SDH SLOVENIAN SOVEREIGN HOLDING

Recommendations and expectations

of Slovenian Sovereign Holding

Ljubljana, June 2026

TABLE OF CONTENTS

INTORDUCTION

The Slovenian Sovereign Act (Official Gazette of RS, Nos. 25/2014 and 140/22, hereinafter: "ZSDH-1") entered into force on 26 April 2014. Among other matters, ZSDH-1 regulates the status and operation of Slovenian Sovereign Holding (hereinafter: "SSH") and the management of the State's capital assets (equity investments). As stipulated in Article 4 of ZSDH-1, the objectives of the State's capital assets include increasing the value of investments, generating the highest possible returns for the owners, and pursuing other strategic objectives relating to investments defined as strategic under the relevant governance instruments. The ZSDH-1 also establishes the principles governing the management of the State's capital assets, namely 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 the management of the State's capital assets, namely: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for SOEs).

ZSDH-1 and the aforementioned asset management documents govern corporate governance matters concerning state-owned enterprises (SOEs) to a significant extent. However, achieving the objectives of corporate governance and applying the principles of corporate governance require the regulation of specific matters which, by their nature and content, fall outside the scope of the statutory asset management instruments. The publication of separate instruments addressed to SOEs, in addition to the governance instruments, is also envisaged by Article 32, Paragraph 4 of ZSDH-1.

By means of the Recommendations and Expectations of Slovenian Sovereign Holding (hereinafter: the "SSH Recommendation and Expectations"), which follow a clear structure and are publicly disclosed, SSH communicates specific recommendations and expectations for observance by SOEs.

In the SSH Recommendations and Expectations, the number of individual recommendations and expectations may vary, as the content of this document is updated, where necessary, to reflect significant changes in legislation and good corporate governance practice.

As a specific governance instrument, the SSH Recommendations and Expectations are addressed to:

- all SOEs regardless of the shareholding or 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 an SOE is the parent company.

It is evident from the content or context of each recommendation and expectation to which type of company it applies.

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 the management of all investments of the Republic of Slovenia, except for the management of capital assets in international financial institutions, capital assets in companies providing services of general economic interest as system operators for the transmission and distribution of natural gas and electricity, and capital assets in companies providing services of general economic interest relating to the organisation of the electricity market in the Republic of Slovenia, or where otherwise provided by a special act. Capital assets comprise equity securities and ownership interests.

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 Recommendations and Expectations under the "comply-or-explain" principle, and disclose their compliance in their Business Report, or provide justified reasons for any non-compliance.

1. THREE-YEAR BUSINESS PLANNING FOR COMPANIES, GROUPS, AND GROUP 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. Where an SOE is the controlling company within a group, a draft business plan and a final 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, in addition, 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 electronically, in accordance with operational instructions from SSH.

1.6. SOEs must separately report projected income statements, statements of financial position, and performance indicators using standardised electronic templates provided by SSH, aligned with the applicable Criteria for Measuring the Performance of SOEs.

1.7. SSH expects draft business plans to include, at a minimum, the following elements:

- projections of net operating revenues, gross operating profit, operating profit (EBIT), depreciation, amortisation and impairment losses, net profit (for banks: net interest income, net fee income and net operating result; for insurance companies: gross written premiums, net claims incurred and net operating result);
- a projection of total assets and equity capital;
- planning all performance indicators for the company/group in accordance with the applicable Criteria for Measuring the Performance of SOEs, together with any additional indicators specified by SSH.
- a detailed overview of all major planned investments, including their sources of funding;
- a summary of the key assumptions underlying the preparation of the draft business plans;
- 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 comparative data from periodic reports submitted to SSH and to incorporate the following information for the company and the group (adjusted accordingly for banks and insurance companies):

- revenue projections, including an overview of key business transactions presented in tables and graphs;
- a detailed breakdown of the planned sales structure by type of business transactions, markets, etc.;
- a pricing strategy, including movements in purchase and selling prices (where applicable);
- a comprehensive investment plan with a detailed overview of the major planned investments, including their justification, descriptions, and sources of funding;
- a detailed cost structure, broken down by category, including descriptions and justifications for each category. This should also include projections for sponsorships and donations;

- planning potential acquisitions and disposals;
- 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 projected income statement;
- statement of financial position, together with explanatory notes;
- for groups, consolidated financial statements comprising a consolidated statement of financial position 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;
- planning all company/group performance indicators in accordance with the applicable Criteria for Measuring the Performance of SOEs;
- an overview of the planned corporate structure, including control relationships;
- the expected dividend payout;
- performance targets for the 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 field of banking or 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.

1.11. Public limited companies should strive to align their financial calendars, business planning and the scope of reported information with the above recommendations so that they are able to comply with them. At a minimum, the following information should be included in the reported data for both the company and the group:

- projected total assets and equity;
- projected revenue,
- EBITDA projections,
- projected revenue,
- projected return on equity (ROE),
- projected capital adequacy or solvency ratios (for banks or insurance companies).

REASONING:

According to SSH, SOEs generally have well-developed business planning systems. Therefore, Recommendation No.1 primarily serves to provide SSH with an insight 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 the 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 Nos. 1 and 2 regarding periodic reporting on operations. In limited liability companies, shareholders are legally entitled to virtually all information concerning the affairs of the company.

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 the key business planning information.

2. PERIODIC REPORTING REQUIREMENTS FOR COMPANIES, GROUPS, AND GROUP SUBSIDIARIES

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. Monthly reports on operations shall be prepared only by those companies in which SSH exercises 100% of the voting rights and for which SSH has expressed such an expectation. These companies should submit monthly reports on the operations of the parent company and its subsidiaries to SSH, in the scope and manner specified in 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, statements of financial positions, and performance indicators must be reported separately in electronic form, using SSH's standardized reporting templates, in line with the applicable Criteria for Measuring the Performance of SOEs.

2.6. In addition to the standard financial data outlined in Point 2.5, quarterly reports 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 presentation of the sales structure by type of business transaction, market, etc.;
- a detailed report on workforce metrics, including headcount, employee structure, and turnover trends;
- a 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 newly acquired financial instruments, including derivative instruments (for the reporting period);
- a review of progress towards non-financial objectives of a company or a 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 statement of financial position as of the last reporting date, including a comparison with the position at the previous year-end (31 December) and planned balance sheet items, along with explanations for any deviations;
- a statement of cash flows;
- in the case of a group, consolidated financial statements, including a consolidated statement of financial position and a consolidated income statement;
- an overview of the 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 electronically, 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 performance 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 view of 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 to ensure equal treatment and to provide 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, planning and the scope of reported information with these Recommendations so that they are able to comply with them.

REASONING:

Recommendation No. 2 aims to provide SSH with additional information on the performance of companies, groups, or subsidiaries within the group. This enables SSH to effectively fulfil its obligations under ZSDH-1, particularly by pursuing the objectives of state asset management 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 the 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-effective business operations in relation to contracts involving company expenditures, including the procurement of goods and services, sponsorship and donations, legal services, marketing, advertising, communication, and public relations services. Effective internal control mechanisms 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 such services are provided in accordance with the company's actual needs.

3.2. Companies are advised to avoid entering into so-called flat-rate contracts unless this is clearly and demonstrably justified on business and economic grounds (e.g. legal advisory services for companies without an in-house legal department)[1].

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 any other valid and justified reason. In such cases, the company is expected to provide a transparent explanation for the decision to withhold the 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 mandate agreement (whether a general, special or framework mandate) or a service agreement for the provision of intellectual services, the company, acting as the ordering party, must publicly disclose information on the selected contractor and the nature of the business transaction. Examples include contracts for legal or financial advisory services, the preparation 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 by type of transaction.

---

1 The term "flat-rate contract" refers to agreements for the provision of advisory services under which payment is independent of the volume of services actually provided during the period to which the payment relates. Alternatively, the service may be deemed to have been provided during a particular period merely because, under the framework of a retainer agreement, the service provider remains continuously available to the client during that period to provide a specified type of service upon request.

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, future strategic goals.

3.11. The primary purpose of sponsorship is to contribute to the achievement of the company's business objectives—primarily by increasing brand awareness or enhancing or reshaping the public image of the company or its products—and, in particular, to improve the company's profitability, while also supporting other business objectives. The purpose of making a positive contribution to the social environment (corporate social responsibility) is subordinate to and complementary to this primary purpose. Sponsorship should reach the target market (i.e. the target audience within the target geographical area) and should be granted to entities with which an association is capable of creating a positive impression of, response to, or attitude towards 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 funding. Sponsorship agreements must clearly set out the obligations of the sponsored party. These typically include the acknowledging 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 in which the Sovereign Holding (SSH) holds a majority stake or a dominant influence, and where at least 80% of the funding in the previous financial year was received 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 in the law regulating companies;
- "dominant influence" of SSH: This term shall have the meaning as defined in 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 local self-government 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 are necessary for the provision of services that generate public funds, the revenues derived from such capitalised own products and services shall also be regarded as 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 Recommendation 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 consultancy 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 that such services are procured and managed 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 engage the relevant service providers directly, rather than through intermediaries (organisers), unless the use of intermediaries is demonstrably shown to result in 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, audience reach). Measurable goals should also be set for all other similar services engaged by the company;
- Transparency and publication: the company should regularly publish information on contractual relationships in this area, to the greatest extent possible and in a transparent manner, including the contract value, on the section of its website where it publishes public information.

REASONING:

Recommendation No. 3 emphasizes transparent and cost-effective practices in the procurement of goods and services, as well as the allocation of 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 maximum allocation amounts are recommended. The primary goal of sponsorship policies is to contribute to achieving the company's 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, public relations (PR), and similar services. In the case of public relations services, there is a risk that such 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. In particular, companies should first assess whether the required services can be provided using in-house human resources. Where the use of in-house resources is not economically justified, the services should be procured directly from external service providers rather than through intermediaries (organisers), unless the use of intermediaries is demonstrably shown to result in lower costs.

4. COST OPTIMISATION

4.1. SSH expects the management and supervisory bodies to diligently monitor the level of all company expenses and ensure that they remain proportionate to the company's business activities 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 the 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 the necessary amendments to underlying contracts (including collective agreements) and other rules and regulations. 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 shall, or, in the case of a group, the controlling company shall, within 10 days of the payments being made, publicly disclose on its official website details of payments to employees, including 13th-month salaries, similar employee payments, annual leave allowances and winter holiday allowances. In the case of a group, the disclosure shall cover the controlling company, the group and all subsidiaries within the group. The disclosure shall include the total amount of each type of payment, the legal basis for the payment and the methodology used to determine the amount payable to individual employees. 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 extends 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 the 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 due regard 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 a group should pursue the objective of maintaining a lean group structure. This means that the establishment or continued existence of subsidiaries should be supported by an analysis of the associated advantages and disadvantages, including a 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 permanent, full-time employment, 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 where, in practice, those forms of work display the characteristics of dependent work performed within an employment relationship.

5. ORGANISATIONAL DEVELOPMENT AND CORPORATE CULTURE

5.1. The company's corporate culture should be governed and developed so as to actively support the achievement of its objectives, ensure the long-term sustainability of its operations, and strengthen organisational resilience. Particular emphasis should be placed on ensuring the mutual alignment of the company's mission, business strategy, culture and values.

5.2. The company's values should be embedded in all functions and processes at every level of the organisation and translated into the expected behaviours of employees. This should be regularly and consistently supported through communication, including the Code of Ethics/Code of Conduct, and embedded in all recruitment processes, employee incentive mechanisms and remuneration systems. Particular emphasis should be placed on fostering a positive tone at the top, good leadership practices, and the conduct of members of the supervisory and management bodies, as well as middle management, all of whom should consistently demonstrate these values in practice through leading by example.

5.3. The company should actively foster a culture of psychological safety based on mutual trust and respect, in which employees are able to express their opinions, proposals and constructive criticism without fear of retaliation. Establishing an environment of psychological safety should primarily be regarded as a preventive measure for reducing chronic workplace stress. The company's management should promote a culture of learning from mistakes through appropriate measures, thereby reducing systemic risks and contributing to the improved quality of products and services.

5.4. Governing corporate culture, together with the key elements of organisational development, should be embedded within the framework of internal governance and internal controls and form part of a well-functioning system of risk management, compliance, business integrity and regular internal audit.

5.5. Companies, or their competent bodies, should monitor the achievement of objectives relating to corporate culture and organisational development and provide comprehensive reports to the supervisory board, its competent committees (e.g. the Risk Committee or the Strategy Committee), and, through the annual report, to shareholders. Monitoring corporate culture and the key indicators of organisational development should include the regular analysis and interpretation of a range of quantitative and qualitative sources of information.

5.6. The achievement of the desired corporate culture should also form part of the long-term objectives underpinning the remuneration of the management body, ensuring that remuneration remains transparent and aligned with the achievement of the established objectives. In addition to financial indicators, these objectives should include performance in managing psychosocial risks and trends relating to absenteeism, employee turnover and employee engagement.

5.7. In monitoring and overseeing corporate culture, members of supervisory boards should draw upon the SSH handbook Corporate Culture Governance, published in January 2022, as well as other relevant guidance on organisational development and human resource management.

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, University of Ljubljana. The primary purpose of the handbook is to provide supervisory boards with key guidelines, questions, and tools to support them in fulfilling their responsibilities for governing corporate culture. Recognising that an appropriate corporate culture is a critical factor that can either enhance or hinder business performance, the handbook's secondary purpose is to promote the effectiveness and efficiency of companies' operations by ensuring that corporate culture receives the attention it deserves within corporate governance practices. SSH expects members of supervisory bodies to **carefully study the handbook and periodically monitor and oversee corporate culture as part of the established corporate governance framework**. Members of the management bodies should implement all necessary measures, including setting the appropriate tone at the top and promoting effective modern leadership practices at all levels, to ensure that the desired corporate culture is embedded in day-to-day practice, promotes employee well-being and supports the achievement of the company's strategic objectives.

The following are among the characteristics of a healthy corporate culture: a positive tone at the top; clear and consistent communication by management regarding the company's values and culture; open dialogue between management and employees; employee involvement in setting organisational objectives; and other comparable practices.

Key sources of information for assessing the quality of corporate culture include: employee turnover and absenteeism rates; education and training data; decisions relating to recruitment, remuneration and promotion; whistleblowing reports and employee complaints; organisational climate and corporate culture survey data; occupational health and safety data; the timeliness of payments to suppliers; relationships with regulators and supervisory authorities; responses to internal audit findings; employee exit interviews; and suggestions for operational improvements and innovation.

Indicators of potential weaknesses in corporate culture may include: silo thinking; dominant or arrogant behaviour by management and middle management; pressure to achieve excessively ambitious objectives; lack of access to information; inappropriate internal communication; resistance to change; tolerance of regulatory and other breaches; breaches of the Code of Ethics; an excessive short-term focus by decision-makers at the expense of the company's long-term sustainability.

6. GENERAL MEETINGS OF SHAREHOLDERS

6.1. SSH expects companies to comply fully with all statutory requirements and the recommendations set out below when convening and conducting general meetings of shareholders. These recommendations shall apply, as appropriate, to single-member companies.

CONVENING A GENERAL MEETING OF SHAREHOLDERS

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 as amended) governing the requirement to convene a general meeting at the request of shareholders or members. The notice of the general meeting should be published as soon as possible, but no later than 14 days after receipt of the request to convene the meeting.

6.3. The management board should determine the date of the general meeting, having regard to 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-reasoned, reliable, clear, and comprehensive answers.

6.5. If a shareholder or member has submitted a question to the company and the company has not publicly provided an appropriate response by the time the notice convening the general meeting is published, the company should include an agenda item addressing that question or provide for its consideration under one of the other items already included on the 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 shall decide 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 decide not to vote on granting discharge to an individual management or supervisory body if, at the time the discharge is considered, the body is composed entirely of newly appointed 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 shall inform the General Meeting or founder about the remuneration policies for the management and/or supervisory bodies, any amendments to these policies, and the remuneration awarded and actually paid to the members of the management and supervisory bodies, 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. The applicable legislation also provides for the possibility of separate voting by name, which may be used where there is a likelihood that the General Meeting would wish to grant discharge to certain members of the management or supervisory body, but not to others.

An exception to the general rule that discharge is granted to the management or supervisory body as a whole applies where the General Meeting does not wish to grant discharge to an individual member of the management or supervisory body who is no longer in office at the time the decision on granting discharge is taken. In such a case, the resolution on granting discharge may provide that discharge is granted to all members of the management or supervisory body who held office during the previous financial year to which the decision on discharge relates and who remain in office at the time the decision on granting discharge is taken. The effect of using this wording is that no decision is taken on granting discharge to former members of the management or supervisory body.

If the management or supervisory body is composed entirely of newly appointed members at the time the decision on granting discharge is taken, the General Meeting may decide not to consider the granting of discharge to that body. In limited liability companies, a decision on granting discharge is not mandatory unless otherwise provided for in the Articles of Association.

7. SUSTAINABLE BUSINESS OPERATIONS

INTRODUCTION

7.1. SSH expects large and medium-sized companies to integrate all three dimensions of sustainability (environmental, social and governance (ESG)) into their business strategy or, in the case of a group of companies, into the group's business strategy. The strategy should appropriately take into account both the company's impacts on the environment and people, and the financial risks and opportunities that sustainability matters present to the company

7.2. When developing its sustainability strategy, the company should establish specific, time-bound and measurable objectives, together with the measures planned to achieve them. In the environmental dimension, the strategy should also include a climate action strategy designed as a comprehensive transition plan. The transition plan should address both climate change mitigation and climate change adaptation, as well as measures to strengthen resilience to both physical and transition climate risks.

7.3. The company's sustainability objectives should be integrated into its key performance indicators (KPIs), monitored on a regular basis, and be relevant to the achievement of the company's or group's long-term objectives. The company should establish processes for identifying, managing and monitoring those aspects of its operations that can make a significant contribution to achieving sustainable development objectives.

ASSESSMENT OF THE COMPANY'S SUSTAINABILITY POSITION

7.4. The company should identify the sustainability-related impacts, risks and opportunities (IROs) associated with its activities that affect the economy, the natural environment and society, including both positive and negative impacts arising from its own operations, throughout its value chain, and through the impacts of its products and/or services.

7.5. The company should assess the identified impacts, risks and opportunities using appropriate qualitative and quantitative criteria. When assessing impacts, the company should evaluate, in particular, their severity and likelihood. When assessing risks and opportunities, it should also evaluate their potential financial effects, where this can reasonably be determined.

7.6. The company should prioritise the identified impacts, risks and opportunities on the basis of predefined assessment criteria.

7.7. For each material impact, risk and opportunity identified, the company should establish the baseline against which progress and the effectiveness of the measures adopted will be monitored.

7.8. The company should identify the stakeholders that are significantly affected by its activities and/or are capable of significantly influencing the company, involve them appropriately in the double materiality assessment process, and maintain an active dialogue with them.

MANAGEMENT OF SUSTAINABILITY RISKS AND OPPORTUNITIES AND MEASURES TO MITIGATE ADVERSE IMPACTS

7.9. The company should integrate sustainability-related risks and opportunities into its risk management framework and strategic planning processes.

7.10. The company should determine which adverse impacts it will prioritise for mitigation, which positive impacts it will seek to enhance, and establish a timetable for implementing the relevant measures. The company should also establish processes for monitoring the effectiveness of the measures implemented in relation to impacts, risks and opportunities.

7.11. The company should carry out a qualitative and/or quantitative assessment of climate-related risks, including both physical and transition risks. When assessing physical risks, the company should use relevant climate scenario analysis to evaluate the long-term resilience of its business model.

7.12. The company should determine the alignment of its activities with the EU Taxonomy Regulation.

STRATEGIC DIRECTIONS, OBJECTIVES, SSH EXPECTATIONS, AND INCENTIVE SYSTEMS

7.13. Companies should, in accordance with the Climate Act (PoZ), pursue the objective of achieving climate neutrality by 2045. The decarbonisation plan, or comprehensive transition plan, should include interim targets for 2030 and 2035.

7.14. Companies should present their sustainability strategy and transition plan to the supervisory board and obtain its approval.

7.15. When setting sustainability objectives, companies should also take into account SSH's expectations as set out in the applicable Annual Asset Management Plan.

7.16. Companies should link their sustainability objectives to incentive systems, for example through the remuneration of the management body and other employees.

DECISION-MAKING

7.17. The company should incorporate all dimensions of sustainable business practices into its decision-making processes.

7.18. The company should promote technological and non-technological innovation in the field of sustainable business operations, including the deployment of new technologies, the efficient use of resources, the transition to a circular economy, process innovation, organisational and workforce innovation, and solutions that strengthen climate resilience. The company should also continuously develop the sustainability-related competencies of its employees.

REPORTING

7.19. The company should monitor progress towards the achievement of its sustainability objectives through its annual business reports and keep the supervisory board informed accordingly.

7.20. The company should report on its sustainability performance in its annual report in accordance with the applicable mandatory sustainability reporting standards. The following reporting framework should apply:

- Companies subject to the Corporate Sustainability Reporting Directive (CSRD) shall report in full in accordance with the European Sustainability Reporting Standards (ESRS).
- Companies that are no longer subject to the CSRD as a result of the Omnibus amendments (in particular due to the increase in the applicable thresholds) are encouraged by SSH to apply Commission Recommendation (EU) 2025/1710 on a voluntary sustainability reporting standard for small and medium-sized undertakings. These companies should apply the comprehensive voluntary standard. Small companies should apply the Basic Module of the Voluntary Sustainability Reporting Standard for SMEs (VSME) in order to provide their stakeholders with key environmental, social and governance (ESG) information.

Companies may, at their own discretion, apply a more comprehensive sustainability reporting standard in their annual reports where this is justified by the information needs of their stakeholders.

REASONING:

In the current geopolitical environment, sustainable business operations are no longer concerned solely with the protection of nature and the environment. They also encompass reducing dependence on imported fossil fuels, optimising the use of resources, and strengthening the resilience of supply chains, all of which directly contribute to national economic security.

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 the Sustainable Development Goals (SDGs) by addressing the impacts of their operations on the economy, the environment and society at large. The concept of sustainability refers to ongoing efforts towards sustainable business practices rather than a fixed state.

State-owned enterprises (SOEs) are expected to set an example for other companies in adopting sustainable business practices. This means that companies should take into account all three dimensions of sustainability (environmental, social and governance (ESG)). In addition to achieving long-term business success and operational efficiency, particular emphasis should be placed on reducing adverse environmental impacts, strengthening climate resilience, engaging with stakeholders and ensuring their meaningful involvement, and maintaining high standards of corporate governance and corporate integrity.

Through their business strategies and business models, companies should contribute to value creation by enabling and promoting sustainable business operations, capitalising on opportunities to create sustainable value, and developing new and innovative business models that strengthen their long-term competitiveness. A successful transition to a low-carbon, climate-resilient and circular economy is essential for companies to achieve their long-term objectives. 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.

As emphasised by the Network for Greening the Financial System (NGFS), the physical risks arising from climate change are increasing and represent a significant threat to economies, even under a scenario in which net zero greenhouse gas emissions are achieved by 2050. Accordingly, integrating climate adaptation and resilience into transition plans is essential for reducing the vulnerability of companies, particularly those operating critical infrastructure. Ambitious investment plans investing in green technologies that remain relevant both now and in the future, as well as climate adaptation solutions, may also provide companies with a competitive advantage.

The cornerstone of modern sustainable business operations and sustainability reporting is the principle of double materiality (ESRS 1), which requires companies to identify and manage: (1) their material impacts on the environment and society (impact materiality); and (2) the financial risks and opportunities arising from sustainability matters that are material to the company (financial materiality).

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 refer to these activities as "sustainability due diligence" in practice.[2] For companies required to prepare sustainability reports under the Companies Act (ZGD-1), regular risk and impact assessment processes should be integrated with the sustainability double materiality assessment process (for example, the assessment of the severity of specifically identified sustainability-related risks should be taken into account when assessing 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 that fall within the scope of 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 (the Corporate Sustainability Due Diligence Directive (CSDDD), as amended by the Omnibus package) will be required to establish and implement a due diligence process incorporating specific and detailed prescribed measures, and to report on its implementation. The measures recommended by SSH in Recommendation No. 7 (and, in substantive terms, also in certain other recommendations, such as Recommendation No. 8, which expressly or implicitly relate to sustainability) are, to some extent, comparable in substance set out in the CSDDD. This reflects SSH's expectation that companies not falling within the scope of the CSDDD should nevertheless demonstrate a high standard of diligence in their sustainability practices.

2 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.

In accordance with the Ordinance on the State Assets Management Strategy (OdSUND), seven Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda are of particular importance for companies with state equity holdings. These goals focus on promoting sustainable economic growth and decent work, achieving gender equality, ensuring access to sustainable energy, building resilient infrastructure, combating climate change, and ensuring the sustainable use of terrestrial and marine ecosystems. Companies should analyse these goals and determine how their operations can contribute to their fulfilment.

Sustainability reporting included 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. Science-based climate targets and credible transition plans addressing both climate change mitigation and adaptation enhance companies' reputation and demonstrate their commitment to climate action. They are increasingly expected by companies' stakeholders. Public limited companies should also consider obtaining an appropriate ESG rating.

Small and medium-sized companies should use the Voluntary Sustainability Reporting Standard for SMEs (VSME) issued by the European Commission when preparing their sustainability reports.

The Code of Corporate Governance for SOEs also contains provisions relating to sustainable business practices, which companies are expected to implement in accordance with these recommendations.

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 and to lead by example in promoting decent working conditions within their own operations and throughout their 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 carry out human rights 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 work together to improve working conditions, provide meaningful incentives for employees, enhance productivity and reduce workplace injuries and occupational illnesses.

8.6. Companies should:

- •prevent discrimination and inequalities while promoting equal opportunities;
- protect the environment, conserve nature and promote sustainable development;
- ensure that appropriate human rights due diligence processes are implemented throughout the company;
- establish an effective grievance and whistleblowing mechanism that is accessible to employees and external stakeholders;
- comply with employment legislation[3] and applicable collective agreements when regulating employment relationships with employees;
- engage in fair and respectful social dialogue with representative trade unions, aiming to regulate employment rights through collective bargaining and honouring agreed terms;
- engage in fair and respectful social dialogue with employee representatives in works councils or with workers' trustees, with a view to regulating, on a bilateral basis, matters within their competence, including participation agreements and the exercise of employees' rights 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, may serve as a useful resource for employers.

3 For the purposes of this Recommendation, employment 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 the respect for human rights, organise training sessions, establish mechanisms for addressing cases of non-compliance, and implement human rights due diligence processes[4].

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.

4 Source: Ministry of Foreign Affairs.

9. REMUNERATION POLICY FOR MANAGEMENT BODIES

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 of companies in which the Republic of Slovenia, through such enterprises, holds a majority shareholding or exercises a dominant influence. These guidelines are intended to assist in formulating the Remuneration Policy for Management Bodies. Additionally, the Recommendations set out the basic principles governing contracts with members of management bodies, in accordance with the adopted remuneration policies. SSH will seek to ensure that, at the General Meetings of companies in which the Republic of Slovenia does not hold a majority shareholding or exercise a dominant influence, remuneration policies are adopted or approved that comply, to the greatest extent possible, with these recommendations.

9.2. On the basis of 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.[5] Remuneration policies for management bodies should not impose rigid caps on the remuneration system or its individual components. Nor should remuneration policies mechanically include every component of remuneration. Instead, they should be designed carefully, taking into account the factors relevant to the particular company. 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 General Meeting or 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 regard as comparable for the purpose of regulating executive remuneration in the Remuneration Policy and management contracts.

9.4. The adequacy and implementation of the Remuneration Policy should be periodically reviewed by the supervisory body, at least every four years, when 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 facilitate the effective management of human resources risk.

9.6. The Remuneration Policy for Management Bodies should 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 defines and describes each component of remuneration, in accordance with these Recommendations. The remuneration policy may regulate the individual components of remuneration in greater detail and more restrictively than provided for in these Recommendations. Any departure from this principle shall be permitted only where justified by legislation, regulatory requirements or binding European rules applicable to a particular type of company. The reasons for any such departure shall be explained in the materials submitted to the General Meeting.

5 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 proportionate to their responsibilities and the financial position of the company. As a general rule, the total remuneration of members of the management body should not be among the highest in the market when compared with 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 set at a level that enables supervisory bodies to attract highly qualified managers who are motivated to perform their duties in a responsible and proactive manner. At the same time, the remuneration policy should prevent unjustifiably high remuneration or other benefits for members of the management body that are disproportionate to the company's needs, performance and financial position.
- The Principle of Limitation of Total Remuneration: the Remuneration Policy must include all the elements on the basis of which the total amount of remuneration can be determined. All components of remuneration must be subject to a defined or determinable upper limit. The total amount of remuneration must be subject to a defined or determinable limit, either directly or indirectly (as the sum of the individual components).
- The Principle of Linking Total Remuneration to Long-Term Performance of Company: The components of total remuneration must be structured in the Remuneration Policy in such a way that it supports short-term performance while also promoting the implementation of the company's business strategy and, in particular, its long-term performance and development, sustainable business operations and long-term sustainability.
- The Principle of Cost-Effectiveness: total remuneration should in all cases be determined at a level that does not have a significant impact on the management of human resources risk.

DEFINITIONS 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 without a Supervisory Board, this role is fulfilled by the General Meeting of the company or the founder. In relation to a procuration holder, where 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 one-tier system of governance. These Recommendations apply equally to Executive Directors acting as members of the Board of Directors as to those who are not. A holder of procuration shall also be considered a member of a management body if, by virtue of a special contract, responsibility for the management of the company's business has been assigned to them, in addition to representing the company, and a contract comparable to that concluded with a member of the management body has been entered into.
- **State-Owned Enterprise (SOE):** refers to a legal entity that is the issuer of equity securities owned by SSH, or a company that is the issuer of equity 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 of the company, which sets out 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

procuration 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 comprises all or some of the following components: fixed component of remuneration, variable component of remuneration, severance payment, and other rights.
- **Fixed Component of 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 consideration for the performance of 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. 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 the component of remuneration that is contingent upon the achievement of predetermined 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 payable by the company to members of the management body from distributable profit (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 payable to 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:** the period which elapses between the allocation of a variable remuneration and its actual payment. The deferral period shall be a minimum of two years from the date of allocation.
- **HR Risk:** refers to the risk associated with attracting, 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 the safety of service users, employment policy, customer satisfaction, and similar factors.

COMPONENTS OF TOTAL REMUNERATION

9.10. These Recommendations apply to the total remuneration that members of the management body may receive. Members of the management body can not receive any remuneration other than the total remuneration.

9.11. Total remuneration serves two purposes: (i) it provides remuneration for the work performed, the responsibilities assumed and the results achieved; and (ii) it aligns the interests of the management body with those of the principal (the company), while also taking into account the interests of all stakeholders.

9.12. The total remuneration of members of the management body may consist of one or more (but, as a general rule, all) of the following four components:

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

9.13. When determining other rights in the Remuneration Policy for Management Bodies in State-Owned Enterprises (SOEs), supervisory bodies must, in addition to the general principles and recommendations, take into account the recommendations concerning other rights of members of the management body set out in Recommendations 9.52 to 9.60.

FIXED COMPONENT OF REMUNERATION

9.14. The Remuneration Policy shall establish the fixed component of remuneration for members of the management body of individual State-Owned Enterprises (SOEs) either as an upper limit or within a defined range. This determination shall depend on the complexity of the tasks and the level of responsibility associated with managing the company, as assessed against the 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 company's activities (e.g. degree of regulation of revenues and costs, performance of a service of general economic interest).

9.17. The complexity of the company's operations shall be assessed on the basis of 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; (ii) Qualitative Factors: for each qualitative factor, the level of complexity (low, medium, high) shall first be determined. The company shall then be classified into the corresponding group (Groups 1 to 5) for each qualitative factor.

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

Size of the Company (Quantitative Factors)	
Value of Assets (EUR million)	**Group**
Up to 0.5	1
Up to 5	2
Up to 20	3
Up to 200	4
Above 200	5
Net Sales Revenues (in EUR million)	**Group**
Up to 1	1
Up to 10	2
Up to 50	3
Up to 100	4
Above 100	5
Number of Employees	**Group**
Up to 10	1
Up to 50	2
Up to 250	3
Up to 500	4
Above 500	5

Complexity of the Business (Qualitative Factors)		
Organisational Complexity	**Level**	**Group**
Number and size of subsidiaries , regulatory complexity, complexity of risk management, etc.	Low	1-2
	Medium	3-4
	High	5
Business Internationalisation	**Level**	**Group**
Number and size of foreign subsidiaries, share of revenues generated abroad, links with the international economic environment, etc.	Low	1-2
	Medium	3-4
	High	5
Complexity of Immediate Economic Environment	**Level**	**Group**
Degree of competition within the industry, competitiveness in key markets, stage of industry development, importance of research and development	Low	1-2
	Medium	3-4
	High	5
Complexity of Key Products	**Level**	**Group**
Stage of product development, technological complexity, risks and growth potential, etc.	Low	1-2
	Medium	3-4
	High	5
Regulation of Activity	**Level**	**Group**
Degree of regulation of revenues and costs, performance of a service of general economic interest, 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 shall be deemed that they satisfy all the quantitative factors of Group 5.

9.18. Based on the classification of a company under each complexity criterion (factor), an average value shall be calculated in the third step. This average value (a single average value for all eight factors) determines the company's final classification into Groups 1 to 5. Mid-point values (1.5; 2.5; 3.5 and 4.5) shall be rounded down. Based on the company's final classification, the Remuneration Policy for Management Bodies shall determine the upper limit of fixed remuneration within the ceilings set out in Table 2 below. In exceptional cases, where a company is classified in Group 5 and also satisfies all of the following criteria, which must be clearly demonstrated in the documentation submitted to the General Meeting, the upper limit of fixed remuneration may be set at a gross monthly amount exceeding EUR 22,000, but not exceeding EUR 40,000: (i) the company is a public limited company; (ii) more than 50% of its net sales revenue is generated in foreign markets; (iii) the Group has more than 5,000 employees; and (iv) the company has equity of at least EUR 500 million. When determining the final upper limit for fixed remuneration, a company should not automatically set it at the maximum level specified in these Recommendations. Instead, the company must consider: (i) the level of employees' 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 establish a lower limit (or express it as a range) for fixed remuneration. This lower limit should normally extend up to the upper limit of the previous group set out in Table 2. However, it may be set lower for specifically justified reasons, which must be explained and documented.

TABLE NO. 2: INDICATIVE BANDS (UPPER LIMITS) FOR FIXED REMUNERATION BY GROUP:

Group	Gross Monthly Fixed Remuneration (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. SSH may periodically adjust the upper limits set out in Table 2 and Recommendation 9.18, taking into account changes in the average Consumer Price Index over preceding periods.

9.20. In contracts concluded with members of the management body, the fixed remuneration shall be set within the upper limit specified in the Remuneration Policy for Management Bodies. The level of fixed remuneration for an individual member of the management body within that range shall be determined on the basis of the following factors: (i) the tasks and responsibilities of the individual member of the management body (e.g. whether the individual serves as the chair of the management body or as a member, taking into account the allocation of areas of responsibility); (ii) the individual's qualifications (knowledge, experience, references and skills); and (iii) the remuneration of members of management bodies in comparable companies operating in the same sector in Slovenia and, where appropriate, in the region (depending on the sector).

VARIABLE COMPONENT OF REMUNERATION

9.21. The Remuneration Policy shall establish a system of criteria against which the performance of the management body and its members is measured. The fulfilment of these criteria determines the entitlement of members of the management body 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 the company's long-term performance and development, sustainable business operations and long-term sustainability.

9.22. In the Remuneration Policy and in contracts with members of the management body, which may also refer to an appropriate resolution of the Supervisory Board, both financial and non-financial criteria shall be established. 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 entitlement to a significant proportion of the variable component of remuneration is contingent upon the achievement of strategic (long-term) goals or performance criteria that contribute to their achievement.

9.23. In contracts with management body members, based on the criteria system outlined in the Remuneration Policy, the criteria can be selected and tailored to reflect the duties and responsibilities of the individual member of the management body, so that they appropriately measure that member's 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 more than 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%. At least in companies in which SSH holds a majority shareholding, the criteria for variable remuneration 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 the criteria relating to the achievement of long-term (strategic) objectives account for at least one half of the total variable remuneration for each financial year. The criteria system may stipulate that the fulfilment of individual criteria is a prerequisite for eligibility for the variable component of remuneration, regardless of the fulfilment of other criteria. Similarly, the criteria system may determine that the amount of the variable component of remuneration is proportionally dependent on the degree to which individual or all criteria are met.

9.26. The Remuneration Policy should limit the variable component of remuneration that may be awarded for a particular financial year by defining the upper limit as a percentage of the fixed remuneration paid in the previous year (hereinafter: the maximum permissible variable component of remuneration). Specifically, for State-Owned Enterprises (SOEs) which, either individually or at Group level (where they are the parent company), generate more than 80% of their operating income through the provision of a service of general economic interest, on the basis of a legal or de facto monopoly, or as an in-house provider, the maximum permissible variable component of remuneration should not exceed 40%. For all other companies, it should not exceed 60%. For public limited companies, or Groups, with a significant proportion (more than 50%) of foreign ownership, companies that generate more than 50% of their net sales revenue in foreign markets, and banks and insurance companies, the maximum permissible variable component of remuneration may amount to up to 100% of the fixed remuneration paid in the previous year.

DEFERRAL OF VARIABLE REMUNERATION

9.27. The Remuneration Policy for companies falling within the scope of the ZPPOGD should stipulate that payment of at least 50% of the variable component of remuneration awarded to a member of the management body for each financial year is deferred for a minimum period 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 body's term of office ends before the expiry of the deferral period, they shall be entitled to payment of 50% of the variable component of remuneration upon the expiry of their term of office, provided that they have held office for at least two years.[6] Other companies may, at their discretion or in accordance with other applicable legislation or recommendations of good practice, include deferral provisions in the Remuneration Policy for Management Bodies.

SHARES AND SHARE OPTIONS

9.28. The Remuneration Policies of companies whose shares are traded on a regulated market may provide that no more than 50% of the awarded variable component of remuneration is granted in the form of shares, share options, or a combination of both. The exercise of share options or the award of shares must be linked to a share-based or share option incentive scheme approved by the General Meeting.

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 award) and the method of calculating the award;
- 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.

6 In the case of consecutive terms of office, the calculation of the duration of the term of office shall also take into account the preceding term.

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% of the shares awarded to them for a minimum of two years following their acquisition. During that period, they shall not dispose of their option rights.

9.32. In the case of implementing a share-based or share option incentive scheme in companies whose shares are not listed on a regulated market, or in companies that are not public limited companies, the principles set out in this section for public limited companies shall apply accordingly. Particular emphasis should be placed on determining the market value of equity interests and the manner in which they are traded on the market.

PROFIT-SHARING SCHEMES FOR MANAGEMENT BODIES

9.33. Profit-sharing must be provided for in the company's Articles of Association and is generally determined as a percentage of the company's annual net profit.

9.34. The General Meeting determines the participation of members of the management body in profits as part of its decision on the allocation of retained earnings.

9.35. The Remuneration Policy should provide that, depending on the company's legal form, profit-sharing may be paid in cash and/or in shares of the company, provided that an appropriate share-based incentive scheme has been adopted in accordance with the Remuneration Policy of a company whose shares are traded on a regulated market. Recommendations 9.28 to 9.31 shall apply *mutatis mutandis*.

9.36. The Remuneration Policy may provide that profit-sharing constitutes one of the possible forms of remuneration for members of the management body. In such cases, profit-sharing forms part of the variable component of remuneration and is subject to the recommendations governing the maximum total variable component of remuneration. Accordingly, where the maximum variable component of remuneration has already been awarded for a particular year, the General Meeting may not allocate retained earnings for that year for the purpose of remunerating members of the management body.

METHOD FOR ASSESSING THE ACHIEVEMENT OF THE OBJECTIVES SET BY THE CRITERIA FOR DETERMINING THE VARIABLE COMPONENT OF REMUNERATION

9.37. The Remuneration Policy should specify the method for assessing the achievement of the objectives set by the criteria for determining the variable component of remuneration, including the methods used to assess whether those criteria have been met, in accordance with good corporate governance practices.

9.38. The amount of the variable component of remuneration to which a member is entitled shall be determined annually on the basis of the (audited) annual report and other supporting documentation demonstrating the achievement of the relevant objectives.

RECOVERY OF VARIABLE REMUNERATION *(CLAW-BACK)*

9.39. The Remuneration Policy should provide that the company may require repayment of the variable component of remuneration already paid, or a proportion thereof, and that the awarded but unpaid portion of the variable component of remuneration shall, in whole or in part, not be paid where:

- the annual report is finally declared null and void, and the grounds for such nullity relate to items or facts forming the basis for determining the variable component of remuneration; or
- a special auditor's report establishes that the criteria for determining the variable component of remuneration were incorrectly applied or that the relevant accounting, financial or other data and indicators were not correctly determined or taken into account.

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. Repayment of the variable component of remuneration already paid shall, as a rule, first be effected by way of set-off against the awarded but unpaid portion of the variable component of remuneration, provided that the possibility of set-off is also included in the employment contract or civil law contract.

9.41. The Remuneration Policy may also specify additional grounds for the repayment of the variable component of remuneration already paid, which shall be included in the contracts concluded with members of the management body.

SEVERANCE PAYMENT ON EARLY TERMINATION OF OFFICE

9.42. The Remuneration Policy should stipulate that members of the management body are not entitled to severance payment in the cases prescribed by the Act governing companies (for this purpose, the provisions applicable to the management board of a public limited company shall apply to all management bodies). Under no circumstances shall members of the management body be entitled to severance payment upon the expiry of their term of office or where they resign voluntarily. The Remuneration Policy should specify the circumstances in which a member of the management body is entitled to severance payment and the amount payable, including dismissal for economic or business reasons and termination of office by mutual agreement where no culpable grounds for dismissal exist.

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 severance payment shall in no circumstances exceed the total gross fixed remuneration that would have been payable to the member of the management body for the remainder of the term of office had the term of office expired in the ordinary course.

9.44. In the event of the early termination of the term of office of a member of the management body who has served in that term of office for less than one year, the maximum amount of severance payment may be equivalent to three months' gross fixed remuneration, as specified in the contract concluded with the member of the management body.

9.45. The Remuneration Policy should provide that a member of the management body who, following the early termination of their contract, becomes employed by the company, one of its subsidiaries or another affiliated company may be entitled to severance payment not exceeding the difference between the gross fixed remuneration under the previous contract and the gross fixed salary under the new contract, multiplied by the relevant multiplier, without prejudice to Recommendations 9.43 and 9.44. Accordingly, the difference shall be applied to the number of months during which remuneration is received under the new contract, up to the maximum number of monthly severance payments to which the member would otherwise have been entitled.

9.46. The Remuneration Policy may provide that, in the absence of culpable grounds for dismissal, the parties may, at the initiative of either party, conclude an agreement on the early termination of the member's term of office, provided that this is in the interests of both parties. This may arise, in particular, where, in the reasonable opinion of the supervisory body, the member of the management body does not achieve optimal business results, lacks an appropriate strategic vision for the company's development, lacks the necessary organisational capabilities, where the relationship of trust between the supervisory body and the member has broken down, or where decisions taken in the exercise of sound business judgement subsequently prove to have been suboptimal, leading the supervisory body to conclude that the company would be better served by appointing another person to manage its business. The expected benefits to the company must outweigh the amount of the severance payment and any other payments required under 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 may provide, where the company's Articles of Association (or other constitutional document, as applicable) so permit, that contracts concluded with members of the management body include a non-compete clause that continues to apply after the termination of their term of office. Where a member of the management body is dismissed by the company, the non-compete restriction shall not exceed six months. In all other cases, the restriction shall apply for a period of not less than six months and not more than two years. During the period in which the non-compete clause is in force, the member of the management body shall be entitled to monthly compensation of up to 75% of their monthly fixed remuneration.

9.48. Even where the contract contains a non-compete clause, the supervisory body shall waive its enforcement following the termination of the member's term of office if, having regard to all the known circumstances, there is no real risk of prejudice to the company's interests from not enforcing the restriction in respect of that member of the management body. The non-compete clause shall not be used as a disguised 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 take into account 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 HOLDING DUAL OR MULTIPLE APPOINTMENTS WITHIN A GROUP

9.50. The fundamental principle governing the remuneration of members of management bodies holding dual or multiple appointments to management and supervisory bodies within a Group is the principle set out in Recommendation 9.14, namely that remuneration should reflect the complexity of the duties and responsibilities involved. In the case of dual appointments within a Group, each office carries its own duties and responsibilities. Accordingly, appointments in subsidiary companies should, as a general rule, be remunerated in full. An exception to this general rule applies where the time spent, duties and responsibilities arising from appointments in subsidiary companies are already reflected in the duties, time commitment and responsibilities, and consequently in the remuneration, relating to the office held in the parent company. This is particularly the case where organisational complexity arising from the management of companies within the Group constitutes one of the criteria for determining the fixed remuneration. Where this applies only in part, the remuneration payable in the subsidiary company shall be reduced proportionately. It should be presumed that, in contractual Groups and, to some extent, also in de facto Groups, at least part of the duties and responsibilities arising from an appointment in a subsidiary company are already reflected in the duties and responsibilities of the member of the management body of the parent company. The supervisory body shall, in the Remuneration Policy, specify the maximum remuneration that members of the management body of the parent company may receive from subsidiary companies or, alternatively, approve the level of remuneration payable by a subsidiary company before the member assumes office in that subsidiary.

REMUNERATION IN COMPANIES UNDERGOING FINANCIAL RESTRUCTURING

9.51. For members of management bodies in companies undergoing financial restructuring, whose business objectives are largely defined by the relevant restructuring programme, the supervisory body may establish specific criteria for determining the remuneration of members of the management body, taking into account the particular circumstances, the restructuring objectives and the pace of their implementation with a view to improving the company's financial position. The total remuneration of members of the management body in such a company shall not exceed by more than 50% the total remuneration they would have received had the company not been undergoing financial restructuring.

OTHER RIGHTS

9.52. The supervisory body shall, taking these Recommendations into account, determine in the Remuneration Policy the Other Rights to which members of the management body are entitled. 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, as a matter of course, incorporate into the Remuneration Policy all the Other Rights referred to in this Recommendation or determine them at the maximum permissible level provided for in this Recommendation. Rather, applying the principles of prudent judgement and acting in the best interests of the company, it shall assess the necessity and appropriateness of including individual Other Rights in the rules governing Other Rights and determine an appropriate upper limit within the recommended framework.

9.53. For the purposes of the Recommendations relating to Other Rights, the following terms shall have the meanings ascribed to them below:

- **Entitlements** are rights to use company-owned assets for private purposes and payments made by the company to third parties from which a member of the management body typically derives a personal non-monetary benefit (e.g. the private use of a company vehicle, payment for a preventive medical examination, payment of social security, health insurance and other insurance contributions, and supplementary training). Notwithstanding the definition in the preceding sentence, the following shall also be regarded as entitlements: the right to use company resources for business entertainment, the right to use company payment cards, the right to reimbursement of membership fees payable to professional organisations related to the performance of the duties of a member of the management body, and other non-monetary rights which do not fall within the above definition of entitlements but which, in accordance with established business practice, are ordinarily determined by the supervisory body when concluding contracts with members of the management body.
- **Specific allowances:** are holiday pay and winter allowance, 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 Incorporated into the contract from, or determined by reference to a collective agreement or to the employer's general corporate policy, and all other allowances which, by their nature or legal basis, do not fall within, or cannot properly be classified as, any of the following categories of remuneration: fixed remuneration, variable remuneration, severance payment or entitlements.

ENTITLEMENTS

9.54. The remuneration policy may include the following entitlements:

- the entitlement to **use a mobile phone** for private purposes, including the payment of subscription charges, call charges and data transmission charges;
- the entitlement to **use a laptop computer and/or tablet** for private purposes;
- the entitlement to **use a company car** for private purposes (including the payment of fuel for business travel within Slovenia and abroad and for private travel, road-user charges, vehicle registration, maintenance, technical inspections and regular servicing, as well as compulsory motor insurance and comprehensive insurance), as follows:
  - in a large company with complex operations, including organisational complexity (forming part of a Group), a sound financial position, and where the company or its Group generates more than 50% of its revenue from the sale of goods or services in competitive markets: the right to use a company car for private purposes with a retail purchase price (including VAT) of up to EUR 70,000 or up to EUR 90,000 in the case of an environmentally friendly passenger vehicle; in other large companies and medium-sized companies with a sound financial position: the right to use a company car for private purposes with a retail purchase price (including VAT) of up to EUR 50,000 or up to EUR 60,000 in the case of an environmentally friendly passenger vehicle; in all other companies: the right to use a company car for private purposes with a retail purchase price (including VAT) of up to EUR 40,000 or up to EUR 45,000 in the case of an environmentally friendly passenger vehicle;

  A **company car** that is also used for private purposes should not be **replaced** earlier than three years after its allocation or before it has been driven for at least 150,000 kilometres, except in duly justified cases and with the approval of the supervisory body. An environmentally friendly passenger vehicle means a vehicle powered exclusively by a 100% electric powertrain.
- Where a vehicle is acquired **under a finance lease or an operating lease agreement**, the financial thresholds set out in the preceding paragraph shall refer to the acquisition cost of the vehicle at the date of conclusion of the agreement. In the case of leased vehicles, the monthly lease payments payable to the lessor shall not exceed:
  - in a large company with complex operations, including organisational complexity (forming part of a group), a sound financial position, 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 entitlement to **reimbursement of all costs relating to supplementary education and training** undertaken to enable the more effective performance of the duties of office, up to an annual amount of EUR 20,000, including salary compensation during any related absence from work, provided that such absence does not exceed 10 days in any calendar year. When assessing this entitlement, a supervisory body shall take into account the characteristics of the market and the industry in which a company or a group operates. The policy may also provide that, where justified by business reasons, the entitlement may be granted in a higher amount or for a greater number of days. In such cases, the supervisory body shall decide, by resolution, on individual cases following a proposal by the management body;
- the entitlement to a **preventive executive medical examination**. In companies with complex operations or those implementing complex long-term restructuring programmes, this entitlement shall be granted annually. In other companies, it shall be granted once every two years;
- the entitlement to **payment of insurance premiums** (collective supplementary pension insurance, accident insurance, supplementary health insurance and traditional life insurance), excluding premiums for insurance products that entitle the beneficiary to receive payments under the policy (e.g. investment-linked life insurance or individual pension insurance). The Remuneration Policy shall limit the aggregate value of all insurance premiums, either by specifying a monetary amount or as a percentage of the fixed remuneration. The aggregate annual value of all insurance premiums shall not exceed one-twelfth of the recipient's annual fixed remuneration.
- the entitlement to **payment of premiums for directors' and officers' (D&O) liability** insurance, it being expected that the company will ensure the continuity of such insurance cover even after the member of the management body has ceased to hold office;

- the entitlement to **use a payment card** for the payment of specified business expenses (e.g. fuel costs for the allocated company vehicle and training expenses), including business entertainment expenses, in accordance with the company's business and financial plan and subject to appropriate expenditure traceability:
- the entitlement to **incur business entertainment expenses**, or to reimbursement of such expenses, in accordance with the company's business and financial plan, subject to appropriate expenditure traceability;
- the entitlement to **reimbursement of membership fees payable to professional organisations** connected with the performance of the duties of a member of the management body, up to a maximum of EUR 3,000 per annum. When assessing this entitlement, 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 policy may also provide that, where justified by business reasons, the entitlement may be granted in a higher amount. In such cases, the supervisory body shall decide, by resolution, on individual cases following a proposal by the management body;
- the entitlement to **reimbursement of legal representation costs and other reasonable and necessary expenses** incurred as a result of claims, proceedings or investigations brought by third parties, or in criminal, misdemeanour, administrative or other proceedings arising in connection with the performance of the duties of a member of the management body, including the right to have such costs advanced or paid on an ongoing basis by the company. The member of the management body shall be required to reimburse the company for any amounts so paid only where a final and binding decision establishes that they acted intentionally or with gross negligence. This entitlement shall not apply to claims brought by the company against the member of the management body and shall not be limited or excluded by the existence of directors' and officers' (D&O) liability insurance. It shall also continue to apply after the member has ceased to hold office where the proceedings arise out of the period during which they held office. The entitlement to reimbursement of costs shall, as regards both the types of costs covered and the extent of reimbursement, be limited to the scope of liability cover provided under the applicable Directors' and Officers' (D&O) liability insurance policy.

9.55. Recommendation No. 9.54 shall apply equally to employment contracts and civil law contracts, provided that they are based on a working week of at least 40 hours. If a shorter working week has been agreed in the employment contract, this shall be taken into account when determining the appropriate Other Rights to be granted, both as regards the entitlement itself and any applicable limitations (e.g. the maximum amount permissible for a particular entitlement).

SPECIFIC ALLOWANCES

9.56. The Remuneration Policy may include, as part of the Other Rights (unless expressly excluded by law), the following Specific Allowances regulated by the Employment Relationships Act (ZDR-1), subject to the following maximum limits:

- the entitlement to **an annual leave allowance and a winter holiday allowance:** a member of the management body shall be entitled to these on the same terms and in the same amount as apply to the other employees of the company. Where employees receive annual leave allowances in different amounts, the allowance payable to the member of the management body shall be equal to the lowest amount paid to an employee working full-time who is entitled to the full annual leave allowance;
- the entitlement to a **retirement benefit:** the conditions governing entitlement and the amount payable shall be determined in accordance with the Employment Relationships Act (ZDR-1). However, the parties should not rely on any more favourable provisions of a collective agreement or the employer's general internal policy;
- 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 travel, vehicle mileage expenses, reimbursement of accommodation expenses, reimbursement of expenses for travel to and from work, expenses for meals during work. Where a member of the management body is entitled to use a company vehicle for private purposes, they shall not be entitled to reimbursement of commuting expenses between their place of residence and their place of work;
- the entitlement to **salary compensation during periods of absence:** a member of the management body shall be entitled to salary compensation in the same cases, for the same duration and in the same amount as apply to the other employees of the 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 the 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, a member of the management body may continue to receive full remuneration, unless the parties agree otherwise.

9.59. Subject to the company's financial position, the Remuneration Policy may also include, as part of the Other Rights, Specific Allowances that are ordinarily governed by collective agreements or the employer's general internal policy, as well as other monetary benefits which, by their nature or legal basis, do not fall within the categories of fixed remuneration, variable remuneration, severance payment or Entitlements.

- the entitlement to a **long-service award:** on the same terms and in the same amount as apply to the other employees of the company;
- the entitlement to **special holiday payments (e.g. a Christmas bonus):** on the same terms and in the same amount as apply to the other employees of the company, unless such payments are defined in a collective agreement, the employer's general internal policy or a resolution of the management body as payments linked to the company's business performance or the employee's individual performance, or this is otherwise evident from the circumstances. For the purposes of these payments, the designation of the payment is not decisive and may be misleading. What is material is that its purpose or actual substance does not constitute remuneration that may be classified as a variable component of remuneration.
- **performance-related bonus** in accordance with a collective agreement or the employer's general corporate policy, provided that it is paid to all employees of the company, thereby ensuring the more favourable tax treatment applicable to that bonus for all employees. For members of the management body, any performance-related bonus shall count towards the maximum permissible variable component of remuneration for the relevant year;
- the **entitlement to an anniversary or employer's day bonus:** on the same terms and in the same amount as apply to the other employees of the company, in accordance with the company's business and financial plan;
- the **entitlement to a family separation allowance:** in the same cases and in the same amount as apply to the other employees of the company.

The following Specific Allowances should not be included:

- **other Specific Allowances** where the reason for providing such payments under a collective agreement or the employer's general internal policy is the employee's actual or presumed lower salary or less favourable financial position. The rules governing Other Rights should provide that such entitlements are not included in the contract or are expressly excluded from it where the contract generally refers to collective agreements and/or the employer's general internal policy.

9.60. The Specific Allowances referred to in Recommendation No. 9.59 should not be included in civil law contracts.

ALIGNMENT OF THE REMUNERATION POLICY WITH THE PROVISIONS OF ZPPOGD

9.61. The supervisory bodies of SOEs, which are subject to the remuneration provisions of ZPPOGD[7], 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, following a diligent assessment, they determine that, in accordance with these Recommendations, it is necessary to depart from the ZPPOGD framework for all or certain remuneration components in order to manage HR risks. In such cases, the formulated remuneration policy for the management bodies shall submit the proposed Remuneration Policy for Management Bodies to SSH before it is submitted to the General Meeting for approval, together with a detailed justification for the necessary deviations from ZPPOGD, and a proposal for SSH to obtain the consent of the

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

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 refer the Remuneration Policy to the Government of the Republic of Slovenia for consideration. Following receipt of 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 a Remuneration Policy for Management Bodies that complies with the ZPPOGD framework and, depending on the allocation of powers, shall either submit the revised Remuneration Policy to the General Meeting for approval or present it to the General Meeting for information. Subsidiaries of state-owned enterprises may not derogate from the provisions of ZPPOGD. The Remuneration Policy should clearly indicate the extent to which ZPPOGD has influenced the determination of the remuneration components and their respective amounts.

IMPLEMENTATION OF THESE RECOMMENDATIONS

9.62. If the remuneration system applicable to members of the management body at the time these SSH Recommendations are published allows an individual member of the management body to receive a higher fixed and/or variable component of remuneration than would be permitted under a Remuneration Policy adopted in accordance with these SSH Recommendations, the Remuneration Policy adopted pursuant to these Recommendations may provide that such remuneration exceeding the limits laid down in the company's Remuneration Policy must be brought into line with that policy, including by reducing such remuneration where necessary, no later than the commencement of the member's next term of office. In addition, with a view to establishing a harmonised remuneration system as soon as possible, both across different companies and among members of the management body within the same company, the competent corporate bodies shall endeavour to adjust the existing remuneration of members of the management body by agreeing reductions as soon as possible following the adoption of the Remuneration Policy, including during the current term of office.

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 or the founder shall merely be informed of the adopted Remuneration Policy. In limited liability companies without a Supervisory Board, the Remuneration Policy for the Management Body shall be adopted by the founder or the General Meeting, unless, for justified reasons, the adoption of such a policy is considered unnecessary (e.g. where the director performs their duties under a civil law contract on an occasional basis, or where the remuneration structure is straightforward due to the simplicity of the company's operations).

REASONING:

Recommendations under the heading *"Deferral of Variable Remuneration":*

The Recommendations provide that the payment of at least 50% of the variable remuneration allocated for a particular business year shall be deferred for a minimum period of two years. For this purpose, it is immaterial whether the variable remuneration rewards short-term or long-term performance, as the total amount of the variable remuneration allocated for the relevant year is taken into account. The deferral mechanism serves two purposes. First, where a member of the management body has held office for less than two years, they are not entitled to the deferred portion of the variable remuneration. In this respect, the Recommendation is consistent with ZPPOGD, although it applies to all companies. Its purpose is to promote continuity and loyalty. Secondly, the deferral mechanism is linked to the claw-back provisions, as the deferred remuneration may, where a claw-back clause is invoked, be set off against the company's repayment claim.

Recommendations under the heading *"Severance Payment upon Early Termination of Term of Office":*

The grounds precluding the payment of severance upon the early termination of a term of office also include the termination of the contract by the member of the management body. The cases in which a member of the management body is entitled to severance payment, as well as the amount of such payment, should be specified in the Remuneration Policy. Only dismissal for economic or business reasons and the mutually agreed termination of office in the absence of culpable grounds for dismissal are regarded as justified grounds for severance payment. 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. In such cases, the difference between the remuneration received in respect of the management position and the salary under the new employment is applied to the number of months for which the salary is received in the new position, up to the number of monthly severance payments to which the member would otherwise have been entitled.

Recommendation 9.46 sets out the conditions under which an agreement on the early termination of the term of office may be concluded at the initiative of either party, provided that it is in the interests of both parties. The key condition for concluding such an agreement is the absence of any culpable grounds for dismissal. Where such an agreement is concluded (as in the case of dismissal for economic or business reasons), the member of the management body is, as a general rule, entitled to severance payment of up to six months' gross fixed remuneration, as specified in the contract concluded with the member of the management body. An exception applies where the agreement is concluded during the first year of the term of office, in which case the severance payment may not exceed three times the gross fixed remuneration specified in the contract. A further exception applies where the agreement is concluded during the final six months of the term of office. In such cases, by analogy with Recommendation 9.43, the amount of the severance payment is reduced progressively on a monthly basis.

Recommendations under the heading *"Non-Compete Clause":*

These two recommendations comprise two provisions governing the non-compete clause, which companies agree with members of their management bodies pursuant to the Remuneration Policy and the Articles of Association. The first recommendation specifies that the duration of the non-compete restriction depends on the manner in which the term of office is terminated 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 further recommends that companies consider 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 is intended to prevent the non-compete clause from being used as a means of making disguised 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":*

This Recommendation introduces a limitation on the fixed remuneration payable to members of the management bodies of subsidiary companies in order to prevent situations where, except in specifically justified cases, the remuneration of members of the management bodies of subsidiary companies exceeds that of members of the management bodies of parent companies. The underlying assumption is that, save in rare exceptions, the responsibilities, scope and complexity of the duties performed by members of the management bodies of parent companies are substantially greater than those of members of the management bodies of subsidiary companies.

Recommendations under the heading *"Entitlements":*

Although the existing Recommendations already provide for the entitlement of a member of the management body to reimbursement of legal representation costs incurred in connection with claims or proceedings arising from the performance of their duties within the company (the so-called indemnification), this Recommendation has been updated to allow the company to advance such costs or pay them as they are incurred. The member of the management body is required to reimburse the company only where a final and binding decision establishes that they acted intentionally or with gross negligence. This entitlement is neither limited nor excluded by the existence of Directors' and Officers' (D&O) liability insurance and continues to apply after the member has ceased to hold office where the proceedings arise out of the period during which they held office. The entitlement to reimbursement of costs is limited, both as regards the categories of costs covered and the extent of reimbursement, to the scope of liability cover provided under the applicable Directors' and Officers' (D&O) liability insurance policy. Companies are expected to ensure the continuity of Directors' and Officers' (D&O) liability insurance even after the member of the management body has ceased to hold office. The Recommendation on indemnification relates solely to the company's reimbursement or advancement of legal defence costs. It does not extend to the payment of damages, losses, liabilities, claims or other compensation that a member of the management body may be required to pay to third parties.

Recommendations under the heading *"Specific Allowances":*

Among the rights that are commonly provided for under collective agreements or the employer's general internal policies is the entitlement to a performance-related bonus, which may only be granted if it is paid to all employees of the company. This ensures, in accordance with the applicable tax legislation, more favourable tax treatment for all recipients of such payments. The performance-related bonus is included in the maximum permissible variable component of remuneration of the member of the management body.

Recommendation *"Alignment of the Remuneration Policy with the Provisions of ZPPOGD":*

This Recommendation provides that companies subject to the provisions of ZPPOGD governing the remuneration of management bodies should continue to comply with that Act in addition to these Recommendations, unless they determine that a departure from the ZPPOGD framework is necessary for the purpose of HR risk management. Remuneration Policy for Management Bodies must first be submitted to SSH, which may, after assessing the justification for the proposed departure from ZPPOGD, decide to submit the policy to the Government of the Republic of Slovenia for consideration. In accordance with the position of the Ministry of Finance, departure from ZPPOGD is not permitted for subsidiary companies of State-Owned Enterprises (SOEs). This Recommendation enables companies, in justified cases, to adopt a Remuneration Policy for Management Bodies outside the framework of ZPPOGD. However, for such a policy to be submitted for approval by the company's General Meeting pursuant to Article 90 of the ZSDH-1, SSH must first obtain the consent of the Government of the Republic of Slovenia.

Taking Inflation and Individual Price Increases into Account

The recommended amounts for the fixed remuneration have been adjusted in these Recommendations to reflect inflation (based on the increase in the average Consumer Price Index, with appropriate rounding) since the previous edition of these Recommendations. Similarly, the amounts relating to other rights have been adjusted to reflect increases in the prices of goods and services.

10. REMUNERATION POLICY FOR SUPERVISORY BODIES

10.1. SSH expects the General Meetings of companies to adopt Remuneration Policies for Supervisory Bodies (or resolutions), in accordance with the law and the Corporate Governance Code for State-Owned Enterprises (SOEs). Such policies should stipulate that the remuneration of supervisory bodies consists of the basic payment for performing the function, attendance fees and reimbursement of actual travel and accommodation expenses incurred in the performance of their duties. The remuneration of supervisory bodies shall be 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[8]	Basic Payment for Performing the Function
Micro and small enterprises – poor financial position	Up to EUR 5,500 gross per annum
Micro and small enterprises – sound financial position	Up to EUR 6,800 gross per annum
Medium-sized enterprises – poor financial position	Up to EU 8,100 gross per annum
Medium-sized enterprises – sound financial position	Up to EUR10,700 gross per annum
Medium-sized enterprises – sound financial position (satisfying one criteria for large enterprises)	Up to EUR 13,300 gross per annum
Large enterprises – poor financial position	Up to EUR 14,300 gross per annum
Large enterprises – sound financial position	Up to EUR 16,900 gross per annum
Large enterprises – sound financial position (listed companies, banks and 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 the function for members of the Board of Directors who are not 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 as 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 Supervisory Board committees shall be entitled to a supplement for performing the function amounting to 25% of the basic payment for performing the function as a Supervisory Board member for each committee membership. 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. Notwithstanding the foregoing, and irrespective of the number of committees of which they are a member or President, an individual member of a Supervisory Board committee shall, in any given financial year, be entitled to receive supplements for performing the function only until the aggregate amount of such supplements reaches 50% of the annual basic payment for performing the function as a Supervisory Board member.

10.7. Where the term of office of an individual Supervisory Board member is shorter than the financial year, an individual member of a Supervisory Board committee shall, notwithstanding the foregoing and irrespective of the number of committees of which they are a member or President, be entitled, in the relevant financial year, to receive supplements for performing the function only until the aggregate amount of such supplements reaches 50% of the basic payment for performing the function payable to that Supervisory Board member, calculated on a pro rata basis by reference to the remuneration to which they were entitled during the period of their term of office in the relevant financial year.

8 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 are entitled to reimbursement of travel and accommodation expenses incurred in connection with the performance of 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 shall be calculated in accordance with these regulations to ensure that the net payment represents reimbursement of the actual travel expenses incurred.

10.9. SSH may periodically adjust the recommended upper limits for the basic payment for performing the function and the attendance fees (Tables in Recommendations 10.2 and 10.3) in line with the increase in the Consumer Price Index since the most recent adjustment.

REASONING:

The primary document in which SSH sets out its recommendations for the remuneration system applicable to supervisory bodies in State-Owned Enterprises (SOEs) is the Corporate Governance Code for State-Owned Enterprises (hereinafter: “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 for each component of remuneration. The provisions of the Code and the SSH Recommendations and Expectations provide the 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 supplements 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 of members of supervisory bodies and session 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 in favour of a remuneration system designed to attract highly qualified 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 establish the recommended remuneration of supervisory bodies for all State-Owned Enterprises (SOEs), which are classified into several categories according to their size and financial position for the purpose of determining the recommended basic payment for performing the function as a member of the Supervisory Board. The underlying premise of this Recommendation is that the size of the company reflects the scope of the responsibilities of the Supervisory Board.

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 servicing as the President and Deputy President of the Supervisory Board. Furthermore, the Recommendations also cover additional supplements 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 substantively identical to the former Annexes 1 and 2 to the Corporate Governance Code for State-Owned Enterprises. The only change is that the content has been transferred to a more appropriate document.

11. RISK MANAGEMENT

11.1. The company's executive management shall establish a risk management system and shall ensure its ongoing effectiveness and proper functioning. Risks shall be managed by the company's executive management when making specific business decisions. Where appropriate, the company's executive management shall ensure that key risks are appropriately insured or otherwise hedged.

11.2. Having regard to the nature and scope of the company's operations, the company's executive management shall ensure that the company implements appropriate risk management measures, including:

- 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 the professional development, regular maintenance and continuous improvement of the established risk management system;
- regular monitoring, assessment and analysis of existing risks, and the establishment of methods for identifying new risks;
- regular measurement of the company's exposure to risks, determining measures to manage, reduce, or eliminate the possibility of risks occurring, designating persons responsible for implementing such measures, and setting reasonable deadlines for their implementation;
- establishing and regularly updating a risk register (or risk catalogue);
- defining the method of reporting on risks;
- disclosing material risks in the annual report and describing the manner in which they are managed, including a description of the internal control system,
- the company's executive management shall regularly and in a timely manner inform the Supervisory Board of all material risks and the manner in which they are managed, and shall report at least annually on the established risk management system.

REASONING:

The operations of companies are directed towards achieving set goals through prudent business practices. Regardless of its business objectives, a company is always exposed to various risks that may prevent it from achieving those objectives. 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 the elements of risk exposure, assessing the identified risks, and classifying them according to the likelihood and severity of their potential consequences. Based on such an analysis, an appropriate risk management system is established.

12. EARLY TERMINATION OF TERMS OF OFFICE, DISMISSAL AND CONTRACTUAL ARRANGEMENTS FOR MEMBERS OF THE MANAGEMENT BODY

The following recommendations provide guidance on the conclusion of agreements on the early termination of the terms of office of members of the management body, the fixed-term employment of members of the management body, the dismissal of members of the management body from office, and the preparation of contracts governing the performance of the function of members of the management body, with a view to managing certain risks arising in connection with dismissal.

EMPLOYMENT OF MEMBERS OF THE MANAGEMENT BODY FOR A FIXED TERM

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

DISMISSAL OF MEMBERS OF THE MANAGEMENT BODY FROM OFFICE

12.2. If the law does not prescribe grounds for dismissing 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 office. In such cases, grounds 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 grounds for the dismissal of members of the management bodies. Culpable grounds include: serious breach of duties, inability to manage the company's affairs, or a justified vote of no confidence by the General Meeting. If a culpable ground 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 grounds, 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 effective date of dismissal (which is generally 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 grounds is not offered an employment contract or any other contract in the company from which they were dismissed, or in any affiliated company. This restriction should be appropriately incorporated into the employment contract or civil law contract concluded with the member of the management body upon taking office.

12.5. Where a member of the management body is dismissed on the grounds of a serious breach of duties constituting a criminal offence or causing substantial harm to the company (EUR 50,000 or more), in a company in which SSH holds a majority interest or exercises a dominant influence, SOEs shall take this circumstance into account when assessing that person's integrity as a job applicant or employee for at least five years from the date of dismissal, provided that the circumstance is known to them.

CONCLUSION OF AGREEMENTS ON THE EARLY TERMINATION OF THE MANDATE OF MEMBERS OF THE MANAGEMENT BODY

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 in the absence of culpable grounds for the dismissal of the member of the management body from office;
- 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 ground and other relevant circumstances, the supervisory body shall strive to include in the agreement the forfeiture of the member's entitlement to the unpaid portion of the variable component of remuneration, 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 from office and determined the variable remuneration in accordance with the general rules; and
- in the absence of culpable grounds for dismissal from office, 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 the management of the company's affairs, does not demonstrate the best strategic vision for 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 the business judgement rule later prove to be suboptimal. Accordingly, the supervisory body concludes that it would be possible to appoint another person who would manage the company's affairs more effectively 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 grounds are applied mutatis mutandis when determining the amount of severance payment under the agreement.

RECOMMENDATIONS FOR CONCLUDING CONTRACTS FOR PERFORMING FUNCTION AS MEMBERS OF MANAGEMENT BODIES IN ORDER TO MANAGE CERTAIN RISKS ASSOCIATED WITH 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 fixed term, that is, for the duration of the member's term of office;
- the guideline from Recommendation 12.2, which states that grounds 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), by specifying the circumstances in which the member of the management body is entitled to severance payment and the amount thereof, as well as the circumstances in which no severance payment is payable. In this regard, Recommendation 12.6 shall apply accordingly;
- in employment contracts or civil law contracts with members of the management bodies, their duties and powers should be defined with sufficient precision, thereby reducing the likelihood of disputes as to whether duties have been breached or whether the member of the management body is incapable of performing their duties.

REASONING:

It is in the interest of the company to conclude an employment contract or civil law contract for a fixed period with members of the management body who were not previously employed by the company, that is, for the duration of the member's term of office. This eliminates the risk of unnecessary accumulation of personnel in the organization or other problems that may arise upon the termination of their mandates.

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

If culpable grounds for dismissal of members of the management body exist, 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 grounds: serious breach of obligations, incapacity to the company's affairs, or justified lack of 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 justified grounds 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 public limited companies with a one-tier management system, even if the law and the Articles of Association allow dismissal without stating any grounds. It is impossible to prescribe an absolute rule for how the supervisory body should act in relation to 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 supervisory body's discretionary judgement. It is also important that the grounds for the decision are properly substantiated 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: the "Agreements"), Recommendation 12.6 contains a fundamental general guideline that Agreements should not be concluded as a general rule if there are culpable grounds 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 will generally constitute a financially neutral and legally secure solution for the company. In certain cases, the Agreement will only be financially neutral for the company only if the member of the management body also waives, in whole or in part, the variable component of remuneration that has not yet been determined (allocated) or whose payment has been deferred. The Recommendation provides guidance on when the conclusion of the Agreement is generally in the company's interest in the absence of culpable grounds for dismissal, notwithstanding the existence of other reasons for the Company to part ways with the 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 another person who, in the supervisory body's assessment, would manage the company's affairs more effectively.

It is recommended that dismissal on culpable grounds involving particularly serious misconduct 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 dismissal resolution being set aside by a court as unjustified. The aim is also to reduce the risk of the company being unsuccessful in disputes with dismissed members of the management body concerning their entitlement to severance payment and the amount thereof.

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. Measures adopted to achieve these objectives should be proportionate to the size of the company, the nature and challenges of the sector, and the specific circumstances of the individual company.

13.2. Companies should foster a working and governance environment that promotes diversity, equity and inclusion and systematically removes barriers to the participation of underrepresented groups.

13.3. Objectives relating to diversity should be measurable. Companies should report comprehensively on the achievement of those objectives and the progress made on an annual basis, in accordance with the applicable legislation and recognised reporting standards.

13.4. SSH expects the competent bodies of SOEs, as well as of subsidiary companies within groups headed by an SOE, to actively promote balanced gender representation on multi-member management and supervisory bodies. The bodies responsible for appointing employee representatives to management and supervisory bodies should likewise endeavour to ensure that, taken as a whole, those bodies comprise representatives of both genders.

13.5. Companies shall ensure balanced gender representation in accordance with the provisions of the Companies Act (ZGD-1) and shall take into account the objectives and measures laid down in Directive (EU) 2022/2381 on improving the gender balance among directors of listed companies and related measures.

13.6. Companies subject to these requirements shall specify in their diversity policy a target proportion for the underrepresented gender, namely either:

- at least 40% representation of the underrepresented gender on supervisory bodies; or
- at least 33% representation of the underrepresented gender across management and supervisory bodies taken together;

and shall define the time frame for achieving the selected target.

13.7. The bodies responsible for appointing or electing employee representatives to management and supervisory bodies should likewise endeavour to ensure that, taken as a whole, such bodies comprise representatives of both genders, in accordance with the applicable statutory requirements.

13.8. In addition to gender diversity, companies should also take into account other important aspects of diversity when selecting members of management and supervisory bodies, in particular knowledge, professional experience, education, age, international experience and other competencies relevant to the company's long-term success.

13.9. The company should appropriately involve shareholders or members holding a significant equity interest in the company or a significant proportion of the voting rights at the General Meeting in the process of preparing nominations for members of the supervisory body.

PRINCIPLES FOR THE SELECTION OF MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES

13.10. When appointing or electing members of the management and supervisory bodies, companies shall apply predetermined, clear, unambiguous and gender-neutral selection criteria. Candidates shall be assessed objectively on the basis of their individual competencies, knowledge, experience and suitability for the performance of the function.

13.11. Where two candidates are equally qualified, priority shall, in accordance with the Companies Act (ZGD-1) and Directive (EU) 2022/2381, be given to the candidate of the underrepresented gender, unless objectively justified reasons relating to other aspects of the diversity policy exist, in which case such reasons shall be specifically stated.

GOVERNANCE AND REPORTING

13.12. The diversity policy for the management and supervisory bodies shall be adopted by the company's Supervisory Board. The policy shall include:

- the definition of the relevant aspects of diversity;
- gender diversity objectives;
- measures for achieving those objectives; and
- the timeframe for their implementation.

13.13. As part of the corporate governance statement or the management report, companies shall report annually on:

- the diversity objectives established;
- the achieved level of gender representation in the management and supervisory bodies; and
- the measures adopted or planned where the objectives have not been achieved.

REASONING:

Diversity, equity and inclusion (DE&I) are interrelated principles of modern corporate governance. They reflect efforts to ensure the inclusion of individuals and groups regardless of gender, age, disability, nationality, religion or other personal circumstances, and constitute an important element of sustainable and responsible corporate governance.

Diversity of knowledge, experience and perspectives within the management and supervisory bodies contributes to higher-quality decision-making, more effective risk management and the long-term success of companies. An inclusive organisational culture based on respect, dignity and equal treatment enables individuals to realise their full potential.

One of the key dimensions of diversity contributing to the success of companies is gender diversity within the management and supervisory bodies. SSH therefore expects SOEs to address this area appropriately by establishing clearly defined objectives, measures and transparent reporting, while going beyond the minimum statutory requirements and recognising gender diversity as a strategic advantage.

14. CORPORATE COMPLIANCE AND INTEGRITY (CCI)

14.1. All large companies or groups of companies in which SSH (in its capacity as the asset manager) holds a majority ownership interest or a dominant influence and which have more than 500 employees should, with a view to ensuring compliance and integrity and minimising the risks of corruption and other unlawful or unethical conduct, 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: the "Officer"), or depending on the size of the company, establish an organizational unit for corporate compliance and integrity, whose leader performs the duties and tasks of the Officer;
- the Officer (or the Head of the Compliance and Integrity 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 supervisory body;
- the Officer (or the organisational unit) should report directly to the company's management (second management level in the organisational hierarchy);
- 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 duties and responsibilities of the Officer (or the Head of the organisational unit) should be determined, as appropriate, in accordance with Chapter 6 of the 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 (Head of the organisational unit), or employees responsible for compliance and integrity, should perform their duties independently and autonomously. They must be well-educated and experienced. To facilitate their unimpeded work, they should be provided, where necessary, with appropriately qualified and remunerated professional support, adequate resources, access to information and the necessary 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 relating to corruption, unethical or unlawful conduct, as well as other compliance risks;
- prepare a risk management plan identifying permanent and/or ad hoc measures for managing such risks (by preparing an Integrity Plan or Anti-Corruption Programme as a separate internal document). The Officer shall be responsible for preparing the Integrity Plan or Anti-Corruption Programme and for overseeing the implementation of the measures. The company's management shall be responsible for implementing the measures. The Integrity Plan or Anti-Corruption Programme may form part of the company's overall risk management system; however, these risks should be addressed separately;
- 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;
- particular attention should be paid to internal and external education and training at all levels of the company (employees, management and supervisory bodies) in the field of compliance and integrity;

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-sized, small and micro companies in which SSH holds a majority ownership interest or a dominant influence shall carry out compliance and integrity activities in accordance with the applicable legislation, regulations and recognised good practice in the field of compliance and integrity, taking into account the nature of the company's operations, its size and the number of employees.

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 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.

15. SECURITY AND RESILIENCE

INTRODUCTION

Resilience is defined as the comprehensive capability of a company to prevent, protect against, respond to, withstand, mitigate and absorb, adapt to, and recover from disruptive events through the active management of physical, digital, organisational and human resources[9], thereby ensuring the uninterrupted provision of essential services in accordance with the requirements of the Information Security Act (hereinafter: the ZInfV-1) and the Critical Infrastructure Act (hereinafter: the ZKI-1).

For the purposes of the ZInfV-1, **information security** means the protection of network and information systems and the data associated with them against unauthorised access, use, disclosure, disruption, modification or destruction, so as to ensure the confidentiality, authenticity, integrity and availability of those systems and data. **Cybersecurity** means the activities required to protect network and information systems, the users of such systems and other persons affected by cyber threats.

These Recommendations are intended for all companies subject to the ZKI-1 and the ZInfV-1. For small and medium-sized companies that are not subject to these Acts, SSH expects the proportionate application of appropriate measures to strengthen cyber resilience and basic cyber hygiene, in accordance with the Cybersecurity Handbook issued by the Government Information Security Office of the Republic of Slovenia and recognised international standards.

ROLE OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

15.1. The Management Board bears the direct and non-delegable responsibility for ensuring the uninterrupted provision of essential services and the operation of critical infrastructure, including the establishment, implementation and oversight of resilience, information security and cybersecurity measures, in accordance with the ZKI-1 and the ZInfV-1.

The Management Board shall:

- ensure compliance with the ZInfV-1 and, in the case of critical entities under the ZKI-1, compliance with the ZKI-1;
- adopt and continuously update the Resilience Plan in accordance with Articles 13 and 16 of the ZKI-1;
- ensure that information security, cybersecurity and business continuity are integrated into all internal controls and risk management framework of the company;
- establish an internal framework for the governance of information security, cybersecurity and resilience, including policies, procedures and oversight arrangements, whereby the implementation of recognised international standards in this field is recommended;
- identify essential services, critical functions, processes and assets whose disruption could result in significant damage, systemic consequences or jeopardise the company's ability to satisfy the conditions for carrying on its activities. These functions shall be given priority in business continuity plans, which shall be regularly tested in practice and updated;
- ensure that roles and responsibilities relating to security and resilience are clearly assigned at the level of the Management Board, executive management and key functions;
- ensure sufficient financial, human, technical and other resources for managing these risks and assess the appropriateness of obtaining cyber insurance;
- regularly monitor and assess cyber, information security and physical security risks as part of the company's overall risk management system;
- manage risks relating to ICT supply chains and external service providers, including supplier risk assessments, the incorporation of security requirements into contractual arrangements, oversight of service providers, and the management of geopolitical risks and dependencies on individual suppliers;

9 These resources are critical to the achievement of the company's objectives and its long-term viability, in particular:

- People – key knowledge, experience and holders of critical competencies;Information and data – databases, documentation and organisational knowledge;
- Systems and infrastructure – IT systems, equipment and tools;
- Financial resources – liquidity and access to financing;
- Relationships – key partners, suppliers and customers;
- Time and reputation – stakeholder confidence and the ability to respond rapidly.

- determine measures to reduce risks and ensure operational resilience, including incident response, crisis communication and business recovery plans;
- promote an internal culture of corporate security, ensure the integrity of personnel occupying critical positions, and provide regular training for themselves and all employees (members of the management board shall undergo mandatory and regular cybersecurity training);
- ensure the regular conduct of information security audits, include information security in the annual internal audit plan, and carry out periodic security reviews, independent technical testing and regular crisis management simulation exercises, in which the Management Board shall actively participate;
- identify and manage opportunities and risks associated with the development and use of dual-use technologies.

15.2. The Supervisory Board should assume an active oversight role in ensuring information security, cybersecurity, the resilience of critical functions and critical infrastructure, and should treat resilience as a strategic priority.

The Supervisory Board and the Audit Committee shall:

- review, at least annually, reports on information security, cybersecurity and operational resilience (and more frequently where heightened risks or incidents so require);
- continuously monitor the most significant risks, the status of and implementation of the Resilience Plan, the results of exercises and testing, incidents and the corrective measures taken in response thereto, risks relating to key suppliers, and the implementation of any additional significant measures;
- monitor the company's compliance with legislation and standards relating to information security, cybersecurity and resilience, and require the Management Board to obtain independent external assurance regarding the adequacy of the measures adopted;
- undergo regular training in the fields of security and resilience.

15.3. A company designated as a critical entity under the ZKI-1 shall appoint a responsible person at the Management Board or executive level (e.g. a member of the Management Board or an executive director responsible for the relevant area) who shall be the owner of the resilience process and shall ensure coordination between information security, cybersecurity, operational functions, IT/OT, procurement and legal affairs, and shall act as the principal point of contact for regulators and competent authorities.

SELF-ASSESSMENT BASED ON THE METHODOLOGIES OF THE GOVERNMENT INFORMATION SECURITY OFFICE AND THE MINISTRY OF DEFENCE

15.4. SSH expects companies subject to the ZKI-1 and/or the ZInfV-1 to carry out self-assessments or compliance assessments in relation to these Acts and to use the tools/questionnaires developed by the Government Information Security Office of the Republic of Slovenia (URSIV) and the Ministry of Defence of the Republic of Slovenia (MORS), including any future updates thereto. The key findings arising from these questionnaires shall be incorporated into the company's annual risk management plan, together with the measures adopted.

COOPERATION OF COMPANIES DESIGNATED AS CRITICAL ENTITIES UNDER THE ZKI-1 AND SUBJECT TO THE ZKI-1 AND THE ZINFV-1

15.5. SSH expects companies subject to these Acts to cooperate actively with the National Crisis Management Centre, the Government Information Security Office of the Republic of Slovenia, the Ministry of Defence, the competent CSIRT teams and other sectoral regulators in the exchange of information concerning cyber and non-cyber incidents, threats and vulnerabilities.

MANAGEMENT OF OPPORTUNITIES RELATING TO DUAL-USE TECHNOLOGIES

15.6. The Management Board of a company should ensure the systematic monitoring of developments in emerging technologies, such as artificial intelligence, robotics, quantum technologies and space applications, assess their potential for the development of new products, services or business models, and promote their integration into the company's strategic development and innovation plans.

Companies should also regularly assess opportunities to participate in European research and development programmes, technology partnerships and projects relating to digital, energy and infrastructure resilience.

At the same time, the Management Board must establish robust mechanisms for managing compliance risks, particularly in relation to export controls and international sanctions regimes, as the transfer or trade in dual-use technologies without appropriate due diligence may expose the company to a range of risks.

REPORTING TO SSH

15.7. As part of its regular annual reporting to SSH at periodic meetings, the company shall report on the key strategic matters arising under both Acts and these Recommendations.

In addition to such regular reporting, SSH expects the Management Board to notify SSH of any major cyber, physical or security incident that could seriously jeopardise the continuity of the company's operations, cause significant material damage, or adversely affect the reputation of the company or of the State as its owner.

REASONING:

Recent geopolitical disruptions, armed conflicts, the energy crisis, and the growing prevalence of hybrid and cyber threats have fundamentally transformed the macroeconomic and security environment in recent year.

Resilience is a cornerstone of the financial stability, operational resilience, strategic autonomy and national security of the Republic of Slovenia and forms an integral part of responsible, long-term corporate governance.

During peacetime crises, periods of heightened preparedness or extraordinary security circumstances, key elements of society, public services and the defence system are directly dependent on the services, infrastructure and resources of state-owned enterprises. These companies therefore bear a particular responsibility for ensuring continuity of supply and the continued operation of critical infrastructure systems.

Companies designated as critical entities under the Critical Infrastructure Act (ZKI-1), companies operating critical infrastructure, and other systemically important companies within SSH's portfolio should, while respecting market principles and the rules of competition, strengthen both their own resilience and the resilience of critical infrastructure in an effective and proportionate manner, thereby contributing to the security and resilience of the State. Pursuant to the Critical Infrastructure Act (ZKI-1), the Government may, upon the proposal of the competent critical infrastructure sector authorities, adopt additional resilience measures at the critical infrastructure sector level and decide on the allocation of funds for the implementation of such measures where they are required to be implemented by critical entities.

In managing their operations, companies should also consider the business, development and strategic opportunities, as well as the security risks, associated with dual-use technologies. Dual use means that infrastructure, technologies or products may be used for both civilian and defence or security purposes.

In formulating these Recommendations, SSH has also taken into account the objectives of the **Resilience Strategy of the Republic of Slovenia 2030**, which provides the national strategic framework for strengthening resilience, particularly in relation to cooperation with the private sector, ensuring business continuity and reducing systemic vulnerabilities. Companies should therefore, in a manner proportionate to their size, role and activities, treat resilience as a broader concept than information and cyber security alone and systematically integrate it into their operational, supply chain, human resources, infrastructure, financial, environmental and other relevant activities. They should create conditions that strengthen strategic autonomy, promote independence and self-sufficiency in raw materials, and ensure the continuity of supply chains for products, semi-finished products and raw materials that cannot be secured at the national level.

SCHEDULE 1:

SAMPLE GENERAL MEETING RESOLUTION ON THE REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

REMUNERATION FOR MEMBERS OF THE SUPERVISORY BOARD

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 payable for attendance at a full Supervisory Board meeting. In the case of meetings conducted by correspondence, the attendance fee is 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 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 during the 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 attendance at both Supervisory board and committee meetings during the 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 President of the Supervisory Board 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 performing their function as committee members, 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 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, an individual member of a Supervisory Board's committee shall be entitled to receive additional payments for their role during a 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 of 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 term of office. 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 amount of reimbursement shall be 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 website, 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 shall apply on the date of its adoption by the General Meeting. Upon its entry into force, Resolution No. _____ adopted by the General Meeting on ________ is repealed.

REMUNERATION FOR MEMBERS OF BOARD OF DIRECTORS

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

- instead of the terms "a member/President/Vice-President/Deputy President of the Supervisory Board", "a member/President of a Supervisory Board's committee" and the term "Supervisory Board", the following terms shall be used: "member/President/Vice-President/Deputy President of the Board of Directors", "a member/President of a Board of Directors' committee" and "Board of Directors".
- In item 1 of the Sample Resolution, the following text: *"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 during the 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 attendance at both Supervisory board and committee meetings during the 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 by the following text:** *"Regardless of the above and irrespective of the number of board meetings attended, an individual member of the Board of Directors is entitled to receive attendance fees during the 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, excluding the Increase. Regardless of the above and irrespective of the number of board 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 attendance at the meetings of the Board of Directors and its committees during the financial year, up to a maximum total of 75% of their annual basic payment for performing their function as a Board of Directors member, excluding the Increase."*
- In item 2 of the Sample Resolution, the following text: *"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 by 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 that Increase in the basic payment.)"*
- When a Board of Directors comprises members who simultaneously hold the office as Executive Directors of 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 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 office as 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 during the 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 office as 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, in accordance with item 2 of this Resolution, applies to members of the Board of Directors not holding an executive function. A member shall be entitled to reimbursement of expenses incurred in connection with their office as a member of the Board of Directors or its committees, in accordance with item 5 of this Resolution, only if they have not already received reimbursement of the same expenses for the same event in their capacity as Executive Director of the 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, AND FOR THE SUPERVISORY BODIES OF COMPANY X

(Template – Example for a Public Company Acting as a Controlling Company of a Group)[10]

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. [11] (hereinafter: the "Company"), whose shares are listed on the organized securities market, contains principles and rules to be observed in regulating the remuneration of the management body in the Company. The Company is the controlling company within Group X (hereinafter: the "Group"), and therefore, this Remuneration Policy for the management body also regulates the framework and 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: "the ZGD-1") and taking into account the SSH Recommendations and Expectations of XX.XX.XXXX. Since the Company is majority-owned by the state, and the subsidiary companies of the Group are also majority-owned by the state, all with their registered offices in the Republic of Slovenia, the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic as amended; hereinafter: 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: "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 shall enter into force upon its submission to the Company's General Meeting following the vote on this agenda item. 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 appropriateness 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 aspects 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: "**Su-**

10 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.

11 Fields marked in yellow shall be adapted to the individual company.

pervisory Board Rules on the Determination of the Criteria for the Variable Remuneration of the Company's Management Board"). The Supervisory Board shall review the content of that internal act, 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 governing the handling of potential and actual 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 shall avoid conflicts of interest, meaning that, in any specific matter in which they have a personal interest that conflicts with the interests of the Company, they shall not participate, act, make decisions or otherwise 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 THE REMUNERATION POLICY FOR MANAGEMENT BODIES

1. Objectives of the Remuneration Policy

Objectives of the Remuneration Policy are as follows:

- attracting suitable professionals to the management bodies and determining the level of their remuneration so as enable competent performance of their duties and financial sustainability;
- motivating members of the management bodies to perform their work in a responsible and active manner, and to achieve the goals set, thereby promoting the company's business strategy, its long-term development, and sustainability;
- preventing premature departures of skilled, motivated, and successful members of the management bodies.

2. Principles of the Remuneration Policy

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

<u>The principle of limiting total remuneration</u> is also taken into account, as the Remuneration Policy establishes upper limits for all components of remuneration.

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

<u>The principle of cost-effectiveness</u> is also taken into account, as the principles and rules of the Remuneration Policy for the management bodies provide an appropriate tool for managing HR risks and establish a basis for benchmarking the remuneration of management bodies against that of comparable companies.

3. Components of remuneration and their functions

When determining the components of remuneration in the Remuneration Policy for the Company's management body, taking into account the established structure of remuneration in the Slovenian business environment (as reflected in ZGD-1[12] and

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

ZPPOGD), the Supervisory Board has based its approach on the functions of individual components of remuneration and has adopted four recommended components. First, fixed remuneration, which represents compensation for the efforts involved in performing the duties of a member of the management body and is payable irrespective of the 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 a member of the management body may, in certain circumstances, receive instead of the preceding three remuneration components in the event of the early termination of their term of office.

4. The maximum permissible amount of the fixed component of remuneration for a member of the management body shall be set at a level that enables the supervisory body to attract highly qualified professionals to the management body who are motivated to perform their duties responsibly and proactively, while preventing unjustifiably high levels of fixed remuneration having regard to the company's needs, performance and financial position.

When determining the maximum permissible amount of the fixed component of remuneration for the Company's management body, the supervisory body based its assessment on the complexity of the Company's operations, taking into account its financial position. The supervisory body based its assessment on the system for assessing the complexity of business operations established by SSH in the 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 good. The Company has consistently generated stable profits, and the outlook for future performance is also positive. The proportionality of the remuneration of the Company's management body to the Company's financial position is also reflected indirectly in the ratio of the remuneration of the management body to the average salary within the Company, as this ratio is typical for the industry in which the Company operates and is consistent with the remuneration levels in comparable companies.

When formulating the Remuneration Policy for the Company's management body, the Company has taken into account the remuneration levels in the following comparable companies: ___________[a list of companies]. The Company will also take into account the remuneration levels in comparable companies when entering into contracts with members of the management body. This will ensure that the remuneration of the Company's management body remains aligned with that of comparable companies, thereby facilitating the effective management of HR risks.

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

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

6. The maximum permissible severance payments

The Remuneration Policy sets out, in a sufficiently clear and determinable manner, the maximum permissible severance payments and the rules governing the circumstances in which they may be paid.

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

On XX.XX.XXXX [insert date], the Company adopted a multi-year business strategy that defines the Company's strategic objectives, key measures (activities), and responsible parties for implementing the measures. The components of remuneration in the Company's Remuneration Policy for the management bodies are structured so as to promote the implementation of the adopted business strategy. The key division of remuneration components in the Company's Remuneration Policy for the management bodies is between the fixed component of remuneration and the variable component of remuneration. The fixed component of remuneration does not have a specific incentive function, as the payment of this part of remuneration is not dependent on business results. The variable component of remuneration has an incentive effect, as its allocation depends on predetermined criteria set out in the Remuneration Policy so as to establish a link between the achievement of the Company's annual business objectives and strategic objectives, on the one hand, and remuneration, on the other. In this way, members of the management body shall receive a higher variable component of remuneration and, consequently, higher total remuneration, if the management body is successful in achieving the Company's annual objectives and the objectives of the adopted business strategy, which is designed to promote the Company's long-term development, long-term performance, sustainable operations and sustainability.

The variable component of remuneration consists of two parts: one promoting short-term business performance (the criteria are designed to measure performance during the financial year) and one promoting long-term business performance (the allocation criteria are designed to encourage the achievement of strategic objectives over a longer period, namely at least three years). Both parts contribute to the achievement of the objectives of the Company's business strategy; however, the component promoting long-term business performance is of particular importance, as it supports the achievement of the strategy's multi-year objectives.

V. REMUNERATION OF MEMBERS OF THE MANAGEMENT BODY

1. 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 under its own responsibility manages the Company's business in the best interests of the Company, subject to 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 COMPONENT OF REMUNERATION

The fixed component of remuneration of the management body shall be determined in the contract concluded with the member of the management body as an absolute gross annual monetary amount. The member of the management body shall receive it as consideration for performing the duties of a member of the management body and, except in cases prescribed by law, it may not be unilaterally reduced, withheld, revoked or discontinued. The fixed component of remuneration includes all allowances within the meaning of the Employment Relationships Act, regardless of the instrument under which entitlement to such allowances is determined. It is paid in 12 monthly instalments. If the member performs their duties for only part of a month, the remuneration for that month shall be paid pro rata to the number of days worked.

Under this Remuneration Policy, the fixed component of remuneration is determined as the maximum amount that may be agreed in the contract with a member of the management body. Under this Remuneration Policy, the maximum permissible fixed component of remuneration has been determined by reference to the complexity criteria.

Based on the matrix contained in the SSH Recommendations and Expectations, the Supervisory Board has assessed the Company's overall complexity rating as 4. In accordance with the SSH Recommendations and Expectations, this means that in the contracts concluded with the members of the management body in the Company, the fixed remuneration can be agreed upon up to EUR 16,000 gross per month or up to EUR 192,000 gross per year.[13] Having regard to the average salary within the Group and to the Company's size and activities, these amounts also fall within the limits laid down by the 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 set the upper limit of the fixed component of remuneration of the President of the Management Board to EUR 14,000 gross per month, which corresponds approximately to 4.5 times the average gross salary of the Company's employees in the 2022 financial year.

The Supervisory Board has further decided that the fixed component of remuneration of the other members of the Management Board shall not exceed 90% of the fixed component of remuneration of the President of the Management Board.

13 The materials submitted to the General Meeting for approval of the Remuneration Policy shall specify this assessment and substantiate it with the relevant figures and factual information on which the assessment is based.

In the contracts concluded with members of the management body, the fixed component of remuneration shall be determined within the upper limit established by this Remuneration Policy. The level of the fixed component of remuneration within the permitted range shall depend on the duties and responsibilities of the individual member of the management body (for example, whether they serve as the President or as a member of the Management Board, the allocation of areas of responsibility where these differ in complexity, or whether they are an employee representative on the Management Board), as well as on their individual qualifications (knowledge, experience, length of service on the Management Board, references and skills). In addition, the appropriateness of the remuneration shall be reassessed by reference to the remuneration paid in comparable companies.

Employee remuneration did not directly influence the determination of the maximum fixed component of remuneration. However, a comparison with the average salary of the Company's employees was carried out and confirmed that the resulting ratio is customary.

3. VARIABLE COMPONENT OF REMUNERATION

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

The variable component of remuneration for members of the Company's management body shall amount to no more than 30% of the fixed component of remuneration paid to the member of the management body in the previous financial year and shall be contingent upon the achievement of the performance criteria. Of that amount, no more than 50% of the variable component of remuneration may be allocated for achieving short-term business performance (during the financial year), while at least 50% shall be allocated for meeting criteria that contribute to long-term business performance.

Eligibility for the variable component of remuneration shall be assessed on the basis of performance criteria, which are divided into financial and non-financial criteria. The criteria are further divided into those intended to measure short-term performance (short-term criteria) and those intended to measure, or contribute to the achievement of, strategic or long-term objectives (long-term criteria).

In the Rules of the Supervisory Board on Determining Criteria for Variable Remuneration of the Company's Management Board, the Supervisory Board shall, by the end of March each year, specify the criteria and determine their weighting so that the selected criteria provide stronger incentives for the management body to achieve the Company's business objectives and long-term success, taking into account the strategy applicable at the relevant time. The targets set for the individual criteria shall be based on the approved annual business plan, the adopted business strategy or the medium-term business plan, as well as on the objectives and expectations set out in the applicable annual asset management plan prepared by SSH.

When specifying the criteria and determining their weighting, the Supervisory Board shall take into account the following groups of criteria:

FINANCIAL CRITERIA [14]:

Group of criteria	Indicative weighting within the overall assessment based on the financial criteria
Criteria relating to the growth of business volume (e.g., growth in net sales revenue, etc.)	
Criteria relating to cash flow generation ability (e.g., EBITDA, etc.)	
Criteria relating to financial strength (e.g., net financial debt / EBITDA, etc.)	
Criteria relating to the ability to create value-added (e.g., value-added per employee, etc.)	

The financial criteria selected above are intended to promote the achievement of financial objectives by encouraging, in a balanced manner, business volume growth, cash flow generation, financial strength and value creation.

14 The criteria are listed by way of example only.

The financial criteria shall account for between 40% and 50% of the total variable component of remuneration.

The criteria that measure long-term or strategic objectives, or contribute to their achievement, shall account for at least at least 50% of the overall assessment based on the financial criteria.

NON-FINANCIAL CRITERIA[15]:

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

The non-financial criteria selected above are intended to promote the achievement of business objectives relating to market position, development, organizational efficiency, environmental responsibility, social responsibility and governance.

The non-financial criteria shall account for between 50% and 60% of the total variable component of remuneration.

The actual contribution of each group of criteria should not deviate by more than five percentage points above or below its indicative weighting.

The criteria that measure long-term or strategic objectives, or contribute to their achievement, shall account for at least 50% of the overall assessment based on the non-financial criteria.

When specifying the criteria in the Rules of the Supervisory Board on Determining Criteria for Variable Remuneration of the Company's Management Board, the Supervisory Board may also determine a minimum performance threshold that must be achieved before any variable remuneration may be awarded. The Rules of the Supervisory Board may provide that the achievement of individual criteria constitutes a precondition for entitlement to the variable component of remuneration, irrespective of the achievement of the remaining criteria. The full variable component of remuneration shall be awarded to a member of the management body only where the applicable performance targets are achieved or exceeded. Partial achievement of the performance targets shall result in a proportionately lower allocation of the variable component of remuneration. The Supervisory Board shall have discretion to determine whether, and to what extent, the exceeding of one or more performance targets may partially offset the lower achievement of one or more other performance targets.

- **EXCEPTIONAL CHANGED CIRCUMSTANCES**

The Supervisory Board may, for justified reasons, amend the criteria or their target values for determining the variable remuneration of the management body during the financial year where exceptional changed circumstances arise, provided that such amendments apply only to the financial year under consideration. In doing so, the Supervisory Board shall take into account the relevant market, asset, financial and other circumstances. The principal criteria for such assessment are that the amendment of the performance targets is required by the Company's long-term interests (long-term success) and its sustainability. Justified reasons include, in particular, circumstances that could not reasonably have been foreseen during the business planning process, could not justifiably have been incorporated into the risk management system in advance, and in respect of which it was either not possible or not reasonable to adopt effective risk mitigation measures. This discretionary power of the Supervisory Board should also be appropriately reflected in the contracts concluded with members of the management body. The Supervisory Board shall provide appropriate reasons for its decision.

15 The criteria are listed by way of example only.

- **DISCRETION OF THE SUPERVISORY BOARD**

Having regard to the Company's performance, financial condition and other relevant circumstances, the Supervisory Board may decide to award a higher or lower variable component of remuneration to an individual member of the management body than would result from the application of the predetermined objective criteria set out in this Remuneration Policy and the applicable Rules of the Supervisory Board on Determining Criteria for Variable Remuneration of the Company's Management Board, where it considers that there are significant justified reasons for doing so. Any such deviation shall not, however, be material in relation to the assessment resulting from the objectively established system of performance criteria. The Supervisory Board may exercise this discretion where the established system of performance criteria and targets no longer adequately reflects the business results achieved during the relevant period, the contribution of an individual member of the management body to those results, or where the Company's financial condition has changed materially. In making this decision, the supervisory body considers the overall performance of the management body and/or the performance of an individual member of the management body, as well as the following circumstances:

- successful implementation of significant strategic initiatives and measures;
- achievement of strategic goals;
- successful completion of key projects;
- achievement of key sustainability objectives;
- outperformance of competitors;
- impact of exceptional events.

Any resolution of the Supervisory Board awarding a higher or lower variable component of remuneration in the exercise of its discretion shall be reasoned and adopted in accordance with the principles of diligence, loyalty and fairness. The contract concluded with each member of the management body shall provide that the Supervisory Board's discretionary decision shall not be subject to dispute. In all cases, the limitations set out elsewhere in this Remuneration Policy for the management body shall continue to apply.

- **DEFERRAL OF THE PAYMENT OF THE VARIABLE COMPONENT OF REMUNERATION**

The payment of 50% of the variable component of remuneration allocated to a member of the management body in respect of each financial year shall be deferred for a period of two years (the "deferral period"). If a member of the management body has held office for less than two years, they shall not be entitled to the deferred portion of the variable component of remuneration. If a member of the management body's term of office expires before the end of the deferral period, they shall become entitled to payment of the deferred 50% of the variable component of remuneration upon its expiry, provided that they have held office for at least two years.

- **METHOD OF ASSESSING THE ACHIEVEMENT OF PERFORMANCE TARGETS FOR THE PURPOSE OF DETERMINING THE VARIABLE COMPONENT OF REMUNERATION**

Entitlement to the variable component of remuneration for members of the Company's management body shall be assessed annually on the basis of the audited annual report and any other documentation demonstrating the achievement of the applicable performance targets.

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

The Company may require members of the management body to repay all or part of any variable component of remuneration already paid and may, in whole or in part, withhold payment of any allocated but unpaid variable component of remuneration where:

- the annual report is finally declared null and void, provided that the grounds for such declaration relate to items or facts forming the basis for determining the variable component of remuneration; or

- a special auditor's report establishes that the criteria for determining the variable component of remuneration were incorrectly applied or that the relevant accounting, financial or other indicators were incorrectly determined or taken into account.

Repayment of the variable component of remuneration already paid may be required within three years from the date on which the relevant remuneration, or part thereof, was paid. As a general rule, repayment of the variable component of remuneration already paid shall first be effected by way of set-off against any allocated but unpaid variable component of remuneration. The possibility of such set-off shall also be provided for in the employment contract or civil law contract.

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

The Company has not adopted a share or share option incentive scheme, nor does it provide profit participation as a form of remuneration for members of the management body.

4. OTHER RIGHTS

Other rights comprise entitlements and specific allowances.

Entitlements are rights to use assets owned by the Company for private purposes and payments made by the Company to third parties from which members of the management body ordinarily derive a personal non-monetary benefit. Notwithstanding the foregoing, entitlements shall also include reimbursement of membership fees payable to professional organisations relating to the performance of the duties of a member of the management body, as well as other non-monetary rights that do not strictly fall within the above definition of entitlements. However, it is customary business practice for the Supervisory Board to decide on the granting of such entitlements when concluding contracts with members of the management body.

Specific allowances include holiday allowance and winter holiday allowance, retirement benefit, reimbursement of expenses incurred in connection with the performance of the function, salary compensation paid by the Company during periods of absence (for example due to illness, annual leave or training), specific monetary benefits incorporated into the contract or determined by reference to a collective agreement or the employer's general internal rules or regulations, as well as all other monetary benefits which, by their nature or legal basis, do not fall within, or cannot properly be classified as, any of the following categories of remuneration: the fixed component of remuneration, the variable component of remuneration, severance payment or entitlements.

4.1. ENTITLEMENTS

Members of the Company's management body may, in particular, be entitled under their employment contracts to the following entitlements, subject to the following maximum limits:

- the entitlement to **use a mobile phone** for private purposes, including the payment of the subscription fee, call charges and data transmission charges;
- the entitlement to **use a laptop computer and/or tablet** for private purposes;
- the entitlement to **use a company car** for private purposes up to a retail price (including VAT) of EUR XX.XXX or up to EUR XX.XXX (including VAT) in the case of an environmentally friendly passenger vehicle (for the purposes of this Remuneration Policy, an environmentally friendly passenger vehicle means a vehicle powered exclusively by a 100% electric drive). A **company car** used for private purposes should not be **replaced** before three years have elapsed or before it has reached a mileage of at least 150,000 kilometres. Earlier replacement should be permitted only in duly justified cases and with the prior consent of the supervisory body. In the case of the acquisition or leasing of a company car **under a leasing agreement**, the aforementioned monetary limits shall refer to the purchase value of the vehicle at the time the agreement is concluded, provided that, in the case of a lease, the monthly lease payments shall not exceed EUR X.XXX ;
- the entitlement to **the reimbursement of all costs relating to supplementary education and training** to enable more efficient performance of duties, undertaken to enable the more efficient performance of the duties of office, up to EUR XX XXX per year, including the entitlement to salary compensation during any period of absence for that purpose, provided that such absence does not exceed XX days per year. When assessing this entitlement, the supervisory body shall take into account the characteristics of the market and the industry in which the Company or the Group operates. In justified business cases, an entitlement may be granted in a higher amount or for a longer period. The supervisory body shall decide on such entitlement on a case-by-case basis by resolution upon the proposal of the management body;

- the entitlement to **preventive executive health examinations**, to be carried out every XX years, provided that the value of each examination does not exceed EUR X.XXX;
- the entitlement to the **payment of premiums for the following insurance policies:**
  - collective supplementary pension insurance, up to the maximum amount permitted by law which qualifies for tax relief;
  - accident insurance, provided that the annual premium does not exceed XX% of the monthly gross fixed remuneration;
- the entitlement to the **payment of premiums for Directors' and Officers' (D&O) liability insurance;**
- the entitlement to reimbursement of legal representation costs and other reasonable and necessary expenses incurred as a result of claims, proceedings or investigations brought by third parties, or in criminal, misdemeanour, administrative or other proceedings arising in connection with the performance of the duties of a member of the management body, including the entitlement to have such costs advanced or paid on an ongoing basis by the Company. The member of the management body shall be required to reimburse the company for any amounts so paid only where a final and binding decision establishes that they acted intentionally or with gross negligence. This entitlement shall not apply to claims brought by the company against the member of the management body and shall not be limited or excluded by the existence of Directors' and Officers' (D&O) liability insurance. It shall also continue to apply after the member has ceased to hold office where the proceedings arise out of the period during which they held office. The entitlement to reimbursement of costs is limited, both as regards the categories of costs covered and the extent of reimbursement, to the scope of cover provided under the applicable Directors' and Officers' (D&O) liability insurance policy.
- the entitlement to **use a payment card** for the payment of specified business expenses (e.g. fuel costs for the allocated company vehicle and training expenses), including business entertainment expenses, in accordance with the Company's business and financial plan and subject to appropriate traceability of expenditure;
- the entitlement to **incur the entertainment expenses and to reimbursement thereof** in accordance with the business and financial plan, ensuring the necessary traceability of use:
- the entitlement to **reimburse costs for membership fees payable to professional organisations** which are connected with the exercise of the duties of a management body, up to the maximum of EUR X XXX per annum. When assessing this entitlement, the supervisory body shall take into account the characteristics of the market and the industry in which the Company or the Group operates, as well as the business practices applicable to that sector. In justified business cases, an entitlement may also be granted in a higher amount. The supervisory body shall decide on such entitlement on a case-by-case basis by resolution upon the proposal of the management body.

These rules apply to employment contracts and civil law contracts on the assumption of a minimum working week of 40 hours. If a shorter working week has been agreed in the employment contract, this shall be taken into account when determining the appropriate other entitlements, both as regards the entitlement itself and the applicable limitations (for example, the maximum permissible amount for a particular entitlement).

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 entitlement to a **long-service award**, under the same terms and in the same amount as apply to the other employees of the Company;
- the entitlement to a **Christmas benefit**, under the same terms and in the same amount as apply to the other employees of the Company.
- the entitlement to a **performance-related bonus** in accordance with the applicable collective agreement or the employer's general corporate policy, provided that it is paid to all employees of the Company and thereby qualifies for the more favourable tax treatment applicable to such bonus for all employees of the Company. For members of the management body, the performance-related bonus shall be included in the maximum permissible variable component of remuneration for the relevant year;
- **the entitlement to a family separation allowance**, under the same conditions and in the same amount as apply to the other employees of the Company.

5. SEVERANCE PAYMENT UPON EARLY TERMINATION OF TERM OF OFFICE

The entitlement to severance payment upon early termination of the term of office shall not arise in the cases specified by the Companies Act. Members of the management body shall not be entitled to severance payment upon the regular expiry of their term of office or where they resign voluntarily. Members of the management body shall be entitled to severance payment in the event of dismissal for economic or business reasons or upon the mutually agreed termination of their term of office, provided that there are no culpable grounds for dismissal, as further specified below.

The maximum severance payment in the event of dismissal for economic or business reasons shall amount to six months' gross fixed remuneration, as stipulated in the contract concluded with the member of the management body. In no event shall the severance payment exceed the aggregate amount of gross fixed remuneration that would have accrued to the member of the management body for the remainder of their term of office under the contract had the term of office expired in the ordinary course. Where the term of office of a member of the management body is terminated before its expiry and the member has held office for less than one year, the maximum severance payment shall amount to three months' gross fixed remuneration, as stipulated in the contract concluded with the member of the management body.

A member of the management body who, following the early termination of their contract as a member of the management body, enters into employment with the Company shall not be entitled to severance payment. If the member enters into employment with a subsidiary or another affiliated company, they may be entitled to severance payment up to the amount of the difference between the gross fixed remuneration under the previous contract and the gross fixed remuneration under the new contract, multiplied by the applicable multiplier. This means that the difference shall be multiplied by the number of months for which the member receives remuneration in the new position, up to the number of monthly severance payments to which the member would have been entitled under the above provisions of this Remuneration Policy.

In the absence of culpable grounds for the dismissal of the member of the management body, the parties may, at the initiative of either party, conclude an agreement on the early termination of the term of office where this is in the interests of both parties. Such agreement will typically be concluded where, in the reasonable judgement of the supervisory body, the member of the management body does not achieve optimal business results, lacks an appropriate strategic vision for the Company's development, lacks appropriate organisational capabilities, where the necessary relationship of trust between the member of the management body and the supervisory board no longer exists, or where decisions taken in the exercise of independent business judgement subsequently prove to have been suboptimal, and the Supervisory Board therefore considers that another person could manage the Company's business more effectively. 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 shall apply mutatis mutandis when determining the amount of severance payment under the agreement.

6. OTHER SELECTED ELEMENTS OF EMPLOYMENT CONTRACTS

6.1. NON-COMPETE CLAUSE

Contracts concluded with members of the management body shall include a non-compete clause that continues to apply after the termination of their term of office. Where a member of the management body is dismissed by the Company, the non-compete restriction shall not exceed six months. In all other cases, the restriction shall apply for a period of not less than six months and not more than two years. During the period in which the non-compete clause is in force, the member of the management body shall be entitled to monthly compensation of up to 75% of their monthly fixed remuneration.

Even where the contract contains a non-compete clause, the supervisory body shall waive its enforcement following the termination of the member's term of office if, having regard to all the known circumstances, there is no real risk of prejudice to the Company's interests from not enforcing the restriction in respect of that member of the management body.

6.2. DUAL OR MULTIPLE APPOINTMENTS

In the case of dual or multiple appointments within the Group, any additional offices held by members of the Company's management body shall be remunerated. Such remuneration shall, however, be adjusted to reflect the time spent and the duties and responsibilities that are already wholly or partly reflected in the duties and responsibilities arising from the member's office as a member of the management body or from any other remunerated office held by that member.

The Supervisory Board of the Company shall give its prior approval to the acceptance of each such additional office and determine the remuneration payable in respect thereof. Where appropriate, the amount of such remuneration shall also be taken into account when determining the remuneration of that person in their capacity as a member of the Company's Management Board.

7. REMUNERATION OF MANAGEMENT BODIES IN GROUP SUBSIDIARIES

In its capacity as the controlling company of the Group, the Company establishes, in this Remuneration Policy, guidelines for the formulation of remuneration policies for the management bodies of subsidiary companies and for entering into contracts with members of the management bodies of the Group's subsidiary companies. The management body of the controlling company shall ensure that appropriate remuneration policies for the management bodies are adopted in the subsidiary companies. The management body of the controlling company shall review compliance with these guidelines and with the remuneration policies for the management bodies of the subsidiary companies on an annual basis.

7.1. FIXED COMPONENT OF REMUNERATION

The fixed component of remuneration of the management bodies of the Group's subsidiary companies shall be determined taking into account the complexity factors set out in the SSH Recommendations and Expectations. Notwithstanding the complexity factors referred to in the preceding paragraph, the fixed component of remuneration of the management bodies of the Group's subsidiary companies shall not exceed XX% of the upper limit of the fixed component of remuneration applicable to the management body of the controlling company.

Accordingly, the maximum permissible fixed component of remuneration of the management bodies of the Group's subsidiary companies shall be as follows:

- 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.

Having regard to the average salaries, size and business activities of those companies, the above amounts are also within the maximum permissible limits prescribed by the ZPPOGD.

7.2. VARIABLE COMPONENT OF REMUNERATION

The variable component of remuneration of the members of the management bodies of the Group's subsidiary companies shall not exceed 15% of the annual gross value of the fixed component of remuneration of the members of the management bodies. The structure of the performance criteria and the method of assessing performance shall be determined, *mutatis mutandis*, on the basis of the same principles as those laid down in this Remuneration Policy for the Company.

This framework is consistent with the provisions of the ZPPOGD.

7.3. OTHER RIGHTS

Members of the management bodies of the Group's subsidiary companies may, mutatis mutandis, be granted the same rights in their employment contracts as members of the Company's management body, subject to the following additional limitations:

- upon acquisition (purchase or lease), the retail price of the vehicle, including VAT, shall not exceed EUR XX.XXX or EUR XX.XXX in the case of an environmentally friendly passenger vehicle;
- any other applicable limitations.

This framework is consistent with the provisions of the ZPPOGD.

7.4. SEVERANCE PAYMENT

The provisions of the Company's Remuneration Policy relating to severance payment in the event of the early termination of the term of office shall apply to the Group's subsidiary companies. This framework is consistent with the provisions of the ZPPOGD.

B) REMUNERATION POLICY FOR SUPERVISORY BODY

The remuneration of the members of the Supervisory Board comprises the following components, within the following limits:

ATTENDANCE FEE

Members of the Supervisory Board are entitled to receive an attendance fee for participation in a meeting in the amount of 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 participation in a full Supervisory Board meeting. In the case of Supervisory Board meetings conducted by correspondence, the attendance fee shall amount 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 up to a maximum total of 50% of their annual basic payment for performing the function as a Supervisory Board member during the 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 the financial year, up to a maximum total of 75% of their annual basic payment for performing the function as a Supervisory Board member.

BASIC AND ADDITIONAL PAYMENTS FOR PERFORMING THE FUNCTION

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 President 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 performing the function as a committee member amounting to 25% of the basic payment for performing the function as a Supervisory Board member. The President of a Supervisory Board committee is entitled to receive an additional payment for performing the function 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 of which they are a member or president, an individual member of a Supervisory Board committee is entitled to receive additional payments for performing the function during the 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 term of office of an individual Supervisory Board member is shorter than the financial year, an individual member of a Supervisory Board committee is entitled, regardless of the above and irrespective of the number of committees of which they are a member or president, to receive additional payments during the financial year up to a maximum total of 50% of the basic payment for performing the function as a Supervisory Board member, pro-rated for the duration of their term of office during that financial year.

Supervisory Board members are entitled to receive the basic payment and the additional payment for performing the function in proportionate monthly instalments corresponding to the duration of their term of office. The monthly payment amounts to one-twelfth of the above annual amounts.

REIMBURSEMENT OF EXPENSES

Supervisory Board members are entitled to reimbursement of travel and accommodation expenses incurred in connection with the performance of their duties as members of the Supervisory Board, up to the amounts prescribed by the regulations governing work-related expenses and other income excluded from the taxable base (namely the provisions applicable to transportation and overnight accommodation during business travel). The amount payable shall be grossed up in accordance with the above regulations so that the net amount received represents reimbursement of the actual travel expenses incurred. Mileage shall be calculated on the basis of the distances between locations as published on the public AMZS website. Accommodation expenses may be reimbursed only where the distance between the permanent or temporary residence of the Supervisory Board member (or a member of a Supervisory Board committee) and the place where the Supervisory Board performs its duties is at least 100 kilometres and the member is unable to return home because no scheduled public transport is available, or for other objective reasons.

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[16]

16 The example instrument is intended as a working tool and companies are not required to adopt it. Even where a company follows the example instrument, it should not apply it mechanically but should adapt it to the specific characteristics of its business. The indicators included in the example instrument are provided by way of example only. However, indicators whose selection is prescribed or recommended should be included in all cases. These include, in particular, indicators relating to the development of corporate culture and ESG (Environmental, Social and Governance) indicators. Furthermore, the SSH Recommendations and Expectations generally recommend that a proportion of the indicators should be defined and measured by reference to the objectives set out in the SSH Annual Asset Management Plan for the respective company.

BUSINESS SECRET – CONFIDENTIAL

In accordance with the Remuneration Policy for the Management Board/Executive Management of ________ [Company Name], dated ________ [Date] (hereinafter: "the Company's Remuneration Policy"), the Supervisory Board of _______________ [Company Name] (hereinafter: "the Company") at its _____ [Number] meeting on _____ [Date] adopted the following resolution:

INSTRUMENT ON DETERMINING THE CRITERIA FOR THE PAYMENT OF THE VARIABLE COMPONENT OF REMUNERATION OF THE MANAGEMENT BOARD/EXECUTIVE MANAGEMENT OF ____________ [COMPANY NAME] FOR THE YEAR ___ [YEAR][17]

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

Article 1

By this Instrument on Determining the Criteria for the Payment of the Variable Component of Remuneration of the Management Board/Executive Management (hereinafter: the "Instrument"), the Supervisory Board of the Company sets out in detail the performance criteria, objectives and methodology for determining the variable component of remuneration of the Management Board/Executive Management.

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 by the Supervisory Board for each financial year. The Supervisory Board shall determine those criteria, their target values and their relative weightings on the basis of: (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 may also establish additional criteria or objectives at its own discretion.

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

II. DETERMINATION OF THE FINANCIAL AND NON-FINANCIAL CRITERIA, THEIR TARGET VALUES, WEIGHTINGS, TIME HORIZONS, AND SCORING SYSTEM

Article 3

For the purpose of determining the variable component of the remuneration of the Management Board/Executive Management for the financial year _____, the Supervisory Board shall determine the following: (i) the financial and non-financial criteria for assessing short-term and long-term business performance; (ii) the target value for each criterion; (iii) the relative weighting of each criterion according to its significance; and (iv) the method for calculating performance based on the achievement of those criteria.

17 The employment contract of a member of the Management Board/Executive Management should refer to the Supervisory Board's instrument as amended from time to time, so that the employment contract shall be deemed to be amended automatically upon any amendment to the Supervisory Board's instrument.

FINANCIAL CRITERIA

Financial Criterion	Weight	Time Horizon	Target Value
Criteria related to business volume growth: • Net sales revenues	XX%	Short-term & Long-term	To be completed
Criteria related to cash flow generation: • EBITDA	XX%	Short-term	To be completed
Criteria related to financial performance: • Net profit for the financial year	XX%	Short-term	To be completed
Criteria related to financial strength: • Net financial debt / EBITDA	XX%	Short-term & Long-term	To be completed
Criteria related to value-added creation (productivity): • Added value per employee	XX%	Short-term	To be completed
Total	**100%**		

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

NON-FINANCIAL CRITERIA

Non-financial Criterion	Weight	Time Horizon	Target Value
Market position criteria: • Market share in segment ____	XX%	Long-term	To be completed
Development criteria: • Qualitative assessment of the successful implementation of strategic projects in accordance with the Company's strategy, including the development of corporate culture	XX%	Long-term	To be completed
Environmental responsibility criteria: • *Carbon footprint (scope XX)* • *Water consumption*	XX%	Long-term	To be completed
Social responsibility criteria: • Employee training and development (number of training hours per employee)	XX%	Long-term	To be completed
Governance responsibility criteria: • Corporate integrity and compliance – demonstrated proactive action and progress in this area compared with the previous year (qualitative assessment by the Supervisory Board)	XX%	Long-term	To be completed
• Development of sustainable business practices in accordance with the SSH Recommendations and Expectations (qualitative assessment by the Supervisory Board)	XX%	Long-term	To be completed
Total	**100%**		

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

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

As shown in the tables above, the proportion of the criteria contributing to short-term business performance is __%, compared with __% for the criteria contributing to long-term business performance.

Article 4

Based on the achievement of the criteria set out in the previous Article, the Performance Index (PI) shall be determined as follows:

- the performance index for each quantitative target shall be calculated, with a value ranging from 0.8 (minimum) to 1.2 (maximum);
- for qualitatively assessed criteria, the performance index shall be assigned a value ranging from 0.8 to 1.2, where 0.8 represents poor achievement of the criterion and 1.2 represents excellent achievement;

- each criterion shall be multiplied by its assigned weighting, after which the weighted scores for the financial and non-financial criteria shall be summed separately;
- finally, the PI shall be calculated by applying the respective weightings of the financial and non-financial criteria to the assessments calculated in the previous step.

Article 5

Upon approval of the audited annual report and the other relevant documentation, the Supervisory Board shall compare the target values of the criteria set for the respective financial year with the actual values/goals achieved 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 shall determine the amount of the variable component of remuneration within the ranges set out below:

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 CHANGED CIRCUMSTANCES

Article 6

The Supervisory Board may depart from the defined criteria, their target values or the scoring methodology where this is justified by exceptional and significantly changed circumstances. Any such departure shall be duly reasoned by the Supervisory Board in accordance with the Company's Remuneration Policy.

IV. DISCRETIONARY DECISION OF THE SUPERVISORY BOARD

Article 7

In accordance with the Company's Remuneration Policy, the Supervisory Board may, at its discretion, determine a higher or lower variable component of remuneration for a member of the Management Board/Executive Management than the amount calculated on the basis of the predefined criteria, having regard to the Company's business performance, financial position and other relevant circumstances, where it considers that there are significant justified reasons for doing so.

Any resolution of the Supervisory Board determining a higher or lower variable component of remuneration pursuant to its discretionary authority shall be reasoned and adopted in accordance with the principles of due care, diligence and fairness.

V. ENTRY INTO FORCE AND APPLICATION OF THE INSTRUMENT

Article 8

This Instrument shall enter into force on the date of its adoption by the Supervisory Board and shall apply to the determination and payment of the variable component of remuneration of the members of the Executive Management/Management Board for the financial year _____.

In: _________________, on __________

President of the Supervisory Board

____

SLOVENIAN SOVEREIGN HOLDING

Slovenian Sovereign Holding
MALA ULICA 5, P.P. 139
1001 LJUBLJANA, SLOVENIA

www.sdh.si