

# **Report on the Remuneration of Members of the Management Board and the Supervisory Board of Končar D&ST d.d. for 2020**

## **1. INTRODUCTION**

The Report on the Remuneration of Members of the Management Board and the Supervisory Board of Končar D&ST d.d. for the financial year 2020 was prepared for the purpose of fulfilling the obligations stipulated in Article 272r of the Companies Act.

The Remuneration Report provides information on all remuneration payments that the Company made or undertook to make to current or former members of the Management Board and the Supervisory Board over the course of the previous financial year.

The Report complies with the Remuneration Policy adopted by the Company's General Assembly on 29 June 2020 at the proposal of the Supervisory Board.

## **2 MANAGEMENT BOARD**

### **2.1 Remuneration Policy**

By virtue of the Remuneration Policy, it has been established that the Company aims to achieve a balance between monetary and non-monetary rewards and fixed and variable remuneration of members of the Management Board. Monetary and non-monetary rewards are related to the values and strategies of the Company. Remuneration is fixed and/or variable. Fixed remuneration reflects the relevant professional experience, competence and organisational responsibility of the members of the Management Board. Variable remuneration is based on performance and, in exceptional cases, on other conditions. Variable remuneration provides an incentive for long-term prudent risk-taking and good risk management.

The rights and obligations of Management Board members are defined by virtue of a Management Board Member Contract.

#### **Item 1**      *Objectives of the Remuneration Policy*

- (1) This Policy establishes a system of remuneration for members of the Management Board in order to ensure the existence of prescribed and transparent policies and procedures for determining the remuneration of members of the Management Board which align their interests with long-term interests and successful and ethical implementation of the strategy of Končar – Distribution and Special Transformers (hereinafter: "the Company").
- (2) The Company is looking to balance monetary and non-monetary rewards and fixed and variable remuneration of Management Board members.
- (3) Monetary and non-monetary rewards are related to the values and strategies of the Company.
- (4) Remuneration of Management Board members is fixed and variable. Fixed remuneration reflects the relevant professional experience, competence and organisational responsibility of the members of the Management Board. Variable remuneration is based on performance, results achieved and, in exceptional cases, on other conditions. Variable remuneration provides an incentive for long-term prudent risk-taking and good risk management.
- (5) This Policy concerns all elements pertaining to remuneration, including remuneration in kind. Education and professional training are not the subject matter of this Policy.

**Item 2**            *Remuneration Committee*

- (1) The Supervisory Board shall establish the Remuneration Committee to express a competent and independent opinion on rewarding policies and practices and on incentives established for risk management purposes.
- (2) The Remuneration Committee is responsible for the following:
  1. preparation of recommendations to the Supervisory Board regarding the rewarding of members of the Management Board;
  2. drafting proposals and providing advice to the Supervisory Board on drafting and amending the rewarding policy for members of the Management Board;
  3. auditing the rewarding policy and monitoring its implementation;
  4. reviewing the appointment of external advisers for remuneration that the Supervisory Board may, if necessary, employ for advice or support;
  5. providing support to the Supervisory Board by monitoring the functioning of the rewarding system on behalf of the Supervisory Board;
  6. paying special attention to the assessment of rewarding mechanisms adopted to ensure that the overall remuneration policy is consistent with the Company's business strategy, objectives, values and interests;
  7. ensuring a regular independent review of the Policy and rewarding system by internal audit;
  8. ensuring a formal review of a number of possible scenarios in order to examine how the rewarding system will respond to future external and internal events.
- (3) The Remuneration Committee of the Supervisory Board and the Supervisory Board monitor the implementation of the remuneration policy in the manner that the Remuneration Committee submits an annual report to the Supervisory Board on the monitoring of the implementation of the remuneration policy and proposes remuneration policies to the Supervisory Board at least every three years.

**Item 3**            *Remuneration Policy, Business Strategy and Long-Term Development of the Company*

- (1) The remuneration rules set out in this Policy are designed to promote and comply with transparent and effective management and to prevent the assumption of risks that are not in line with the Company's business strategy and long-term development.
- (2) This Remuneration Policy is designed to achieve the long-term economic interests of the Company, shareholders and employees.

**Item 4**            *Prevention of Conflict of Interest*

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

**Item 5**            *Fixed Remuneration*

- (1) Fixed remuneration represents the sum of fixed salary and benefits. Fixed remuneration of members of the Management Board does not promote taking high-level risks.
- (2) Fixed remuneration of Management Board members:
  - 1) reflects the value of work, competence, experience and market contribution;
  - 2) achieves a balance between responsibility, knowledge, skills and experience (market value of work and person)
  - 3) encourages the working environment in the Company in terms of:
    - a) performance (setting goals, achieving results, providing feedback)
    - b) development (career, employment opportunities) and
    - c) core competencies (growth, responsible action, excellence in execution and cooperation within the team are encouraged).

**Item 6**            *Guidelines for Determining Fixed Remuneration*

- (1) Remuneration is fixed if the payments are non-revocable and if they cannot be reduced, suspended or cancelled by the Company.
- (2) Remuneration is fixed:
  1. when the criteria for its reward and its amount are predetermined (based on a contract);
  2. when the criteria for its reward and its amount are not discretionary;
  3. when the criteria for its reward and its amount are transparent (members of the Management Board agree with the components of fixed remuneration);
  4. when the criteria for its reward and its amount are permanent, i.e. it is paid over a period tied to the position of the Management Board member.
- (3) Fixed remuneration is the gross base salary of the president/member of the Management Board defined by virtue of a contract concluded between the Management Board member and the Company.

**Item 7**            *Guidelines for Determining Variable Remuneration*

- (1) Variable remuneration may consist of various elements, including additional fees, payments or benefits.
- (2) The Company has defined minimum profitability requirements. In case of performance-related remuneration, the total amount of remuneration is based on the criteria specified in the Management Board member contract.
- (3) Variable remuneration depends on the Company's overall performance.
- (4) Variable remuneration must be in line with the strategic indicators, values and long-term interests of the Company. Variable remuneration is related to sustainability and does not encourage excessive risk-taking. Variable remuneration is paid only to the extent in which the proportion of fixed and variable remuneration remains reasonable; the proportion of variable and fixed remuneration is limited to 100% of fixed remuneration for all members of the Management Board. Non-performance will not be rewarded.
- (5) Variable remuneration may not be promised and they must be related to performance in a particular assessment period. Guaranteed variable remuneration is prohibited.
- (6) Variable remuneration is remuneration paid by the Company to members of the Management Board once a year based on performance.

**Item 8**                    *Criteria for Payment of Variable Remuneration*

- (1) Variable remuneration is determined in a net amount by multiplying the reward determined in accordance with the criteria referred to in paragraph 2 of this item by the gross base salary coefficient applicable to the member of the Management Board and president of the Management Board.
- (2) The reward calculation criteria are as follows:

**CRITERION A**

- a) 1% of profit after tax for profit in an amount up to HRK 5,000,000.00, 0.7% of profit after tax for profit in an amount from HRK 5,000,000.00 to HRK 15,000,000.00, 0.4% of profit after tax for profit from HRK 15,000,000.00 to HRK 25,000,000.00, and 0.15% of profit after tax for profit exceeding HRK 25,000,000.00 – cumulative;
- b) HRK 1,000.00 for every percentage point of profit after tax based on capital decreased by 8 percentage points;
- c) HRK 1,000.00 for every percentage point above 95% of performance targeted under the product and service sales plan, up to HRK 20,000.00;
- d) HRK 1,000.00 for every percentage point above 95% of performance targeted under the consolidated sales plan of Končar – Electrical Industry Inc., up to HRK 20,000. This item does not apply if the Company fails to fulfil the conditions referred to in item c).

If the Company recognises a loss after profit for the previous year or a loss which is not lower than the loss in the previous year, the right to receive remuneration referred to in items c) and d) may not be exercised. If the Company adopts a product and service sales plan with a value lower than the value in the preceding year, the right to receive remuneration referred to in item c) applies, provided, however, that the calculation of index will be based on the last year's performance under the product and service sales plan instead of performance under the product and service sales plan for the year in which remuneration is rewarded.

**CRITERION B**

- a) Reward under the criterion A is increased by 1% for every HRK 10,000 in excess of the difference between: (value added per employee) – (net salary increased by other employee benefits per employee).  
The impact of this factor is limited to 20% of the amounts calculated according to the criterion A.
- b) Reward under the criterion A is increased for every percentage point exceeding the rate of return on bonds of the Republic of Croatia, based on (EBITDA/total equity decreased by profit for the year + long-term provisions + loans).  
The impact of this factor is limited to 20% of the amounts calculated according to the criterion A.
- c) Reward under the criterion A is increased for every percentage point resulting from the calculation of EBITDA/total assets.
- d) Balance of concluded contracts  
Reward under the criterion A is increased by the percentage of increase in the balance of concluded contracts in the current year compared to the previous year.  
The impact of this factor is limited to 20% of the amounts calculated according to the criterion A.  
The amount of variable remuneration under the criteria A + B may not exceed contractual annual base salary, in the net amount with only the personal allowance and surtax applicable in the City of Zagreb applied.

### **CRITERION C**

Remuneration based on the Company's performance referred to in items A and B and the limited amount A + B based on the final calculation may be increased by up to 10%, taking into account the Company's risk management and insourcing practices.

In exceptional circumstances, as determined on the basis of final account showing extraordinary performance, the amounts of rewards under criterion C may be increased.

- (3) The Company analyses additional fees and benefits and categorises them under either fixed or variable remuneration.

#### **Item 9**            *Remuneration Deferral and Clawback*

- (1) The Company has no remuneration deferrals or deferral periods. The Company is not entitled to clawback variable remuneration, except remuneration referred to in item 16 of this Remuneration Policy.

#### **Item 10**          *Shares and Options*

- (1) No remuneration is payable to Management Board members in the form of shares (there are no share options).

#### **Item 11**          *Managerial Contracts*

- (1) The duration of a managerial contract is conditioned by the length of the period for which a member of the Management Board is appointed. As a principle, Management Board members are appointed for four-year terms.
- (2) The contract is terminated at the personal request of the Management Board member upon their dismissal, or their meeting the requirements for dismissal, expiry of the contract or upon fulfilment of conditions for retirement.

#### **Item 12**          *Rights in the Event of Dismissal of Management Board Member Due to Chronic Disease and Permanent Incapacity*

- (1) In the event of dismissal of a Management Board member due to a chronic disease and permanent incapacity for managing the Company's business operations, if the Management Board member does not fulfil the conditions for retirement, but has agreed to perform other tasks corresponding to his/her professional qualifications, that Management Board member is entitled to receive an unchanged base salary for the first three months following his/her termination of office.
- (2) If the Management Board member does not respond to or does not accept the job offer within fifteen (15 days), the Management Board member's employment with the Company shall be terminated by mutual consent, with payment of severance pay as follows:
- if the Management Board member performed the tasks of a Management Board member up to two years prior to the dismissal, in the amount of three (3) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member from two (2) to five (5) years prior to the dismissal, in the amount of five (5) base salaries specified in the Contract;

- if the Management Board member performed the tasks of a Management Board member from five (5) to nine (9) years prior to the dismissal, in the amount of nine (9) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member over nine (9) years prior to the dismissal, in the amount of twelve (12) base salaries specified in the Contract.
- (3) Performance of the tasks of a Management Board member means uninterrupted performance of the tasks of a Management Board member in any of the Končar Group companies.

**Item 13**            *Rights in the Event of Retirement of a Management Board Member*

- (1) If a Management Board member retires during the term of the Contract, the Management Board member shall be entitled to severance pay as follows:
- if the Management Board member performed the tasks of a Management Board member up to two years prior to retirement, in the amount of three (3) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member from two (2) to five (5) years prior to retirement, in the amount of five (5) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member from five (5) to nine (9) years prior to retirement, in the amount of nine (9) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member over nine (9) years prior to retirement, in the amount of twelve (12) base salaries specified in the Contract.
- (2) Performance of the tasks of a Management Board member means uninterrupted performance of the tasks of a Management Board member in any of the Končar Group companies.

**Item 14**            *Rights in the Event of Expiry of a Management Board Member's Term of Office*

- (1) Upon expiry of a Management Board member's Contract and term of office, the Management Board member who performed the tasks of a Management Board member and who either remains employed at or leaves the Končar Group shall be entitled to severance pay as follows:
- if the Management Board member performed the tasks of a Management Board member up to two (2) years, in the amount of three (3) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member from two (2) to five (5) years, in the amount of five (5) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member from five (5) to nine (9) years, in the amount of nine (9) base salaries specified in the Contract;
  - if the Management Board member performed the tasks of a Management Board member over nine (9) years, in the amount of twelve (12) base salaries specified in the Contract.
- (2) If a Management Board member is re-employed at the Končar Group within two (2) years after the payment of said severance pay, he/she shall return to the Company the amount received as severance pay plus legal default interest.

**Item 15**            *Rights in the Event of Resignation from Končar Group*

- (1) If a Management Board member requests termination of employment by mutual consent during his/her term of office as a Management Board member for the purpose of resigning from the Končar Group, the Management Board member shall be entitled to severance pay in an amount decided upon by the Supervisory Board.

**Item 16**            *Other Remuneration in Kind*

- (1) The Company pays Management Board members the following:
- life insurance contract, the term of which corresponds to the term of the contract concluded between the Management Board member and the Company;
  - additional private health insurance contract, including travel insurance;
  - voluntary pension insurance;
  - personal use of a company car.
- (2) The Company is under no obligation to pay contributions for remaining years of service as required for the Management Board member to receive pension if termination of his/her managerial contract would lead to early retirement.

**Item 17**            *Determining Remuneration in Relation to Workers' Remuneration and Working Conditions (Item 7)*

- (1) When adopting the Remuneration Policy for Members of the Management Board, the Company takes into account the conditions of workers' remuneration and the working conditions of workers with similar qualifications, knowledge, skills, competencies and experience, but with a lower level of responsibility, i.e. the remuneration and the working conditions of middle-management employees are taken into account.

**Item 18**            *Allowed Deviation from the Remuneration Policy*

- (1) The Company may temporarily deviate from the Remuneration Policy if this is necessarily required by the long-term well-being of the Company.

## 2.2 Composition of the Management Board in 2020

In accordance with the Company's Articles of Association, the Management Board consists of five members. Management Board members are appointed for four-year terms. The decision on the appointment, dismissal and number of Management Board members and duration of their term of office is adopted by the Supervisory Board.

Members of the Management Board in 2020:

Ivan Klapan	President of the Management Board
Petar Bobek	Member of the Management Board
Vanja Burul	Member of the Management Board
Martina Mikulić	Member of the Management Board
Petar Vlaić	Member of the Management Board

### a) Remuneration of Management Board members

in HRK								
Name and surname	Position	Gross remuneration for 2020						
		Salary	Other (insurance)	TOTAL FIXED REMUNERATION	VARIABLE REMUNERATION (Bonus)	TOTAL REMUNERATION	FIXED REMUNERATION %	VARIABLE REMUNERATION %
Ivan Klapan	President of the Management Board	613,252	35,127	648,379	660,928	1,309,307	50	50
Petar Bobek	Member of the Management Board	528,110	23,359	551,469	577,691	1,129,160	49	51
Vanja Burul	Member of the Management Board	550,367	25,528	575,895	578,646	1,154,540	50	50
Martina Mikulić	Member of the Management Board	514,485	23,279	537,764	572,377	1,110,141	48	52
Petar Vlaić	Member of the Management Board	569,018	27,674	596,692	578,668	1,175,360	51	49

### b) Comparison of changes in income, profit of the Company, annual remuneration per employee and remuneration of Management Board members

in HRK					
Year	Total income	Net profit	Average number of employees	Average gross earnings per employee	Average gross earnings of Management Board members
2016	869,131,221	35,930,157	516	192,674	1,103,250
2017	906,640,302	41,507,515	534	194,856	1,024,569
2018	931,162,284	49,181,586	566	191,989	1,104,240
2019	1,041,746,681	59,695,022	612	189,575	1,142,080
2020	1,127,189,648	92,090,590	639	195,419	1,175,702

c) Based on performance in 2020, it is expected that variable remuneration in the total gross amount of HRK 3,090,000 will be paid to the Management Board in 2021.



### 2.3. Additional Explanations

The amount of remuneration paid to Management Board members is determined with the aim of attracting, motivating and keeping qualified staff, promoting good and efficient risk management and discouraging risk-taking that exceeds the level of risk acceptable for the Company. The Remuneration Policy contributes to the fulfilment of the Company's strategic objectives.

The structure of remuneration ensures a balance between variable and fixed remuneration.

In 2020, the Company did not request a return of any variable remuneration.

There are no third-party payments to or payment obligations towards Management Board members pertaining to their work performed as members of the Management Board at the Company or as part of any other function at Končar Group.

### 3. SUPERVISORY BOARD

In accordance with the Company's Articles of Association, the Supervisory Board of Končar D&ST d.d. supervises the operations of the Company's Management Board. It consists of five members in total, who are entitled to receive a fee for their participation in the Supervisory Board, in accordance with the decision of the Company's General Assembly.

Pursuant to the Decision of the General Assembly of Končar D&ST d.d. of 31 May 2005, monthly remuneration for Supervisory Board members was determined in the gross amount of 10% of (gross) salary of the president of the Management Board as remuneration of the president of the Supervisory Board and in the gross amount of 10% of (gross) salary of a Management Board member as remuneration for Supervisory Board members paid at Končar D&ST d.d.

Every member of the Supervisory Board is entitled to a fixed monthly remuneration starting from the date of appointment to that duty until the date of expiry thereof.

In order to maintain their independence and objectivity, remuneration of Supervisory Board members does not depend on the Company's performance and does not include variable remuneration.

Members of the Supervisory Board of Končar D&ST d.d. (\*) who were employed at the parent company during 2020 gave up their remuneration for membership in the Supervisory Board of Končar D&ST.

Members of the Supervisory Board in 2020:

Gordan Kolak	President of the Supervisory Board	as of 1 July 2020
	Deputy President of the Supervisory Board	until 30 June 2020
Ivan Bahun	Member of the Supervisory Board	as of 1 July 2020
Josip Ljulj	Member of the Supervisory Board	as of 1 July 2020
Miki Huljić	Member of the Supervisory Board	as of 1 July 2020
Ana Marija Markoč	Member of the Supervisory Board	
Darinko Bago	President of the Supervisory Board	until 20 January 2020
Davor Mladina	Member of the Supervisory Board	until 30 June 2020
Miroslav Poljak	Member of the Supervisory Board	until 30 June 2020

a) **Remuneration of Current Supervisory Board Members**

in HRK

<b>Name and surname</b>	<b>Position</b>	<b>Total gross remuneration paid for 2020</b>
Gordan Kolak *	President of the Supervisory Board	1,839
Ivan Bahun *	Member of the Supervisory Board	-
Josip Ljulj *	Member of the Supervisory Board	-
Miki Huljić *	Member of the Supervisory Board	-
Ana Marija Markoč	Member of the Supervisory Board	40,000

b) **Remuneration of Former Supervisory Board Members**

in HRK

<b>Name and surname</b>	<b>Position</b>	<b>Total gross remuneration paid for 2020</b>
Darinko Bago	President of the Supervisory Board	2,084
Davor Mladina	Member of the Supervisory Board	18,000
Miroslav Poljak	Member of the Supervisory Board	18,000

**3.1 Additional Explanations**

The Company or its affiliates did not make any other payments besides those mentioned above.

The Company or its affiliates did not grant any loans or make any advance payments and they do not issue guarantees to the benefit of Supervisory Board members.

The Company or its affiliates did not give any gifts of a significant value to Supervisory Board members.

**4. Report Approval**

Report on the Remuneration of Members of the Management Board and the Supervisory Board of Končar D&ST d.d. was approved and adopted by the Management Board and the Supervisory Board on 29 March 2021.

Signed on behalf of the Company on -----

President of the Management Board

Ivan Klapan

President of the Supervisory Board

Gordan Kolak