explicitly label these

activities as "due diligence" in practice.<sup>2</sup> For companies mandated to report on sustainability under the Companies Act (ZGD-1), regular risk and impact assessment procedures must be integrated with materiality assessment processes related to sustainability. For instance, the evaluation of identified sustainability risks should inform the determination of material sustainability matters for reporting purposes. While ZGD-1 and the European Sustainability Reporting Standards (ESRS) do not prescribe specific actions for due diligence, they require companies to report on such activities within their sustainability reports. This implicitly encourages companies to strengthen their efforts in this area. Companies falling under Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (commonly referred to as the CSDDD Directive) will be liable to establish and implement a due diligence process, including specific and detailed measures, and to report on these activities. The measures recommended by SSH in Recommendation No. 7 (and, to some extent, in other recommendations such as No. 8, which explicitly or implicitly address sustainability) are broadly aligned with the measures outlined in the CSDDD Directive. This indicates that SSH expects companies not covered by the CSDDD Directive to demonstrate a higher level of diligence in their sustainability practices.

State-owned enterprises (SOEs) are expected to set an example for other businesses in the field of sustainable practices. This entails addressing all three pillars of sustainability: environmental, social, and governance (ESG). Beyond achieving long-term success and operational efficiency, these companies should prioritise reducing negative environmental impacts, fostering stakeholder engagement and collaboration, and upholding high standards of corporate governance and integrity.

These efforts align with international frameworks such as the 2030 Agenda for Sustainable Development, which outlines 17 Sustainable Development Goals (SDGs) adopted by global leaders at the United Nations Summit in September 2015. Slovenia is fully committed to all 17 SDGs, representing the most comprehensive global development action plan to date. Companies should analyse these goals and determine how their operations can contribute to their fulfilment.

Sustainability reporting in annual reports must comply with the European Sustainability Reporting Standards (ESRS). Additionally, companies may consider other relevant international sustainability and climate action frameworks to improve the quality of their reporting and strengthen their standing among key stakeholders and capital markets. Scientifically grounded climate targets strengthen a company's reputation and demonstrate its commitment to climate action, increasingly aligning with stakeholder expectations. Public limited companies should also evaluate obtaining an appropriate ESG rating.

The Code of Corporate Governance for SOEs includes provisions related to sustainable business practices, which companies are expected to integrate into their operations in line with these recommendations.

<sup>2</sup> Pursuant to Article 5 of the CSDDD Directive, the measures for sustainability due diligence include the following:

(a) Integrating due diligence into policies and risk management systems; (b) Identifying and assessing actual or potential adverse impacts, prioritising them where necessary; (c) Preventing and mitigating potential adverse impacts, as well as eliminating actual adverse impacts and minimising their extent to the greatest possible degree; (d) Ensuring remediation of actual adverse impacts; (e) Engaging in meaningful stakeholder collaboration; (f) Establishing and maintaining a formal notification and grievance mechanism; (g) Monitoring the effectiveness of due diligence policies and measures; (h) Publicly communicating on due diligence activities.

## 8. RESPONSIBLE BUSINESS CONDUCT AND RESPECT FOR HUMAN RIGHTS

- 8.1** SSH expects all state-owned enterprises (SOEs) to respect human rights and workers' rights, serving as leaders in promoting decent working conditions within their own operations and supply chains. They are also expected to commit to respecting human rights in their activities in accordance with Recommendation No. 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. This commitment is formalised by signing a pledge to respect human rights in business with the Ministry of Foreign and European Affairs.
- 8.3** By adopting these principles, companies define specific goals and implementation measures related to responsible business conduct, focusing on areas identified as critical for upholding human rights. Progress towards these goals should be reported at least annually.
- 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, to pay special attention to workers' rights, including the right to freedom of association. All stakeholders should strive to improve working conditions, provide meaningful employee incentives, enhance productivity, and reduce workplace injuries and illnesses.
- 8.6** Companies should:
- prevent discrimination and inequalities while promoting equal opportunities;
  - prioritise environmental protection, nature conservation, and sustainable development;
  - ensure the implementation of human rights due diligence within the company;
  - comply with labour laws<sup>3</sup> and applicable collective agreements when managing employees and regulating 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 honouring agreed terms;
  - engage in fair and respectful social dialogue with employee representatives in works councils or with workers' trustees, seeking to regulate on a bilateral basis the relevant areas, including participation agreements, the right of employees to participate in company management;
  - 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 serve as a valuable resource for employers.

<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, along with any implementing regulations adopted on the basis of this legislation, general acts or agreements deriving from these laws or collective agreements.

**REASONING:**

Responsible business conduct and respect for human rights strengthen trust in state-owned enterprises (SOEs). As such, SOEs should serve as role models for other companies in this field. This means they must commit to respecting human rights in their business operations 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. Its purpose is to implement the UN Guiding Principles on Business and Human Rights. Annex I to NAP are the Guidelines on Corporate Human Rights Due Diligence. Human rights due diligence is a process through which companies identify, prevent, and mitigate negative impacts on human rights, as well as report on measures taken to address such impacts.

By signing the Commitment to Respect Human Rights in Business, enterprises pledge to respect human rights in their operations and prevent any potential negative impacts on human rights. This commitment should be embedded among the company's core values and integrated into ethical codes and other relevant internal documents. Large companies are encouraged to appoint a Human Rights Officer. This individual should monitor and oversee respect for human rights, organise training sessions, establish mechanisms for addressing cases of non-compliance, and implement human rights due diligence processes<sup>4</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, involves identifying, preventing, and mitigating actual and potential negative impacts or harm caused by a company's activities on people, society, and the environment. This process also includes establishing systems to address any negative impacts or harm caused by the company's operations.

State-owned enterprises should set an example for other companies by complying with labour legislation and collective agreements and by actively engaging in social dialogue with employee representatives. A company's conduct in this area reflects its commitment to corporate social responsibility (CSR), which is increasingly in the public spotlight. CSR encompasses the social and ethical performance of companies and has a significant impact on managing human resources risks and ensuring long-term business success. By acting in a socially responsible manner, companies build long-term trust with employees and other stakeholders. This fosters a positive environment in which companies can thrive in the market, while also improving employee satisfaction, working conditions, and overall societal well-being.

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## 9. REMUNERATION POLICY FOR MANAGEMENT BODIES

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





## INTRODUCTION

- 9.1** The purpose of these Recommendations is to establish a framework and guidelines for the supervisory bodies of state-owned enterprises (SOEs) and companies in which the Republic of Slovenia holds a majority stake or exercises dominant influence. These guidelines are intended to assist in formulating the Remuneration Policy for Management Bodies. Additionally, the Recommendations provide basic principles for concluding contracts with members of management bodies, aligned with the adopted remuneration policies. The Slovenian Sovereign Holding (SSH) will advocate for the adoption of such remuneration policies also at the general meetings of companies where the Republic of Slovenia no longer holds a majority stake or dominant influence, ensuring these policies largely reflect the principles outlined in these Recommendations.
- 9.2** Based on these Recommendations, supervisory bodies are required to develop a clear and transparent remuneration policy for management bodies. This policy must be submitted to the general meeting for approval in the case of public limited companies, or to the general meeting or the founder for informational purposes in the case of other companies, unless otherwise stipulated in the Articles of Association or a resolution of the general meeting/founder.<sup>5</sup> Remuneration policies for management bodies should not impose rigid caps on the remuneration system or its individual components. Such limitations could result from an automatic or inappropriate application of these Recommendations to specific companies. Instead, remuneration policies should be tailored thoughtfully, taking into account company-specific factors that influence the determination of remuneration. The rationale for defining individual components of remuneration, their levels, and the relationships between them must be documented and disclosed by the supervisory bodies or their committees. This documentation should be included in the materials prepared for the founder, unless the reasoning is explicitly clear from the submitted Remuneration Policy itself.
- 9.3** Remuneration must be defined in contracts concluded with members of the management bodies, adhering to the limits and principles set out in the applicable Remuneration Policy for Management Bodies. Contracts should not mechanically set remuneration at the upper limit defined in the adopted policy. Instead, remuneration for individual members of the management bodies should be determined based on factors specific to each member and relevant to their role. Companies are required to disclose annually in their Report to the general meeting on executive remuneration which companies they consider comparable for the purpose of regulating executive remuneration in the Remuneration Policy and contracts.
- 9.4** The adequacy and implementation of the Remuneration Policy should be periodically reviewed by the supervisory body, at least every four years, after it is resubmitted to the general meeting or founder for approval, information, or adoption.
- 9.5** The aim of these Recommendations is to harmonise the remuneration system for management bodies of state-owned enterprises (SOEs) in a manner that is transparent, understandable, and aligned with good corporate governance practices. The Recommendations allow for the design of remuneration policies that reflect the specificities of each company while adhering to the principles outlined herein. The purpose of these Recommendations is to adopt Remuneration Policies for Management Bodies that effectively manage 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. For public limited companies, this unified document typically includes both the Remuneration Policy for the Management Board and the Remuneration Policy for the Supervisory Board.
- 9.7** The Remuneration Policy should define the remuneration system in a way that clearly identifies and describes each component of remuneration, in accordance with these Recommendations. The components of remuneration may be regulated in greater detail and specificity than provided in these Recommendations, except in cases where deviations are justified by law, regulation, regulatory frameworks, or binding European rules for a particular type of company. Any such deviations must be explained in the materials prepared for the general meeting.

<sup>5</sup> For public limited companies whose securities are not traded on a regulated market, the general meeting is authorised to vote on the approval of the Remuneration Policy for Management Bodies, provided such authority is granted in the Articles of Association or a resolution of the general meeting (Article 294a(6) of the Companies Act-1). In such cases, the same legal framework applies as for companies whose securities are traded on a regulated market.

## PRINCIPLES FOR FORMULATING REMUNERATION POLICY

- 9.8** Supervisory bodies should consistently adhere to the following principles when formulating the Remuneration Policy for Management Bodies:
- **The Principle of Proportionality:** the total remuneration of members of the management body should be appropriately proportional to the responsibilities of 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 highest in the market relative 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 competitive 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 that are disproportionate to the company's needs, performance, and financial condition.
  - **The Principle of Limitation of Total Remuneration:** the Remuneration Policy must clearly define all the elements that determine the total amount of remuneration. All components of remuneration must be subject to a specific or identifiable upper limit. The total amount of remuneration must be capped, either directly or indirectly (as the sum of the individual components), in a determinable or identifiable manner.
  - **The Principle of Linking Total Remuneration to Long-Term Performance of Company:** The components of total remuneration must be structured in a way that ensures the Remuneration Policy not only supports short-term performance but also promotes the implementation of the company's business strategy, long-term performance and development, sustainable operations, and overall company sustainability.
  - **The Principle of Cost-Effectiveness:** total remuneration should be determined up to a maximum amount where the level of remuneration does not have a significant impact on the management of HR risks.

## DEFINITION OF TERMS

- 9.9** In these Recommendations, the following terms shall have the meanings ascribed to them below:
- **Supervisory Body of a Company:** refers to the Supervisory Board or the Board of Directors. In a limited liability company operating without a Supervisory Board, this role is fulfilled by the general meeting of the 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 for the purpose of concluding a contract with a member of the management body.
  - **Member of the Supervisory Body:** refers to 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:** refers to the Management Board or the Board of Directors in a public limited company, and to one or more Directors (Managers) in a limited liability company.
  - **Member of the Management Body:** refers to 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. A holder of procurator shall also be considered a member of a management body if, by virtue of a special contract, business management responsibilities have been assigned to him in addition to representing the company, and a contract comparable to the contract concluded with a member of the management body has been signed.
  - **State-Owned Enterprise (SOE):** refers to a legal entity that is the issuer of securities owned by SSH, or 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.
- **Dominant Influence:** means a dominant influence as defined in the Act governing companies.
- **Contract with a Member of the Management Body:** refers to a contract concluded between the company and a member of its management body, which outlines the mutual rights and obligations arising from their role in the management body. This may include an employment contract, or a contract governed by civil law. A contract concluded with a procurator holder shall also be deemed a contract with a member of the management body, provided they are considered a member of the management body under these Recommendations.
- **Total Remuneration:** refers to the total remuneration to which an individual member of the company's management body is entitled under the management contract. It consists of all or some of the following components: fixed remuneration, variable remuneration, severance payment, and other rights.
- **Fixed Remuneration:** refers to the remuneration set out in the contract with the member of the management body, expressed as a gross annual amount in absolute monetary terms. It is paid to the member of the management body as compensation for their efforts in fulfilling their duties and may not be unilaterally reduced, withheld, cancelled, or terminated, except in cases provided by law. Fixed remuneration includes all allowances as defined by the Act governing employment relations, regardless of the instrument determining the entitlement to such allowances. It is paid in 12 monthly instalments. It is paid in 12 monthly instalments. If work is performed for part of a month, the remuneration for that month shall be paid proportionally to the number of days worked.
- **Variable Component of Remuneration:** refers to a portion of earnings which is contingent upon the achievement of pre-determined performance criteria. It is designed to reward members of management bodies based on company's business performance.
- **Profit-sharing:** refers to a form of variable remuneration paid by the company to members of the management body from the balance sheet profit. It may be paid in cash or non-cash forms, such as shares, stock options, or other instruments.
- **Other Rights** refers to entitlements and specific allowances as defined in the Recommendations from sections 9.52 to 9.60.
- **Severance payment:** refers to the remuneration received by a member of the management body in the event of an early termination of their position as a member of the management body.
- **Deferral Period:** refers to the period that elapses between the allocation of a variable remuneration and its actual payment. The deferral period must be a minimum of two years from the date of allocation.
- **HR Risk:** refers to the risk associated with recruiting, motivating, or retaining members of the management bodies.
- **Financial Criteria:** performance measures related to financial targets, such as profitability, leverage, liquidity, and similar metrics.
- **Non-Financial Criteria:** performance measures related to non-financial objectives, which may be defined both quantitatively and qualitatively. Examples include safety of service users, employment policy, customer satisfaction, and similar factors.

## COMPONENTS OF TOTAL REMUNERATION

- 9.10** These Recommendations pertain to the total remuneration that members of the management body may receive. No remuneration other than the total remuneration may be provided to members of the management body.
- 9.11** Total remuneration serves two purposes: (i) it compensates for the work performed, the responsibilities assumed, and the results achieved; (ii) it aligns the interests of the management body with those of the principals (the company) and takes into account the interests of all stakeholders.
- 9.12** The total remuneration of management bodies may consist of one or more (typically all) of the following four components:

- fixed remuneration;
- variable remuneration;
- severance payment; and
- other rights.

- 9.13** When regulating other rights in the Remuneration Policy for Management Bodies in State-Owned Enterprises (SOEs), supervisory bodies must consider the Recommendations regarding other rights for members of the management bodies, as outlined in sections 9.52 to 9.60, in addition to the general principles and recommendations.

## FIXED REMUNERATION

- 9.14** The Remuneration Policy shall establish the fixed remuneration for members of the management bodies of individual State-Owned Enterprises (SOEs) either as an upper limit or within a defined range. This determination will depend on the complexity of tasks and the level of responsibility associated with managing the specific company, assessed using predefined complexity criteria. The complexity criteria are divided into two categories: criteria defining the size of the company, and criteria reflecting the complexity of the company's operations.
- 9.15** Criteria defining the size of the company include:
- value of assets at the end of the last financial year;
  - net sales revenue generated in the last financial year;
  - average number of employees in the last financial year.
- 9.16** Criteria reflecting the complexity of the company's operations include:
- organisational complexity (e.g., number and size of subsidiaries in the Group, regulatory complexity, complexity of risk management);
  - business internationalisation (e.g., number and size of foreign subsidiaries, share of revenues generated abroad);
  - complexity of the immediate economic environment (e.g., degree of competition in the industry, competitiveness in key markets, stage of industry development, importance of research and development);
  - complexity of key products (e.g., stages of key product development, technological complexity, risks and sales growth potential);
  - regulation of the activity (e.g., degree of revenue/cost regulation, public utility).
- 9.17** The complexity of the company's operations shall be assessed based on the above criteria, taking into account the actual circumstances applicable to an individual company. The process for determining the complexity of a company's operations involves the following steps: (i) Quantitative Factors: each company shall be classified into one of five groups (Group 1 to Group 5) based on quantitative factors such as asset value, net sales revenue, and average number of employees; (iii) Qualitative Factors: for each qualitative factor, the level of complexity (low, medium, high) shall first be determined. Once the level of complexity for each qualitative factor is established, the company shall be classified into the corresponding group (Group 1 to Group 5).

TABLE NO. 1: CRITERIA FOR DETERMINING COMPLEXITY OF COMPANY'S BUSINESS

Size of the Company (Quantitative Factors)		Complexity of the Business (Qualitative Factors)		
<b>Value of Assets (EUR million)</b>	<b>Group</b>	<b>Organisational Complexity</b>	<b>Level</b>	<b>Group</b>
Up to 0.5	1	Number and size of subsidiaries, regulatory complexity, complexity of risk management, etc.	Low	1-2
Up to 5	2		Medium	3-4
Up to 20	3		High	5
Up to 200	4	<b>Business Internationalisation</b>	<b>Level</b>	<b>Group</b>
Above 200	5	Number and size of foreign subsidiaries, share of revenues generated abroad, links with the international economic environment, etc.	Low	1-2
<b>Net Sales Revenues (in EUR million)</b>	<b>Group</b>		Medium	3-4
Up to 1	1		High	5
Up to 10	2	<b>Complexity of Immediate Economic Environment</b>	<b>Level</b>	<b>Group</b>
Up to 50	3	Degree of competition in the industry, competitiveness in key markets, stage of industry development, importance of R&D	Low	1-2
Up to 100	4		Medium	3-4
Above 100	5		High	5
<b>Number of Employees</b>	<b>Group</b>	<b>Complexity of Key Products</b>	<b>Level</b>	<b>Group</b>
Up to 10	1	Stages of development, technological complexity, risks, growth potential, etc	Low	1-2
Up to 50	2		Medium	3-4
Up to 250	3		High	5
Up to 500	4	<b>Regulation of Activity</b>	<b>Level</b>	<b>Group</b>
Above 500	5	Degree of revenue/cost regulation, public utility services, etc.	High	1-2
			Medium	3-4
			Low	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 is calculated in the third phase. This average value (one average value for all eight factors) reflects the final grouping of the company into Groups 1 to 5. 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. In exceptional cases, if a company is classified in Group 5 and meets all of the following criteria, the ceiling for fixed remuneration may be set at a gross monthly amount higher than EUR 22,000 but not exceeding EUR 40,000. These criteria must be clearly documented and presented to the general meeting: (i) the company 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) it has at least EUR 500 million of equity capital. When determining the final upper limit for fixed remuneration, a company should not automatically adopt the maximum cap set out in these Recommendations. Instead, the company must consider: (i) the level of employee salaries within the company, and (ii) 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. This lower limit should normally not exceed the upper limit of the previous group as outlined in Table 2. However, it may be set lower for specifically justified reasons, which must 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 shall be increased based on the respective growth of the average Consumer Price Index (CPI) for the past two years. These Recommendations are considered amended accordingly upon the expiration of each two-year period from the date of their adoption. The changes take effect from the day when SSH publishes the updated values of the upper limits on its website.

**9.20** In 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 specific amount within this range, up to the cap, shall be determined based on the following factors: (i) tasks and responsibilities: the role of the individual member of the management body (e.g., whether they serve as the chairman or a regular member, and the sectoral distribution of duties); (ii) individual qualities: the member's knowledge and expertise, experience, references, and skills; and (iii) market benchmarking: the remuneration of members of management bodies in comparable companies within the same sector in Slovenia and the region (where applicable, depending on the sector).

## VARIABLE REMUNERATION

**9.21** The Remuneration Policy shall establish a system of criteria against which the performance of the management body and of the members of the management body is measured. The fulfilment of these criteria determines the entitlement of management body members to variable remuneration. The system of criteria and the defined structure of variable remuneration must enable supervisory bodies to conclude contracts with management body members in a manner that aligns their incentives with the company's business strategy. Specifically, variable remuneration should encourage the achievement of long-term performance and development goals, sustainable business practices, and the overall sustainability of the company.

**9.22** In remuneration policies and agreements with members of the Management Board—which may also reference relevant resolutions of the Supervisory Board—it is essential to establish both financial and non-financial criteria. Non-financial criteria should include measures aimed at achieving environmental, social, and governance (ESG) objectives. These criteria should be structured as incentives aligned with sustainability goals. The Remuneration Policy and contracts with management body members should structure variable remuneration so that a significant portion of the variable component is contingent on the achievement of strategic (long-term) goals or objectives that contribute to their realisation. The Remuneration Policy for Management Bodies must describe how the selected criteria—both financial and non-financial—and the defined structure of variable remuneration are expected to promote the company's business strategy, particularly in terms of its long-term performance, development, sustainable business operations, and the company's sustainability.

**9.23** In contracts with management body members, based on the criteria system outlined in the Remuneration Policy, the criteria can be tailored to reflect the specific duties and responsibilities of each individual, thereby aligning with their performance. However, to support a team leadership approach, criteria may also be formulated equally for all members of the management body.

**9.24** For state-owned enterprises (SOEs) that generate the majority (over 50%) of their operating income from market activities, it is recommended that non-financial criteria influence at least 30% of the total variable remuneration. For other companies, this proportion should be at least 50%. In companies where the state holds a majority stake, the criteria for variable remuner-

ation should also include those outlined in applicable SSH documents, such as the “*Criteria for Measuring the Performance of SOES*”, and the “*SSH Annual Asset Management Plan*” which reflect significant SSH expectations.

**9.25** The criteria system should be designed so that at least half of the total variable remuneration for each financial year is linked to the achievement of long-term (strategic) goals. 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 to which individual or all criteria are met.

**9.26** The Remuneration Policy should set an upper limit on the variable component of remuneration that can be allocated for a specific financial year, subject to the meeting of criteria, expressed as a percentage of the basic remuneration paid in the previous year (referred to as the maximum permissible variable component). Specifically, for SOEs that generate over 80% of their operating income—either at the individual company level or at the group level if they are a controlling entity within the group—through the provision of public services, legal or actual monopolies, or as internal providers, the maximum permissible variable component should not exceed 40% of the basic remuneration. For other companies, this limit should not exceed 60%. For public companies with a significant portion (over 50%) of their global ownership structure, those generating over 50% of their net sales from foreign markets, or banks and insurance companies, the maximum permissible variable component may be up to 100% of the basic remuneration paid in the preceding year.

## DEFERRAL OF VARIABLE REMUNERATION

**9.27** The Remuneration Policy for companies falling under the scope of the ZPPOGD should stipulate that at least 50% of the variable component of remuneration allocated to a member of the management body for each financial 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 been in office for less than two years, they are not entitled to the deferred portion of the variable component of remuneration. If a member of the Management Board’s mandate ends before the completion of the deferral period for variable remuneration, they are entitled to receive 50% of the variable remuneration upon the conclusion of their mandate, provided they have held the position for a minimum of two years.<sup>6</sup> Other companies may, at their discretion or in compliance with other relevant regulations or good practice guidelines, include deferral provisions in the Remuneration Policy for Management Board.

## SHARES AND SHARE PURCHASE OPTIONS

**9.28** The Remuneration Policies of companies whose shares are traded on a regulated market may stipulate 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 or 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 outlined 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 typically 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 stipulate that profit-sharing is one of the possible ways of remunerating members of the management body. In such cases, profit-sharing is considered part of the variable remuneration component and is 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 meeting 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 criteria is done annually, based on the (audited) annual report and other materials that demonstrate goal attainment.

<sup>6</sup> In cases of consecutive mandates, the calculation of the mandate duration also takes into account the preceding term.

## 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:
- 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 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 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 manage-

ment 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. If the sole basis for entering into an agreement is the early termination of a mandate due to retirement, the calculation of severance pay shall adhere to Recommendation 9.56.

## NON-COMPETE CLAUSE

- 9.47** The remuneration policy, where supported by the Articles of Association, may specify that contracts with members of management bodies include a non-compete clause that remains effective even after the cessation of their role as a member of the management body. In cases of dismissal by the company, the duration of such a non-compete clause must not exceed six months. In all other instances, the clause should be set for a period of no less than six months and no 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 agreed monthly fixed remuneration as outlined in their management contract.
- 9.48** Even if the contract contains a non-compete clause, the supervisory body may choose to waive its enforcement following the termination of the mandate if, after considering all relevant circumstances, there is no credible risk to the company's interests by not enforcing the clause for the individual member of the management. 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 domestic 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 with complex operations, including organisational complexity (forming part of a group), robust financial health, and where the company or its group derives more than 50% of its revenue from competitive markets through the sale of goods or services: the right to use a company car for private purposes, with a retail price including VAT of up to EUR 70,000 or EUR 90,000 for an environmentally friendly personal vehicle. In other large companies and medium-sized companies with strong financial standing: the right to use a company car for private purposes, with a retail price including VAT of up to EUR 50,000 or EUR 60,000 for an environmentally friendly personal vehicle. In all other companies: the right to use a company car for private purposes, with a retail price including VAT of up to EUR 40,000 or EUR 45,000 for an environmentally friendly personal vehicle.
- 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; an environmentally friendly personal vehicle is classified as one powered exclusively by electricity.
- In the event of acquiring or leasing a vehicle under a **leasing or operational lease agreement**, the financial thresholds specified in the previous paragraph refer to the purchase value of the vehicle at the time of contract execution. For leased vehicles, the monthly payments to the lessor must not exceed:
  - in a large company with complex operations, including organisational complexity (forming part of a group), robust financial health, and where the company or its group derives over 50% of its revenue from competitive markets through the sale of goods or services: EUR 2,000;
  - in other large and medium-sized companies: EUR 1,600;
  - in all other companies: EUR 1,300.
- 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 with complex business operations or undergoing an extended restructuring process of a complex nature, such right shall be granted every year. 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** Recommendation No. 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 performing a function**: 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 that 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 No. 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 Recommendation No. 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 that are usually regulated by a collective agreement or the employer's general corporate policy as well as other monetary allowances that, 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 same amount as granted to other employees in a company.
- **special awards for holidays, for example Christmas benefits**: 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. The designation of these allowances is inconsequential and potentially misleading; what is crucial is that their purpose does not constitute a benefit that could be perceived as a variable component of compensation.
- **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 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 the 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 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 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 in place 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 remuneration than would be allocated under the remuneration policy adopted in accordance with these SSH Recommendations, the policy adopted based on these Recommendations may stipulate that such remuneration exceeding the framework set out in the company's remuneration policy must be aligned with the latter—i.e., reduced—no later than the commencement of the new term of office of the respective member of the management body. Furthermore, to establish a unified system as soon as possible, both across different companies and among members of the management body within a single company, it is specified that the competent bodies of the company are obliged to endeavour to adjust the existing remuneration of a member of the management body. This includes negotiating a reduction as soon as possible after the adoption of the remuneration policy, even during the current term of office of the respective member.

**9.63** Unless otherwise specified in the company's Articles of Association or by a resolution of the general meeting or 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. The general meeting of the founder shall only be informed of the adopted remuneration policy. In limited liability companies without a Supervisory Board, the remuneration policy for the management body is adopted by the founder or the general meeting, unless it is considered unnecessary for justified reasons (e.g., a civil contract is in place and the scope of management responsibilities is limited, or the remuneration structure is simple due to straightforward business operations).

<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).

## EXPLANATION OF AMENDMENTS TO THE RECOMMENDATIONS RELATIVE TO THE 2022 RECOMMENDATIONS:

### 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.

### In the Chapter “Definition of terms”:

the terms “majority shareholding of SSH” and “dominant influence of SSH” carry the meaning as defined by the law governing commercial companies. Any further regulation could potentially modify the meaning as interpreted under the Companies Act (ZGD-1).

The definition of variable remuneration has been revised to link the determination of the variable component to the achievement of performance criteria, encompassing both the company's overall performance and the individual performance of each member of the management body, in line with Recommendation 9.23.

The definition of “deferral period” has also been amended. The deferral period has been extended from one year to a minimum of two years from the allocation. However, the changes are not limited to the definition of the deferral period; the concept of the deferral mechanism itself has also been revised, as further explained below.

### Recommendations under the Heading “Fixed remuneration”:

Following an initiative by companies and an examination of domestic and foreign regulations, a new paragraph has been added to Recommendation 9.17. This paragraph states that banks and insurance companies are deemed to meet all maximum quantitative factors for determining the fixed component of remuneration for their management bodies. This adjustment is justified by the high complexity of operations, the extensive organisational structures of these companies, and the stringent requirements for performing the function in their management bodies.

### 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 financial year. A new sentence has been added, stating that the criteria system may include certain criteria deemed so critical that their full achievement is a prerequisite for the allocation of a portion of the variable component of remuneration, regardless of the fulfilment of other criteria. Additionally, the criteria system may determine that the amount of the variable component is proportional to the degree of achievement of individual or all criteria. This regulation provides the supervisory body with greater flexibility in designing and evaluating the criteria for determining the variable component of remuneration.

Furthermore, the methods for deferring the payment of the variable component of remuneration have been removed from Recommendation 9.25, in line with the revised concept of deferral.

### Recommendations under the Heading “Deferral of the Variable Remuneration”:

The concept of conditional allocation of the variable component of remuneration, which previously relied on achieving intermediate milestones for the company's long-term performance, has been abandoned. Similarly, the bonus-malus mechanism, which allowed for retroactive adjustments based on the final results of the entire measurement period, is no longer applicable. 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. This applies regardless of whether the variable component rewards short-term or long-term performance, as the total amount awarded is considered in its entirety. The deferral mechanism serves a dual purpose. 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, consistent with the ZPPOGD, applies to all companies and aims to promote stability and loyalty. Secondly, the deferral is linked to a claw-back provision, allowing the deferred remuneration to be offset if a claw-back clause is invoked, resulting in a repayment claim.



**Recommendations under the Heading “Shares and Share Purchase Options”:**

Recommendation 9.32 extends the possibility of share or option-based rewards to non-public companies.

**Recommendations under the Heading “Claw-Back”:**

The option to offset awarded but unpaid portions of variable remuneration has been introduced, and such offsetting must also be stipulated in the employment contract. This provision allows the company to withhold payment of unpaid portions of remuneration if the recipient was not entitled to receive the variable remuneration, either in whole or in part.

**Recommendations under the Heading “Severance Payment for an Early Termination of Term of Office”:**

The termination of the contract by a member of the management body is now explicitly included as a reason disqualifying them from receiving severance payments, a condition that was previously implicit. Examples of cases where a member is entitled to severance payments, as well as the amounts thereof, should be regulated in the remuneration policy. Only dismissal due to economic or business reasons and mutual termination without fault are considered valid reasons for severance payments. A new explanatory provision has been added regarding cases where 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 may amount to a maximum of the difference between the gross fixed remuneration under the previous contract and the gross basic salary under the new contract, multiplied by the relevant number of months. The difference between the remuneration from the management position 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 otherwise be entitled.

A new recommendation (9.46) has been introduced, specifying 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 it is in their mutual interest. 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 not exceed 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, where the severance payment, in accordance with Recommendation 9.43, decreases gradually on a monthly basis.

**Recommendations under the Heading “Non-Compete Clause”:**

These two recommendations govern 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 must not exceed 75% of the monthly fixed remuneration. The aim of this recommendation is to limit both the duration of the non-compete restriction and the amount of compensation, thereby avoiding excessive or unjustified payments. It also advises companies to assess whether enforcing the non-compete restriction is reasonable in specific cases where a member's term of office is discontinued, even if such a clause has been agreed upon.

The second recommendation grants the Supervisory Board the discretion to waive the enforcement of the non-compete clause if it determines that the company's interests are not endangered by not enforcing it. This prevents the disguised payment of additional severance payments that would not otherwise be due to a member of the management body whose mandate has ended, particularly in cases of 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 introduced to prevent cases where the remuneration of members of management bodies in subsidiaries exceeds that of members in controlling compa-

nies, except in specific, justified cases. It is acknowledged that the responsibility, scope, and complexity of duties for members of management bodies in controlling companies are generally significantly greater than for those in dependent companies, barring rare exceptions.

**Recommendations under the Chapter “Other Rights”:**

The chapter title has been revised to “Other Rights”, with the term defined in Recommendation 9.9. The terms “benefits” and “entitlements” have been harmonized, and the unified term “entitlements” is used to avoid confusion with terms from tax legislation. The definition of entitlements has been broadened to include certain rights that do not inherently fall within this category. The aim is to harmonise the legal regime for all such rights, ensuring the Supervisory Board retains authority over their inclusion in employment or civil law contracts.

**Recommendations under the Heading “Specific Allowances”:**

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

**New Recommendation “Alignment of Remuneration Policy with the Provisions of ZPPOGD”:**

This Recommendation stipulates that companies required to comply with ZPPOGD provisions regarding the remuneration of management bodies must also consider this Act, in addition to these Recommendations, unless deviations from the ZPPOGD framework are deemed necessary for HR risk management purposes. In such cases, the remuneration policy for management bodies must first be submitted to SSH. Based on the justification provided, SSH may decide to forward the policy for review by the Government of the Republic of Slovenia. Deviation from ZPPOGD is not permitted for subsidiary companies of SOEs, as per the position of the Ministry of Finance. This Recommendation allows companies to regulate the remuneration policy of management bodies outside the ZPPOGD framework in justified cases. However, for such a policy to be voted on at the company's general meeting under 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 for fixed remuneration have been adjusted in these Recommendations to account for inflation (based on the growth of the average consumer price index, with appropriate rounding) since the last issuance of these Recommendations. Additionally, amounts related to other rights have been updated to reflect the rise in prices of goods and services.

**Alignment and Adoption of Management Bodies' Remuneration Policies in Line with SSH Recommendations and Expectations**

All companies subject to these recommendations were required to adopt a remuneration policy for management bodies in accordance with these guidelines no later than the end of 2023. For companies that have come under SSH management after this date, the remuneration policy must be aligned as soon as possible, and no later than the first general meeting convened or within six months of the transfer, whichever is more appropriate given the circumstances.

## 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 Corporate Governance Code for SOEs. Such policies should stipulate that the remuneration of Supervisory Boards consists of fees for performing their function and attendance fees, as well as reimbursement of actual transportation and accommodation expenses incurred in the performance of their duties. The amounts of remuneration for Supervisory Boards have been determined in accordance with these Recommendations.

**10.2** The recommended annual base remuneration for performing the function as a Supervisory Board member in state-owned enterprises (SOEs) is as follows:

Company Size <sup>8</sup>	Basic Payment for Performing the Function
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 performing their function 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 performing the function of a 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 performing their function as a Supervisory Board member.

**10.6** Members of the Supervisory Board's committees shall receive a supplement for performing the function amounting to 25% of the basic payment for performing their function as a Supervisory Board member. The president of a committee shall be entitled to a supplement amounting to 37.5% of the basic payment for performing the function as a Supervisory Board member. Regardless of the above and irrespective 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 financial year, up to a maximum total of 50% of the basic payment for performing the function as a Supervisory Board member on an annual basis.

**10.7** If the mandate of a particular Supervisory Board member is shorter than the financial year, that member of a Supervisory Board's committee, regardless of the above and irrespective of the number of committees they belong to or chair, shall be entitled to receive supplements for their role during the financial year, up to a maximum total of 50% of the basic payment for performing the function for that Supervisory Board member, based on the justified payments for the duration of their mandate in the respective financial year.

<sup>8</sup> The size of the company is determined in accordance with the criteria outlined in paragraphs two to five of Article 55 of the Companies Act (ZGD-1), based on the status as of the balance sheet date of the most recent financial year.

- 10.8** 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 the reimbursement of work-related expenses and other income not included in the taxable base (provisions applicable to transportation during business trips and overnight stays on business trips). The amount due to a member of the Supervisory Board under 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 levels of remuneration for performing the function and attendance fees (as outlined in Tables 10.2 and 10.3 of the Recommendations) in line with the increase in the consumer price index for the period since the last adjustment. Such adjustments are made at least once every four years, though they may occur more frequently if necessary.

## 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 for establishing a framework for remuneration policies for supervisory bodies in such companies, as explicitly stated in Recommendation 6.21 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 or 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 performing their function and attendance fees. In this regard, the ZSDH-1 further specifies: *"The remuneration for performing the supervisory function includes a basic payment for performing the function and bonuses for special tasks or functions of the member, such as serving as the president, deputy president or for membership of commissions of the supervisory body. The remuneration for performing the function as members of supervisory bodies and attendance fees shall be determined by considering the size and financial state of the company"*. 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 performing the function as members of the Supervisory Board. The underlying condition of the recommendation, which ties remuneration to the size of the company, is that the company's size reflects the scope of the Supervisory Board's responsibilities.

In addition to the basic categories of remuneration (payment for performing the function and attendance fees), these Recommendations also specify the value of supplements for performing additional functions, such as serving as 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 executive management, which is also responsible for ensuring its effectiveness and successful operation. Risks shall be managed by the company's executive management when making specific business decisions. When needed, hedging against key risks shall be provided for by the company's executive management.

**11.2** Depending on the nature and scope of the company's operations, it is the responsibility of the company's executive management to ensure that risk management measures shall be carried out by the company. Such measures may include the following:

- 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. GOVERNANCE MEASURES FOR MANAGEMENT BODY MANDATES AND DISMISSALS: 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 MANAGEMENT BODIES FOR 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 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 EARLY TERMINATION OF MANDATE OF MEMBERS OF 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 PERFORMING FUNCTION AS MEMBERS OF 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 single-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, AND 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 companies with state capital assets (SOEs), as well as subsidiaries within a group where a company with state capital assets holds a controlling position, to strive for balanced gender representation in multi-member management bodies and to implement appropriate measures to achieve this. Likewise, the bodies responsible for appointing employee representatives to management and supervisory bodies should endeavour to ensure that the body, as a whole, includes representatives of both genders.
- 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. This includes defining **categories for monitoring diversity, setting goals, implementing measures, and reporting in accordance with recognized standards**, tailored to their specific business operations and needs.

**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.** Supervisory Boards should, in accordance with the recommendations of corporate governance codes, clearly define the target gender diversity, the timeframe, and the measures for achieving this goal within the 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.

SSH can significantly contribute to gender diversity in leadership and supervisory bodies within the limits of its shareholder's entitlements. SSH has reaffirmed its commitment to this area by joining the Initiative for the Voluntary Achievement of Target Gender Diversity, supported by the Slovenian Directors' Association, the Managers' Association of Slovenia, the Ljubljana Stock Exchange (LJSE), and the Ministry of Labour, Family, Social Affairs and Equal Opportunities. Furthermore, in 2023, SSH issued a public call for candidates for supervisory bodies in state-owned companies, specifically encouraging female candidates to participate in the accreditation process. This initiative aims to progressively enhance gender diversity within supervisory bodies at the portfolio level. 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.

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## 14. CORPORATE COMPLIANCE AND INTEGRITY (CC)





**14.1** All large companies or corporate groups where SSH, in its role as asset manager, holds a majority ownership or dominant influence and employ more than 500 people should, the aim of ensuring compliance, integrity, and minimising the risks of corruption, unlawful conduct, and unethical behaviour, implement the following measures:

- integrate into their organizational structure and job classification system an independent position or function of a Compliance and Integrity Officer (hereinafter referred to as: the “Officer”), or depending on the size of the company, establish organizational unit for corporate compliance and integrity, whose leader performs the duties and tasks of the Officer;
- the Officer (or the Head of the corresponding unit) should be appointed by the company’s management, subject to a prior consent from the company’s supervisory body; the Officer (or the Head of the corresponding organizational unit) can only be dismissed with the prior consent of the company’s supervisory body;
- the Officer (or the corresponding organizational unit) should be positioned directly under the company’s management within the organizational structure, ranking at the second hierarchical level;
- in Group companies, it is feasible to appoint an officer at the level of the parent company, with their competencies extending to and encompassing the subsidiary companies;
- the responsibilities and authority of the Officer (or the Head of the organizational unit) must be appropriately determined in accordance with the provisions of Chapter 6 of ZSDH-1. This should also encompass a mandate ensuring that the company adheres to corporate compliance and conducts its operations in alignment with relevant legislation and regulations;
- the Officer (or the Head of the organizational unit), as well as employees working in corporate compliance and integrity, should function independently and autonomously. They must be well-educated and experienced. To facilitate their unimpeded work, it is essential that they are supported with adequately qualified and compensated professional assistance, granted access to necessary material resources, information, and endowed with appropriate authority; depending on the subject matter in question, the Officer (or the Head of the organizational unit) should have the independent authority to report directly to the company’s management and supervisory bodies, as well as the opportunity to report to external regulatory authorities;
- identify risks associated with corruption, unethical and unlawful conduct, as well as other risks pertinent to maintaining corporate compliance;
- develop a comprehensive risk management strategy that encompasses specific, permanent, and/or one-time measures. This strategy should also involve formulating an “Integrity Plan” or an “Anti-Corruption Program” as a separate internal document. The Officer shall be tasked with the preparation of the Integrity Plan or the Anti-Corruption Programme and shall serve as the overarching guardian overseeing the implementation of these measures. The execution of these measures is the responsibility of the company’s executive management. While the Integrity Plan or the Anti-Corruption Program can be incorporated into the company’s wider risk management framework, it is crucial to address these specific risks in an independent and targeted manner;
- the company’s Integrity Plan or Anti-Corruption Programme comprehensively outlines risks and measures related to procurement, conflict of interest, gift acceptance, insider trading, interactions with lobbyists, confidentiality, and recruitment for senior and executive positions. It sets up a system for reporting irregularities and protecting whistle-blowers, and includes a mechanism for regularly updating management and supervisory bodies on reported irregularities, their resolution, and subsequent actions taken. Additional areas or risks may be incorporated, depending on the unique aspects of the company’s operational framework;
- special attention shall be dedicated to education and training regarding compliance and integrity across all levels of the company (employees, management, supervisory bodies);

**14.2** For all large companies or corporate groups with fewer than 500 employees, where SSH holds a majority ownership or dominant influence, the provisions of the Corporate Governance Code applicable to companies with state capital assets and more than 50 employees shall apply accordingly.

**14.3** All medium, small, or micro companies where SSH has a majority or dominant influence should align their corporate compliance and integrity activities with relevant laws, regulations, and established best practices in the CCI field, tailored to their specific business activities, size, and employee count.

### REASONING:

This Recommendation, outlined in point 14.1, applies to large companies and corporate groups with more than 500 employees. As part of their organisational structure or job classification system, they should establish a Compliance and Integrity Officer (CIO) role or, depending on the company’s or group’s size, a dedicated organisational unit. The officer is appointed by the management with the approval of the Supervisory Board. The responsibilities of the Compliance and Integrity Officer or the designated organisational unit are defined in accordance with Chapter 6 of the Slovenian Sovereign Holding Act (ZSDH-1). In performing these duties, the officer must operate independently, possess the necessary qualifications and experience, and be provided with appropriately trained and remunerated professional support, adequate resources, access to relevant information, and the necessary authorisations.

The recommendation also introduces an obligation for companies to identify compliance and integrity risks, develop a risk management plan outlining measures to mitigate these risks (integrity plan or anti-corruption programme), and define key risk areas (e.g. procurement, lobbying contacts) within the plan. Additionally, it mandates internal and external training on compliance and integrity at all levels within the company.

All other companies (large companies with fewer than 500 employees, as well as medium-sized, small, and micro enterprises) must undertake compliance and integrity activities in accordance with point 14.2 or in line with applicable legislation and best practices in this field.

## SCHEDULE 1:

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

## REMUNERATION FOR SUPERVISORY BOARD MEMBERS:

1. Members of the Supervisory Board are entitled to receive an attendance fee for their participation in board meetings, amounting to EUR \_\_\_\_\_ gross per individual member. For members of a Supervisory Board committee, the attendance fee for participation in a committee meeting is set at 80% of the attendance fee for the participation in a full Supervisory Board meeting. In the case of board meetings conducted by correspondence, the attendance fee is 80% of the regular. Regardless of the above and irrespective of the number of board meetings attended, an individual Supervisory Board member is entitled to receive the payment of attendance fees up to a maximum total of 50% of their annual basic payment for performing the function as a Supervisory Board member within a single financial year. Regardless of the above and irrespective of the number of board or committee meetings attended, an individual Supervisory Board member who serves on one or more committees is entitled to receive attendance fees for their participation in both Supervisory board and committee meetings during a single financial year, up to a maximum total of 75% of their annual basic payment for performing the function as a Supervisory Board member.
2. In addition to attendance fees, Supervisory Board members are entitled to receive a basic payment for performing the function as a Supervisory Board member in the amount of EUR \_\_\_\_\_ gross per year per individual member. The President of the Supervisory Board is entitled to an additional payment amounting to 50% of the basic payment for performing the function as a Supervisory Board member, while the Vice President/Deputy of the Supervisory Board President is entitled to an additional payment of 10% of the basic payment for performing the function as a Supervisory Board member.

Members of the Supervisory Board's committees are entitled to receive an additional payment for the performance of the function as a member, amounting to 25% of the basic payment for performing the function as a Supervisory Board member. The President of a committee is entitled to receive an additional payment for the performance of the function as a member in the amount of 37.5% of the basic payment for performing the function as the Supervisory Board member. Regardless of the above and irrespective of the number of committees they belong to or chair, an individual member of a Supervisory Board's committee shall be entitled to receive additional payments for their role during single financial year, up to a maximum total of 50% of their annual basic payment for performing the function as a Supervisory Board member. If the mandate of an individual Supervisory Board member is shorter than the financial year, the individual member of a Supervisory Board's committee, regardless of the above and irrespective of the number of committees in which they are a member or a President, is entitled to receive additional payments during a single financial year, up to a maximum total of 50% of the basic payment for performing the function as an individual Supervisory Board member, prorated for the duration of their mandate in that financial year.

3. The Supervisory Board members are entitled to receive the basic payment and the additional payment for performing their function in the proportional monthly payments, corresponding to the duration of their active service. The monthly payment amounts to one-twelfth of the aforementioned annual sums.
4. The limitation on the total amount of attendance fees or additional payments for a Supervisory Board member shall in no way affect their obligation to actively participate in all Supervisory Board and committee meetings of which they are a member, nor shall it impact their statutory responsibilities.
5. Supervisory Board members are entitled to reimbursement of travel and accommodation expenses incurred in connection with their duties. Reimbursement is provided up to the amount stipulated by regulations governing work-related expenses and other income excluded from the taxable base (as per provisions applicable to transportation during business trips and overnight stays). The reimbursement amount is calculated in accordance with the cited regulation to ensure that the net payment represents reimbursement of the actual travel expenses incurred. The distance between destinations, as calculated using the AMZS web site, is used to calculate mileage. Accommodation costs are reimbursable only if the distance between the permanent or temporary residence of the Supervisory Board member (or committee member) and the location of the meeting exceeds 100 kilometres, and if the member is unable to return to their residence due to the absence of scheduled public transport or other objective reasons.
6. This Resolution shall enter into force and apply from the day of its adoption at the General Meeting. By way of this Resolution, Resolution No. \_\_\_\_\_ adopted by the General Meeting on \_\_\_\_\_ (date) is revoked.

## PAYMENTS TO MEMBERS OF BOARD OF DIRECTORS:

In regard to the payment to members of a Board of Directors, the same form of a resolution shall be used mutatis mutandis as the form used for Supervisory Board members, with the following adjustments

- instead of the 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 Board of Directors,” a member/President of a Board of Directors’ Committee” and “a Board of Directors”.
- In Item 1 of the resolution form, the following text: *“Regardless of the above and irrespective of the number of meetings attended, an individual Supervisory Board member is entitled to receive the payment of attendance fees up to a maximum total of 50% of their annual basic payment for the performance of function as a Supervisory Board member within a single financial year. Regardless of the above and irrespective of the number of board or committee meetings attended, an individual Supervisory Board member who serves on one or more committees is entitled to receive attendance fees for their participation in both Supervisory Board and committee meetings during a single financial year, up to a maximum total of 75% of their annual basic payment for performing the function as a Supervisory Board member.”* shall be **replaced with the following text:** *Regardless of the above and irrespective of the number of meetings attended, an individual member of the Board of Directors is entitled to receive attendance fees in a single financial year up to a maximum total of 50% of the basic remuneration for performing the function as a Board of Directors’ member on an annual basis, without any increases. Regardless of the above and irrespective of the number of meetings attended, an individual Board of Directors’ member who is a member of a Board of Directors’ committee or committees is entitled to receive the payment of attendance fees for their participation at the meetings of the Board of Directors and its committees during a single financial year, up to a maximum total of 75% of their annual basic payment for performing their function as a Board of Directors member, without the increase.”*
- In Item 2 of the resolution form, the sentence which reads as follows: *“In addition to attendance fees, Supervisory Board members are entitled to receive a basic payment for performing the function as a Supervisory Board member in the amount of EUR \_\_\_\_\_ gross per year per individual member.”* shall be **replaced with the following sentence:** *“In addition to attendance fees, Board of Directors members are entitled to receive a basic payment for performing their function 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 Board of Directors is composed of members who simultaneously hold the function 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 Board of Directors for performing their function and for simultaneously performing the function as an executive director of this company, shall amount to EUR \_\_\_\_\_ gross per year. The first sentence of Item 2 of this Resolution shall not apply in this case. A member of the Board of Directors, who simultaneously holds the function of an executive director of this company, is not entitled to receive attendance fees referred to in Item 1 of this Resolution for attending meetings of the Board of Directors. However, they are entitled to receive attendance fees for any membership in the Board of Directors’ committees, specifically in the amount of 50% of the sum payable to the remaining members of the Board of Directors. In such cases, regardless of the number of meetings attended within a single financial year, a member is entitled to receive attendance fees up to a maximum total of 25% of their annual basic payment for performing their function as a Board of Directors member. A member of the Board of Directors, who simultaneously holds the function of an executive director of this company, is entitled to receive an additional payment for performing their function as a member of a Board of Directors’ committee in the same amount as applies to members of the Board of Directors not holding an executive function. In accordance with Item 5 of this Resolution, such a member is entitled to receive reimbursement of costs arising from performing their function in the Board of Directors or its committees only if they have not received any reimbursement of costs for the same event in their capacity as an executive director of this company.”*

If a new Item 6 is added in accordance with the preceding paragraph, Item 6 of the template Resolution shall be renumbered and become Item 7 of the Resolution.

## SCHEDULE 2:

# TEMPLATE REMUNERATION POLICY FOR MANAGEMENT AND SUPERVISORY BODIES

## REMUNERATION POLICY FOR THE MANAGEMENT BODY OF COMPANY X AND MANAGEMENT BODIES OF SUBSIDIARIES WITHIN THE GROUP X AS WELL AS THE REMUNERATION POLICY FOR THE SUPERVISORY BODIES OF COMPANY X

(Template – Example for a Public Company that is a Controlling Company within a Group)<sup>9</sup>

### A) REMUNERATION POLICY FOR MANAGEMENT BODIES

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

The Remuneration policy for the management body of Company X, d. d.<sup>10</sup> (hereinafter referred to as: “the Company”), whose shares are listed on the regulated securities market, contains principles and rules that are observed when 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 in alignment with 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.

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

<sup>9</sup> In public companies, the remuneration policy for management and supervisory bodies is adopted as a unified document. In other companies (non-public joint-stock companies and limited liability companies), a remuneration policy for supervisory bodies is not mandatory.

<sup>10</sup> Fields marked in yellow shall be customized for each company.

to as: the “**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 that 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

The objectives of the Remuneration Policy are as follows:

- to attract suitable professionals to the management bodies and determine their remuneration levels to ensure competent work and financial sustainability;
- to motivate members of the management bodies to perform their duties in a responsible and active manner, achieving set goals and thereby promoting the company’s business strategy, long-term development, and sustainability;
- to prevent premature departures of skilled, motivated, and successful members of the management bodies.

##### 2. Principles of Remuneration Policy

In determining the total remuneration under 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 proportionate to their individual responsibilities 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 establishes 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 overall 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 serve as a benchmark for comparing remuneration practices with those of 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, the Supervisory Board has considered the established structure of remuneration in the Slovenian business environment (as

outlined in the ZGD-1<sup>11</sup> and the ZPPOGD) and the functions of individual remuneration components. The Policy includes four recommended components. Firstly, the fixed remuneration, which represents compensation for the effort invested in performing the duties of a member of the management body and is paid to a 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 rights, which are divided into entitlements and special allowances. Lastly, severance payment, which may be provided to a member of the management body in certain cases of early termination of their mandate, replacing the previous three components.

#### 4. Maximum Permissible Amount of Fixed Remuneration

**The maximum permissible amount of the fixed portion of remuneration for a member of management body is designed to enable the supervisory bodies to attract top professionals to the management bodies who are motivated to perform their duties in a responsible and active manner. At the same time, it prevents unjustifiably high payments to members of the management bodies, taking into account the company's needs, performance, and financial condition.**

When determining the upper limit of fixed remuneration for the Company's management body, the supervisory body considered the complexity of the Company's operations and 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 used to measure the complexity of a company's operations.

The financial condition of the Company and its subsidiaries within the Group is strong. The Company has consistently achieved stable profits, and future forecasts remain 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 typical for the industry in which the Company operates and aligns with remuneration levels in competitive companies.

When formulating the Remuneration Policy for the Company's management body, the Company has taken into account remuneration levels in the following competitive companies: \_\_\_\_\_ [a list of companies]. The Company will also take into account the remuneration in competitive companies when entering into contracts with members of the management body. This ensures that the remuneration for the management body in the Company is comparable to similar companies, thereby enabling effective management of HR risks.

#### 5. Maximum Permissible Amount of Variable Remuneration for Members of Management Body

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

#### 6. The Maximum Permissible Severance Payments

The Remuneration Policy defines the maximum permissible severance payments and the rules governing their payout.

### 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 outlining its strategic objectives, key measures (activities), and responsible parties for their implementation. The components of remuneration in the Company's Remuneration Policy for the Management Bodies are designed to encourage the fulfilment of this business strategy. 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 its payment is not tied to business results. The variable remuneration has an incentive effect, as its allocation depends on predetermined criteria that are defined in the Remuneration Policy. These criteria establish a clear connection between performance in achieving annual business goals and the goals of the business strategy on one hand, and the remuneration received on the other hand. As a result, members

<sup>11</sup> Companies Act (Official Gazette of RS, No. 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).

of the management body receive a larger variable portion—and consequently, higher total remuneration—when the management body successfully achieves annual goals and contribute to the fulfilment of the business strategy. The strategy itself is designed to promote the Company's long-term development, performance, sustainable operations, and overall sustainability.

The variable remuneration consists of two parts: (i) short-term performance incentive, which promotes short-term business performance (criteria are defined to measure success within the financial year), and (ii) long-term performance, which promotes long-term business performance (criteria are defined to encourage the achievement of strategic goals over a longer period, typically at least three years). Both parts contribute to the achievement of the Company's business strategy goals. However, the long-term performance incentive is particularly significant, as it aligns directly with the multi-year objectives 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 is paid to a member of the management body as a compensation for performing the function as a 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 includes all allowances within the meaning of the Act governing employment relations, regardless of the instrument which determines the employees' entitlement to such allowances. It is paid in 12 monthly instalments. If work is performed for part of a month, the remuneration for such a month is 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 may be agreed upon in the contract with each member of the management body. In this Remuneration Policy, this upper limit for the fixed remuneration is determined by taking into account the criteria of complexity.

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 EUR192,000 gross per year.<sup>12</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 financial 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, consid-

<sup>12</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.

ering 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.

### 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 to a maximum of 30% of the fixed remuneration paid in the previous financial year and is contingent on the achievement of performance criteria. Of this figure, a maximum of 50% of the variable remuneration may be allocated for achieving short-term business performance (for the period of the financial year), and at least 50% for meeting criteria that contribute to long-term business success.

Eligibility for the variable remuneration is assessed based on performance criteria that are divided into financial and non-financial criteria. Additionally, the criteria are categorised into those aimed at measuring short-term performance (short-term criteria) and those aimed at measuring or contributing to the achievement of strategic or long-term goals (long-term criteria).

In the document defining the criteria for the payment of variable remuneration, the Supervisory Board specifies the criteria and assigns their weighting by the end of March each year. The selected criteria are designed to guide the management body towards achieving business objectives and long-term success, 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 the goals and expectations outlined in the respective annual asset management plan prepared by SSH.

When specifying the criteria and their weightings, the supervisory body considers 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% <sup>13</sup>
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 that measure long-term or strategic goals or contribute to their achievement must contribute at least 50% to the overall assessment based on financial criteria.

<sup>13</sup> Specifying the initial weighting for each group of criteria in the Remuneration Policy is not a mandatory requirement.

#### 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% <sup>14</sup>
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 that 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 that are valid for the financial 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 that 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.

<sup>14</sup> Specifying the initial weighting for each group of criteria in the Remuneration Policy is not a mandatory requirement.

#### 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 that 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 that 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 financial 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. If the mandate of a management body member ends before the completion of the deferral period for variable remuneration, they are entitled to receive 50% of the variable remuneration upon the conclusion of their mandate, provided they have held the position for a minimum of two years.

#### 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 that are summarised from or determined with reference to a collective agreement or to the employer's general corporate policy, and all other allowances that 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, provided the retail price of the vehicle including VAT, does not exceed EUR XX.XXX. In the case of an environmentally friendly personal vehicle (where an environmentally friendly personal vehicle is defined as one powered exclusively by a 100% electric drive), the limit is EUR XX.XXX (including VAT). A company car being also used for private purposes should not be replaced earlier than three years or before reaching a mileage of 150,000 kilometres, except 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, 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, this 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 insurance policies:
  - 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** that 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, this right may 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 term of office, 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 a 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. 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 a subsidiary or other related company, they 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

Contracts with members of the management bodies must include a non-compete clause that remains effective even after the termination of their function. In cases where a member is dismissed by the company, the non-compete restriction must not exceed six months. In all other cases, the duration of the restriction must be set for a minimum of six months and a maximum of two years. During the enforcement of the non-compete clause, the member of the management body is entitled to a monthly compensation of up to 75% of their basic monthly remuneration.

Regardless of whether a non-compete clause is stipulated in the contract, the supervisory body shall waive its enforcement after the termination of the mandate if, considering all relevant circumstances, there is no genuine risk to the company's interests from not enforcing the restriction for the specific 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 that 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.

## B) REMUNERATION POLICY FOR SUPERVISORY BODY

The remuneration of Supervisory Board members comprises the following types of payments, within the specified amounts:

### ATTENDANCE FEE

The Supervisory Board members receive an attendance fee for their participation in a board meeting amounting to EUR \_\_\_\_\_ gross per individual member. Members of a Supervisory Board's committee receive the attendance fee for their participation in a committee meeting, which amounts to 80% of the attendance fee for the participation in a board meeting per individual member. The attendance fee for a meeting conducted by correspondence amounts to 80% of the regular attendance fee. Regardless of the above, and irrespective of the number of meetings attended, an individual Supervisory Board member is entitled to receive attendance fees in a given financial year up to a maximum total of 50% of the basic payment for performing their function as a Supervisory Board member on an annual basis. Regardless of the above, and irrespective of the number of meetings of the Supervisory Board and its committees attended, an individual Supervisory Board member who is a member of one or more committees is entitled to receive attendance fees for their participation in meetings of the Supervisory Board and its committees in a given financial year, up to a maximum total of 75% of the basic payment for performing their function as a Supervisory Board member on an annual basis.

### BASIC AND ADDITIONAL PAYMENTS FOR PERFORMING THE FUNCTION

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

Members of the Supervisory Board's committee receive the additional payment for the performance of services, amounting to 25% of the basic payment for performing the function as the Supervisory Board member. The President of a committee is entitled to an additional payment for performing their function, amounting to 37.5% of the basic payment for performing their function as a Supervisory Board member. Regardless of the above and irrespective of the number of committees they belong to or chair, each member of a Supervisory Board's committee is entitled to receive additional payments for their role during each financial year, up to a maximum total of 50% of the basic payment for performing their function as a Supervisory Board member on an annual basis. If the mandate of an individual Supervisory Board member is shorter than the financial year, the individual member of a Supervisory Board's committee, regardless of the above and irrespective of the number of committees they are a member of or chair, is entitled to receive additional payments in the relevant financial year, up to a maximum total of 50% of the basic payment for performing their function as a Supervisory Board member, proportionate to the duration of their mandate in that financial year.

The Supervisory Board members are entitled to receive the basic payment and the additional payment for performing their function in the proportional monthly payments, corresponding to the duration of their active service. The monthly payment amounts to one-twelfth of the aforementioned annual sums.

### REIMBURSEMENTS OF COSTS

Supervisory Board members are entitled to reimbursement of travel and accommodation expenses incurred in relation to their services for the Supervisory Board, specifically up to the amount stipulated by regulations governing the reimbursement of work-related expenses and other income not included in the taxable base (provisions applicable to transportation during business trips and overnight stays on business trips). The amount due to a Supervisory Board member under the cited regulation is calculated so that the net payment represents reimbursement of actual travel expenses. The distance between destinations, as calculated using the AMZS website, is used to determine the mileage. Accommodation costs may only be reimbursed if the distance between the permanent or temporary residence of a Supervisory Board member or a member of a Supervisory Board committee and the location of the meeting is at least 100 kilometres, provided the member could not return to their place of residence due to the lack of scheduled public transport or other objective reasons.

**BUSINESS SECRET – CONFIDENTIAL**

In accordance with the Remuneration Policy for the Management Board/Executive Management of [Company Name], dated \_\_\_\_\_ [Date] (hereinafter referred to as: the “Company’s Remuneration Policy”), the Supervisory Board of \_\_\_\_\_ [Company Name] (hereinafter referred to as: the “Company”) adopted the following resolution at its \_\_\_\_\_ [Number] meeting on \_\_\_\_\_ [Date]:

**INSTRUMENT ON THE DETERMINATION OF CRITERIA FOR THE PAYMENT OF THE VARIABLE COMPONENT OF REMUNERATION FOR THE MANAGEMENT BOARD/EXECUTIVE MANAGEMENT OF \_\_\_\_\_ [COMPANY NAME] FOR \_\_\_\_ [YEAR] <sup>16</sup>**

**I. GENERAL PROVISIONS ON PERFORMANCE CRITERIA FOR THE PAYMENT OF THE VARIABLE COMPONENT OF REMUNERATION FOR MANAGEMENT BOARD/EXECUTIVE MANAGEMENT**

**Article 1**

This Instrument on the Determination of Criteria for the Payment of the Variable Component of Management Board/Executive Management Remuneration (hereinafter referred to as: the “Instrument”) sets out in detail the criteria, objectives, and methodology for determining the variable component of remuneration for the executive management or the Management Board, as established by the Supervisory Board of the Company.

**Article 2**

The financial and non-financial criteria for assessing the short-term and long-term performance of the Company, on which the allocation and payment of the variable remuneration component depend, as well as their target values and relative weightings, shall be determined annually by the Supervisory Board. These determinations are based on the following documents: (i) the approved annual business plan of the Company; (ii) the Company’s long-term business strategy, and (iii) the SSH Annual Asset Management Plan, where applicable to the Company. The Supervisory Board has discretionary authority to establish additional criteria and objectives.

The Supervisory Board shall endeavour to adopt this Instrument as soon as possible after the approval of the annual business plan and, in any case, no later than the end of January of the year to which the criteria apply.

**II. DETERMINATION OF FINANCIAL AND NON-FINANCIAL CRITERIA, TARGET VALUES, WEIGHTINGS, MATURITY, AND SCORING SYSTEM**

**Article 3**

For the purpose of determining the variable component of the remuneration for the Management Board/executive management for the financial year \_\_\_\_\_ [Year], the Supervisory Board shall establish the following: (i) financial and non-financial criteria for assessing short-term and long-term business performance; (ii) target values for each criterion; (iii) relative weighting of criteria based on their significance; and (iv) method for calculating performance based on the achievement of these criteria.

**FINANCIAL CRITERIA:**

Criterion	Weight	Maturity	Target Value
Criteria related to business volume growth: • Net sales revenues	XX%	Short-term & Long-term	Fill in the value
Criteria related to cash flow generation ability: • EBITDA	XX%	Short-term	Fill in the value
Criteria related to financial performance: • Net profit for the financial year	XX%	Short-term	Fill in the value
Criteria related to financial strength: • Net financial debt / EBITDA	XX%	Short-term & Long-term	Fill in the value
Criteria related to value-added creation – productivity: • Added value per employee	XX%	Short-term	Fill in the value
<b>Total</b>	<b>100%</b>		

<sup>16</sup> The employment contract of a Management Board/executive management member should refer to the currently valid instrument of the Supervisory Board, ensuring that any amendments to the instrument automatically modify the contract without requiring further adjustments.

## SCHEDULE 3:

# EXAMPLE OF THE SUPERVISORY BOARD INSTRUMENT ON THE DETERMINATION OF CRITERIA FOR THE PAYMENT OF THE VARIABLE COMPONENT OF MANAGEMENT BOARD/EXECUTIVE MANAGEMENT REMUNERATION<sup>15</sup>

<sup>15</sup> The example instrument serves as a working tool, and companies are not obligated to adopt it. Even if a company chooses to follow the example instrument, it should not apply it mechanically but instead adapt it to the specific characteristics of its operations. The indicators included in the example instrument are provided solely as illustrative examples. However, indicators whose selection is prescribed or recommended must be considered mandatory in all cases, including development of corporate culture and (ii) ESG indicators (Environmental, Social, and Governance). Furthermore, the SSH Recommendations and Expectations generally recommend that a portion of the indicators be defined and measured in relation to the objectives outlined in the SSH Annual Asset Management Plan for the respective company.

Financial criteria collectively contribute XX% of the total variable remuneration component.

#### NON-FINANCIAL CRITERIA:

Criterion	Weight	Maturity	Target value
Market position criteria: • Market share in segment ____	XX%	Long-term	Fill in the value
Development criteria: • Qualitative assessment of the successful implementation of strategic projects in line with the Company's strategy, including the development of corporate culture	XX%	Long-term	Fill in the value
Environmental responsibility criteria: • Carbon footprint (scope XX) • Water consumption	XX%	Long-term	Fill in the value
Social responsibility criteria: • Employee training and development (number of training hours per employee)	XX%	Long-term	Fill in the value
Governance responsibility criteria: • Corporate integrity and compliance – demonstrated proactive action and development in this area compared to the previous year (qualitative assessment by the Supervisory Board) • Development of sustainable business practices in line with SSH Recommendations and Expectations (qualitative assessment by the Supervisory Board)	XX%	Long-term	Fill in the value
<b>Total</b>	<b>100%</b>		

Non-financial criteria collectively contribute XX% of the total variable remuneration component.

Preconditions for Eligibility: the achievement of criteria X, Y, and Z is a prerequisite for eligibility for the variable remuneration.

As shown in the two tables above, the share of criteria contributing to short-term business performance is \_\_ %, compared to \_\_ % for criteria contributing to long-term business success.

#### Article 4

Based on the achievement of the criteria outlined in the previous article, the Performance Index (PI) is determined as follows:

- the index for each quantitative target is calculated, with its value ranging between 0.8 (minimum) and 1.2 (maximum);
- for qualitatively assessed criteria, the index is assigned a value within the 0.8 to 1.2 range, where 0.8 represents poor fulfilment of the criterion and 1.2 signifies excellent fulfilment;
- each criterion is weighted according to its assigned weighting factor. The weighted scores for financial and non-financial criteria are then summed separately;
- finally, the overall PI is calculated by weighting the previously determined assessments using the respective weightings of the financial and non-financial criteria.

#### Article 5

Upon the approval of the audited annual report and other relevant documents, the Supervisory Board compares the target values of the criteria set for the respective financial year with the actual achieved values/goals for that year. Based on this assessment, the PI is calculated as outlined in the previous article.

Based on the calculated PI, the Supervisory Board determines the amount of the variable remuneration, within the following ranges:

Performance Index (PI)	Range of Variable Remuneration as % of Annual Base Remuneration
PI < 0.90	0
0.90 ≤ PI < 1.00	Between __% and __%
1 < PI < 1.05	Between __% and __%
1.05 < PI < 1.10	Between __% and __%
1.10 ≤ PI	__%

### III. EXCEPTIONAL AND CHANGED CIRCUMSTANCES

#### Article 6

The Supervisory Board may deviate from the defined criteria, target values, or scoring methodology if justified by exceptional and significantly changed circumstances. Any such deviation must be duly substantiated by the Supervisory Board in accordance with the provisions of the Company's Remuneration Policy.

### IV. VI. DISCRETIONARY DECISION OF THE SUPERVISORY BOARD

#### Article 7

In accordance with the provisions of the Company's Remuneration Policy, the Supervisory Board may, at its discretion, adjust the variable remuneration of a Management Board/executive management member, either increasing or decreasing it compared to the amount calculated based on predefined criteria. Such adjustments may be made based on business performance, financial position, or other relevant circumstances, provided there are valid and justified reasons for doing so.

Any resolution by the Supervisory Board to increase or decrease the variable remuneration under its discretionary authority must be reasoned and adopted in accordance with the principles of due care, diligence, and fairness.

### V. ENFORCEMENT AND APPLICATION OF THE INSTRUMENT

#### Article 8

This Instrument shall come into effect on the date of its adoption by the Supervisory Board and shall apply to the determination and payment of the variable remuneration component for Management Board/executive management members for the financial year \_\_\_\_ [Year].

In: \_\_\_\_\_ [Location], on \_\_\_\_\_ [Date]

\_\_\_\_\_  
President of Supervisory Board



**SLOVENIAN SOVEREIGN HOLDING**

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MALA ULICA 5, P.P. 139

1001 LJUBLJANA, SLOVENIA

[www.sdh.si](http://www.sdh.si)