

**KONČAR-DISTRIBUTION & SPECIAL TRANSFORMERS INC.  
SUPERVISORY BOARD OF THE COMPANY**

**RULES OF PROCEDURE OF SUPERVISORY BOARD AND ITS COMMITTEES  
KONČAR – DISTRIBUTION & SPECIAL TRANSFORMERS INC.**

**Zagreb, 25 November 2020**

Pursuant to Article 42 of the Articles of Association of Končar-Distribution & Special Transformers Inc., Zagreb, Josipa Mirovića 8, the Supervisory Board of Končar-Distribution & Special Transformers Inc. (hereinafter: Company) adopts the following

## **RULES OF PROCEDURE OF SUPERVISORY BOARD AND ITS COMMITTEES**

### **I. GENERAL PROVISIONS**

#### Article 1

These Rules of Procedure of the Company's Supervisory Board and its committees (hereinafter: Rules of Procedure) regulate the work of the Company's Supervisory Board and its committees.

#### Article 2

The Company's Supervisory Board (hereinafter: Supervisory Board) shall perform the duties defined by the Act and the Company's Articles of Association.

In the event of any discrepancies between the provisions of the Rules of Procedure and provisions of the Articles of Association, provisions of the Company's Articles of Association shall prevail.

#### Article 3

Within the scope of its powers, the Supervisory Board grants approval to the Management Board's decisions prescribed by the Articles of Association and the Corporate Governance Code of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange (hereinafter: Corporate Governance Code), takes positions, adopts decisions, conclusions and other acts and oversees the business of the Company.

Every five years, the Supervisory Board sets a target for the percentage of female members on the Supervisory and Management Boards to be achieved within the next five years. The targets and the progress in achieving them are published in the annual report.

#### Article 4

Work of the Supervisory Board shall be conducted in accordance with the Rules of Procedure.

Provisions of these Rules of Procedure pertain to the members of the Supervisory Board and its committees, and to other persons attending the meetings or persons involved in the work of this body in any way.

### **II. CONSTITUTING SUPERVISORY BOARD**

#### Article 5

The constituent Supervisory Board meeting shall be convened and opened by the Chairman of the General Assembly or, in his absence, the oldest member of the Supervisory Board.

The convener of the constituent meeting proposes the meeting agenda.

Following the adoption of the agenda, the President and Deputy President of the Supervisory Board are elected.

#### Article 6

The President and Deputy President of the Supervisory Board are elected by public voting, by majority of the total number of Supervisory Board members.

Every Supervisory Board member may nominate a candidate for the President and Deputy President of the Supervisory Board.

Election is carried out in the order in which the candidates were proposed, first for the President, then for the Deputy President.

In case none of the candidates receives the required majority of votes, nominations and election shall be repeated until the President and Deputy President are elected.

#### Article 7

The President of the Supervisory Board shall ensure that all Supervisory Board members receive induction training into their role on appointment, and ongoing training and education to refresh and improve their skills and knowledge.

The President of the Supervisory Board shall ensure that the Supervisory Board receives regular updates and briefings from the Management Board and experts on matters relevant to the Company and to their duties as Supervisory Board members.

Administrative and technical tasks for the Supervisory Board shall be carried out by the Supervisory Board Secretary, who is also the Company Secretary within the meaning of Art. 33 of the Corporate Governance Code.

Company Secretary is also the Secretary of all the Supervisory Board committees. Company Secretary is entitled to remuneration which is determined by the Supervisory Board.

### **III. PREPARING AND CONVENING SUPERVISORY BOARD MEETINGS**

#### Article 8

Organizing, preparing and convening Supervisory Board meetings is the responsibility of the President of the Supervisory Board.

The Company's Management Board ensures timely preparation of reports and other materials necessary for Supervisory Board meetings, as well as their delivery at least one week before the meeting.

#### Article 9

Supervisory Board meeting is usually convened by the President of the Supervisory Board.

Any member of the Company's Supervisory or Management Board may request that the President convene a Supervisory Board meeting, indicating the reason and purpose of such request.

The meeting shall be held within 15 (fifteen) days from the day its convocation has been requested.

If the request of at least two members of the Supervisory Board or two members of the Management Board to convene a meeting is not complied with, the requesting members may convene the meeting themselves, providing the agenda.

#### Article 10

Supervisory Board meetings are usually held at the Company's head office.

Invitation to a Supervisory Board meeting is sent to Supervisory Board members in writing, no later than 10 (ten) calendar days before the day of the meeting.

Invitation to the meeting shall indicate the time and place of the meeting, reasoned agenda and shall include materials with the information necessary to make decisions on individual items on the agenda, as well as decision or conclusion proposals.

#### Article 11

Supervisory Board meetings are usually convened once every three months.

At the beginning of every calendar year, the Supervisory Board adopts a work plan, which includes approximate timing and agendas of future meetings.

### **IV. WORK AT THE MEETING**

#### Article 12

Only Supervisory Board members shall take part in decisions of the Supervisory Board.

Supervisory Board meetings may be attended by its members, members of the Company's Management Board and Supervisory Board Secretary/Company Secretary.

Reporters and advisors for specific matters to be decided may be invited to attend a Supervisory Board meeting, as well as the necessary administrative and technical personnel.

Supervisory Board is entitled to receive information or advice from parties outside of the Company at the Company's expense if the Supervisory Board considers it necessary to carry out its duties effectively, up to the amount of HRK 100,000.00 annually. Any amounts higher than HRK 100,000.00 shall be agreed upon with the Company's Management Board.

Supervisory Board Secretary/Company Secretary shall keep the record of attendance of Supervisory Board meetings and meetings of its committees for every member.

#### Article 13

Supervisory Board meetings shall be chaired by the President of the Supervisory Board.

Where the President of the Supervisory Board is absent or unable to attend a Supervisory Board meeting, Deputy President shall chair the meeting.

If both the President and Deputy President are absent or unable to attend, chairing of the meeting shall be assumed by the Supervisory Board member oldest in terms of age.

#### Article 14

Following the ascertaining of the quorum and adoption of the agenda, individual items on the agenda are discussed.

The agenda is determined based on the previously delivered written invitation with proposals of decisions to be taken at the Supervisory Board meeting, or based on delivered counterproposals and proposals to supplement the agenda.

Supervisory Board member who wants to oppose a certain proposal shall supplement the agenda with a new item and a proposal of a new decision, and shall deliver such proposal to the other Supervisory Board members no later than immediately before the meeting.

Exceptionally, the President of the Supervisory Board may propose, with the consent of the Supervisory Board, for a certain item to be included on the agenda at the meeting itself.

Following the adoption of the agenda for the Supervisory Board meeting, specific matters are discussed in accordance with the items on the meeting agenda.

#### Article 15

Proposals of decisions are put to vote by the President of the Supervisory Board in the order they are proposed in the meeting materials.

#### Article 16

Decisions are taken by majority of the total number of Supervisory Board members, by public voting, by declaring "FOR" or "AGAINST".

The results of the voting are determined and announced by the President of the Supervisory Board.

Absent Supervisory Board members may participate in decision-making by casting their vote by means of electronic communication /videoconferencing, video link/, in writing /by e-mail, letter, fax/ or by using other suitable technical means.

#### Article 17

Supervisory Board meeting may be held without Supervisory Board members being all present in person, which means that it may be convened and held electronically and/or by electronic audio-visual transmission (videoconferencing).

Provisions of these Rules of Procedure pertaining to the Supervisory Board meeting convocation and work at the meeting shall apply appropriately to the Supervisory Board meeting held in this manner.

Prior to the meeting, each Supervisory Board member shall be provided with materials for the meeting convened in this manner, and with proposals of the decisions to be voted on.

The materials shall be delivered by electronic means of communication, in writing, or by using other suitable technical means, and shall be formulated in such a way that Supervisory Board members may vote by declaring "FOR" or "AGAINST".

Each Supervisory Board member shall confirm the receipt of materials for the meeting so convened in an appropriate manner and give his/her consent to the decisions made.

Any decision of the Supervisory Board made at the meeting convened in such a manner shall be verified at the next Supervisory Board meeting.

#### Article 18

Prior to offering or concluding any individual commercial contract the value of which exceeds EUR 5 (five) million (in HRK countervalue), concluded on behalf of the Company, the Company's Management Board shall inform the Supervisory Board thereof in advance and request approval for its decision.

In an emergency, the Company's Management Board shall, in accordance with the previous paragraph of this Article, inform the Supervisory Board members, who will, should they have any objections, report such objections to the President of the Management Board in writing.

Such a response shall be verified at the next meeting of the Supervisory Board.

#### Article 19

Minutes shall be taken at Supervisory Board meetings.

The minutes shall include the agenda, meeting number, date of meeting, present and absent Supervisory and Management Board members, the manner and result of voting of each member, and all the conclusions and decisions on individual matters.

A copy of the meeting minutes, which contains only the decisions and conclusions reached by the Supervisory Board, in the form of an excerpt from the minutes, is usually delivered to the members within 15 (fifteen) days from the day the meeting was held, but no later than together with the invitation and the materials for the next Supervisory Board meeting.

Adopted minutes shall be signed by the President of the Supervisory Board in his own hand.

### **V. SUPERVISORY BOARD COMMITTEES**

#### Article 20

In the performance of its supervision over the Company, the Supervisory Board establishes committees, specifically: Audit Committee, Remuneration Committee and Nomination Committee.

Each committee shall have at least three members, each of whom should have the necessary knowledge and skills, as well as professional and practical experience to carry out the committee responsibilities effectively.

In the performance of its supervision over the Company, in addition to the committees, the Supervisory Board may appoint commissions. Supervisory Board commissions may be permanent or occasional. When appointing members of a commission, the Supervisory Board may determine remuneration to be received for work in the commission.

## **VI. AUDIT COMMITTEE**

### Article 21

The Audit Committee assists the Supervisory Board in the performance of its duties, and its advisory and expert competencies are based on and defined by the Audit Act.

Conclusions and recommendations of the Audit Committee have no executive power and they cannot release the Supervisory or Management Board from their responsibilities.

### Article 22

The Audit Committee consists of three members appointed by the Supervisory Board, who hold their appointment for a period determined by the Supervisory Board.

President of the Audit Committee is appointed by the Supervisory Board.

Members of the Audit Committee shall not have any connections with the Company's external auditors. At least one member of the Audit Committee shall possess the appropriate financial expertise.

Members of the Audit Committee as a whole must have knowledge about the Company's business sector.

Members of the Audit Committee are usually Supervisory Board members.

Exceptionally, a person who is not a Supervisory Board member may be appointed member of the Audit Committee if his professional knowledge and skills, previous work and experience guarantee he will contribute to the work of the Audit Committee. A member of the Audit Committee who is not a Supervisory Board member is appointed by the Company's General Assembly.

The appointed member of the Audit Committee who is not a Supervisory Board member shall be independent. If all the members of the Audit Committee are Supervisory Board members, the Audit Committee is exempted from the independence requirement pursuant to the Audit Act.

### Article 23

The Audit Committee shall have the following obligations and authority:

- Monitoring the financial reporting procedure,
- Monitoring the effectiveness of the company's internal control, internal audit and risk management systems,
- Monitoring the auditing of the annual financial and consolidated reports,
- Monitoring the integrity and completeness of the financial statements and accounting policies of the Company and other formal announcements relating to the Company's financial performance,

- Monitoring the independence of independent auditors or auditing company, especially the contracts on additional services,
- Giving recommendations to the Supervisory Board and the General Assembly on the selection of an independent auditor or an auditing company,
- Monitoring the implementation of actions identified as a result of external and internal audit and its own monitoring
- Assessing, once a year, the effectiveness of procedures for approving and reporting transactions between the members of the Management or Supervisory Board and the Company (or persons related to either party),
- Assessing, once a year, the effectiveness and application of the procedure for reporting irregularities.

#### Article 24

The Audit Committee shall oversee the process of selecting and appointing the external auditor in accordance with the requirements of the law, and make recommendations to the Supervisory Board on the choice of external auditor and terms of their appointment.

The Audit Committee shall agree on the annual work plan with the external auditor covering the scope and materiality of the activities to be audited. The Audit Committee shall meet with the external auditor as necessary, to discuss issues identified in the course of the audit, and to monitor the quality of the services provided.

The Audit Committee shall monitor the independence and objectivity of the external auditor. It shall approve a policy on the provision of permitted non-audit services by the external auditor and monitor the implementation of that policy.

#### Article 25

At least once a year, the Audit Committee shall review the effectiveness of the risk management and internal control systems as a whole, and make recommendations to the Supervisory and Management Boards as necessary.

The Audit Committee shall agree an annual internal audit work plan with the internal auditor, receive the internal auditor's reports and monitor the implementation of their recommendations.

The Audit Committee shall recommend the appointment or dismissal of the head of the internal audit function to the Supervisory Board.

#### Article 26

Meetings of the Audit Committee shall be held within the time limits set for the annual financial reporting of the Company and the Group. The President of the Audit Committee may, if necessary, convene a meeting outside the schedule set forth for financial reporting.

Meetings of the Audit Committee are convened at the request of the President of the Supervisory Board and/or President of the Audit Committee.

#### Article 27

The quorum at the meetings of the Audit Committee is made up of the majority of members of the Audit Committee. Any decisions of the Audit Committee are subject to majority decision-making.



Voting is oral, and voting results are recorded in the minutes. In the event of a tie, the vote of the President of the Audit Committee shall prevail.

The Annual Work Report and the decisions of the Audit Committee shall be submitted to the members of the Supervisory Board.

#### Article 28

Supervising Board Secretary/Company Secretary is also the secretary of the Audit Committee. The secretary is entitled to remuneration, which is determined by the Supervisory Board.

All the documents drafted by the Audit Committee shall be classified.

### **VII. REMUNERATION COMMITTEE**

#### Article 29

Remuneration Committee consists of three members appointed by the Supervisory Board, who hold their appointment for a period determined by the Supervisory Board.

President of the Remuneration Committee is appointed by the Supervisory Board.

Members of the Remuneration Committee are usually Supervisory Board members.

Exceptionally, a person who is not a Supervisory Board member may be appointed member of the Remuneration Committee if his professional knowledge and skills, previous work and experience guarantee he will contribute to the work of the Remuneration Committee.

#### Article 30

The main responsibilities of the Remuneration Committee are to:

- Recommend to the Supervisory Board the remuneration policy for Management Board members at least every three years;
- Recommend to the Supervisory Board each year the remuneration to be received by members of the Management Board, based on an assessment of the Company's and their individual performance during the year, and following consultation with the President of the Management Board;
- Recommend to the Supervisory Board the remuneration policy for Supervisory Board members, for approval by the General Assembly;
- Monitor the amount and structure of remuneration to senior management and the workforce as a whole, and make recommendations to the Management Board on their policies; and
- Oversee the preparation of the annual remuneration report required by law.

## **VIII. NOMINATION COMMITTEE**

### Article 31

Nomination Committee consists of three members appointed by the Supervisory Board, who hold their appointment for a period determined by the Supervisory Board.

President of the Nomination Committee is appointed by the Supervisory Board.

Members of the Nomination Committee are usually Supervisory Board members.

### Article 32

The main responsibilities of the Nomination Committee are to:

- Oversee the appointment process for the Supervisory and Management Boards to ensure it is fair and transparent,
- For each vacancy, develop role and candidate descriptions consistent with the Management or Supervisory Board profile (consulting with the President of the relevant Board as necessary), and identify and recommend suitable candidates to the Supervisory Board,
- Agree the terms of appointment with potential new Management and Supervisory Board members, including their expected time commitment,
- Draw up succession plans for the reappointment or replacement of members of the Supervisory and Management Boards in consultation with the President of the relevant Board,
- Monitor progress on achieving the target percentage of female members on the Supervisory and Management Boards, and
- Monitor the policy of the Management Board on the selection and appointment of senior management – directors.

## **IX. SUPERVISORY BOARD EVALUATION**

### Article 33

At least once a year, the Supervisory Board shall evaluate its effectiveness and composition, the effectiveness and composition of its committees, as well as the performance of individual members. The evaluation shall be led by the President of the Supervisory Board.

The evaluation shall include an assessment of whether the Supervisory Board profile needs to be updated, it shall affect the decision on the overall size and composition of the Supervisory Board and its committees, and on whether to recommend individual Supervisory Board members for reappointment. The evaluation shall also identify whether improvements could be made as regards the work and preparation of individual committee/Board meetings.

The report on the appraisal of the Supervisory Board and its committees shall be included in the annual report.

## **X. RIGHTS, DUTIES AND RESPONSIBILITIES OF SUPERVISORY BOARD PRESIDENT AND MEMBERS**

#### Article 34

Among other duties, President of the Supervisory Board organizes and manages the work of the Supervisory Board, signs all acts adopted by the Supervisory Board and is responsible for ensuring that the Supervisory Board regularly holds its meetings and timely performs the tasks determined by the Act and the Company's Articles of Association.

#### Article 35

Supervisory Board members shall attend meetings regularly and participate in the Board's work, in accordance with the Act and the Company's Articles of Association.

#### Article 36

Supervisory Board members are entitled to remuneration for their work in accordance with the Remuneration Policy for Supervisory Board Members determined by the Company's General Assembly.

#### Article 37

Supervisory Board members shall inform the Supervisory Board Secretary/Company Secretary of their membership in supervisory or management boards of other companies.

### **XI. CONFLICT OF INTEREST**

#### Article 38

Supervisory Board members shall not be permitted to make decisions based on personal interests or the interests of persons connected with them, and they shall not participate in decisions where they have a conflict of interest.

Where a Supervisory Board member believes they have a potential conflict of interest with regard to a certain decision, they shall inform the other Supervisory Board members.

Where a Supervisory Board member has reason to believe that another Supervisory Board member has not declared an existing or potential conflict of interest, they shall inform the President of the Supervisory Board. If they believe the President of the Supervisory Board has a conflict, they shall inform the Deputy President.

The Supervisory Board shall keep a record of all notifications relating to conflicts of interest.

### **XII. RELATED PARTY TRANSACTIONS**

#### Article 39

Any material transactions involving Management Board members and the Company or Supervisory Board members and the Company shall require prior approval of the Supervisory Board.

The Supervisory Board shall grant its approval only after an independent expert confirms the fair value of such material transaction.

### **XIII. COMPETITION BAN**

#### Article 40

Supervisory Board members shall not engage in activities that compete with the Company's business, either on their own or another's behalf; they shall not be members of management or supervisory boards or own significant holdings in companies that engage in such competing activities. Competition ban shall not pertain to the companies in Končar Group.

Supervisory Board members shall notify the Supervisory Board Secretary/Company Secretary of all their holdings in such companies, and details of these holdings shall be made freely available on the Company's website.

### **XIV. COMMUNICATION WITH MINORITY SHAREHOLDERS**

#### Article 41

Minority shareholders may direct their questions directly to the President of the Supervisory Board via email sent to [pitanja.dionicara@koncar-dst.hr](mailto:pitanja.dionicara@koncar-dst.hr), published on the Company's website.

### **XV. AMENDMENTS TO THE RULES OF PROCEDURE OF THE SUPERVISORY BOARD**

#### Article 42

Amendments to the Rules of Procedure shall be adopted by the Supervisory Board. Procedure to amend the Rules of Procedure may be initiated by any Supervisory Board member by submitting a reasoned proposal.

President of the Supervisory Board shall ensure that provisions of the Rules of Procedure are compliant with provisions of the Act, Company's Articles of Association and Corporate Governance Code.

### **XVI. BUSINESS SECRET**

#### Article 43

Materials serving as the basis for work at Supervisory Board meetings, discussions at Supervisory Board meetings, as well as any decisions made in such meetings shall be considered business secret when they are marked "business secret".

Any information considered to be business secret may be disclosed to third parties only in the manner and cases provided by the Act and the Company's Articles of Association.

Documents and archives of the Supervisory Board shall be stored in the Company's archive.

## **XVII. FINAL PROVISIONS**

### Article 44

A copy of these Rules of Procedure shall be delivered to all Supervisory Board members.

### Article 45

These Rules of Procedure shall enter into force as at the day of their adoption by the Supervisory Board.

These Rules of Procedure shall be published on the Company's website.

President of the Supervisory Board  
Gordan Kolak  
*Handwritten signature*