



**SLOVENIAN  
DIRECTORS' ASSOCIATION**

for effective Corporate  
Governance

**BORZA**  
**LJUBLJANSKA BORZA**  
**LJUBLJANA** *Stock Exchange*



# SLOVENIAN **CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES**

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# SLOVENIAN CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

## TABLE OF CONTENTS

I. PREAMBLE .....	3
II. DEFINITIONS .....	5
III. RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE .....	8
APPENDIX A: SUPERVISORY BOARD COMMITTEES .....	29
APPENDIX B: CONFLICT OF INTERESTS .....	31
APPENDIX C: COMPOSITION AND REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS .....	32

The Slovene Corporate Governance Code for Listed Companies was jointly drawn up and adopted by the Ljubljana Stock Exchange Inc., the Slovenian Directors' Association and the Managers' Association of Slovenia on 18 March 2004. They agreed to amend and supplement it on 14 December 2005, 5 February 2007 and 8 December 2009.

The Code in its current wording was drawn up and adopted by the Ljubljana Stock Exchange Inc. and the Slovenian Directors' Association on 27 October 2016.

This is an English translation of the Code; in case of discrepancies between the translation and the original Slovene version, the Slovene version shall prevail.

# I. PREAMBLE

Prior to the adoption of this version of the Slovenian Corporate Governance Code for Listed Companies (hereafter: Code), the version of the Code which was jointly drawn up and adopted by the Ljubljana Stock Exchange Inc., the Slovenian Directors' Association and the Managers' Association of Slovenia on 8 December 2009 and entered into use on 1 January 2010 was in force. This Code is an amendment to the Code from 2009.

## Reasons for the renovation of the Code

There are three reasons for this renovation:

- In almost seven years since the adoption of the previous version of the Code the regulatory environment in the field of corporate governance has changed. The key changes in the legislature during this period have been included in the five amending acts to the Companies Act (ZGD-1), which influenced the field of the companies' corporate governance, reporting and public disclosures on corporate governance.
- In addition, during this time also the international as well as Slovenian recommended practice of corporate governance has changed. In 2015 OECD adopted new Principles of Corporate Governance and throughout this period many other European countries have adopted new Codes (i.e. Austria, Germany, Finland, Sweden, the United Kingdom, Romania, Baltic countries). The new recommended practice of corporate governance also developed in the form of autonomous sources in Slovenia (i.e. Corporate Governance Code for Companies with Capital Assets of the State, 2014; Corporate Governance Code for Unlisted Companies, 2016; Guidelines for Audit Committees, 2016; Practical Guidelines for Quality Explanations and Corporate Governance Statements, 2015; Guidelines for Selection and Recommendations for the work of Supervisory Board Chairmen, 2014; Guidelines for the Selection and Work of the Secretaries of the Supervisory Boards and Boards of Directors, 2014; Code of Professional Ethics of Slovenian Directors' Association, 2014; Recommendations for Reporting to Supervisory Boards, 2014; Slovenian Guidelines for Corporate Integrity, 2014; Communication Guidelines for Supervisory Board Members at Companies they Supervise, 2014; Guidelines for the Functioning of Boards of Directors, 2013; Practical Guidance for Members of Management Board Recruitment, 2012; Supervisory Board Assessment Manual 2011; Supervisory Board Self-assessment Matrix). In addition to important development of guidelines of good practice, also the European commission recommendations on the quality of corporate governance reporting from 2014 must be emphasised, which direct the EU member states to monitor and supervise compliance with codes.
- The third reason for amending the Code is the conducted analyses on the use and compliance with the Code presented in the form of the Report on the Analysis of 'Comply or Explain Statements' with respect to Deviations from the Corporate Governance Code for the period 2010 – 2014, which was prepared by the Ljubljana Stock Exchange and the Slovenian Directors' Association. The amendments were also influenced by feedback provided by issuers as the users of the Code. Based on the analysis of compliance with the Code and issuers' feedback it became clear which provisions of the Code the companies comply with and which disclosures of deviations from the Code are the most frequent. Moreover, it also became clear which provisions were not written clearly enough and thus complying with them and disclosing deviations from them in practice presented unneeded problems.

## Substantive changes of the Code

Most amendments to the Code from the previous version are editorial and nomotechnical. The Code, however, also contains some important substantive changes:

- In chapter 1 titled **Corporate Governance Framework** a new institute is added – Diversity Policy, which is already defined in Article 70 of the Companies Act. The main purpose of this institute is to provide a clearer definition of recommendations in the field of diversity and gender balance in management and supervisory bodies. The companies are encouraged

to approach the provision of diversity seriously without imposing the same solution to different companies. Furthermore, recommendations regarding the drawing up of the Corporate Governance Statement and the supervision of compliance with the Code are supplemented. A multiannual analysis of corporate governance statements showed that some companies still do not understand the institute of “comply or explain” and that the quality of explanations of deviations from the Code in the corporate governance statements is inadequate, which is neither good for the companies nor for their stakeholders. In accordance with the European commission recommendations on the quality of corporate governance reporting from 2014, the Code introduces a recommendation regarding an external assessment of the adequacy of the corporate governance statement.

- In chapter 2 titled **Relations with Shareholders** the recommendations regarding equal treatment of shareholders are supplemented. It has namely been established that the independence of supervisory and management boards from any individual shareholder and works council still remains a challenge and that previous provisions of the Code were not always correctly understood and complied with.
- In chapter 3 titled **Supervisory Board** recommendations on self-assessment of supervisory boards are updated; recommendations for the chairman and secretary of the supervisory board are supplemented; with regards to committees mainly the provisions on audit committees are harmonised with the new provisions of the European Directives and the Companies Act; and recommendations for additional training of supervisory board members are added. Everything mentioned has an important effect on the efficiency of the supervisory board’s work.
- In chapter 4 titled **Management Board** among others the recommendations regarding the management board succession planning are supplemented. In addition, the recommended management board tasks regarding the company’s management system are the following: the system needs to be transparent with regards to competences, needs to be connected to the risk management system and needs to be such as it ensures ethical and responsible behaviour of all authorised persons in the company.
- Important supplements are added also to chapter 5 titled **Independence and Loyalty**. The definition of independence is amended, and is now more clearly demarcated from the conflict of interest. The criteria for the conflict of interest are updated and written more clearly. The meaning of independence is thus narrowed only to relationships which permanently prevent the body’s members from objectively assessing in the company’s interest. Not every conflict of interests is automatically also a dependent relationship. Therefore, the Code extends the recommendation regarding the independence of the supervisory board members from half to all members of the supervisory board.
- Finally, also changes of chapter titled **Transparency of Operations** are important. They are harmonised with the changes in legislature and the Ljubljana Stock Exchange Rules and enable better comparability among companies as well as provide greater transparency for their stakeholders. An example of this is a proposal for unified tables about the composition and remuneration of the managing and supervisory bodies in Attachment C of the Code.

## The purpose of the Code

The purpose of the Code has remained the same. The Code defines the governance, management and leadership principles based on the “comply or explain” principle of companies listed on the Slovene regulated market. The recommended practices can also be applied by other companies, so as to contribute to a transparent and understandable governance system in Slovenia, which promotes both domestic and foreign investor confidence in the Slovene corporate governance system, as well as the confidence of employees, other company stakeholders (regulators, banks, suppliers, etc.) and the general public.

## II. DEFINITIONS

The definitions of terms refer exclusively to the use of the respective terms in this Code and are intended to enhance the understanding of the Code's main and supporting principles. They have been taken from the valid provisions of the Slovene company law and the Financial Instruments Market Act, and are given in the alphabetic order.

**Committees:** the supervisory board or the board of directors may establish special committees, which may be set up for the entire mandate of the board or only at extraordinary events, to effectively resolve complex issues.

**Company management:** a synonym to management body. Bodies or persons authorised by law or a company's acts to run its business; listed companies are managed either by the management board (two-tier system of governance) or the board of directors (one-tier system of governance), which do not delegate the company's regular operations and representation to executive director(s), who are also member(s) of the board of directors.

**Conflict of interests:** a situation when a person's impartial and objective performance of tasks or decision taking solely in the company's interest within the function he is performing is compromised due to personal economic interests, his family members' interests, or due to special bias or any other interests related to other natural or legal persons.

**Controlling:** the relation between a controlled and a controlling undertaking, or a similar relation between any natural and legal persons.

**Corporate Governance Policy:** the framework of corporate governance as drawn up by the supervisory board and the management board, wherein they commit to and publicly discloses how they will supervise and run the company. The Corporate Governance Policy consists of:

1. a description of all the prime governance guidelines, taking into account the company's set objectives, values and social responsibility,
2. the indication as to which CG code the company abides by,
3. an outline of the company's groups of stakeholders, its communication strategy and coop-

- eration with individual groups of stakeholders (creditors, controlled undertakings, suppliers, customers, employees, the media, analysts, state bodies, the local and wider community),
4. the procedure of informing controlled undertakings and shareholders of the group's strategy and corporate governance standards,
5. the policy of transactions between the company and related companies, including their members of the management and supervisory boards,
6. the commitment that the supervisory board will set up a system of detecting conflicts of interests and independence in members of the supervisory/management board, and measures to be applied in case of circumstances that have a material effect on their status in relation to the company,
7. the supervisory board's commitment to assess its efficiency,
8. the intent to set up supervisory board committees, if needed, and an outline of their tasks,
9. a clear system of division of responsibilities and powers among members of managerial and supervisory bodies,
10. rules governing the relationship between the company and related companies, including its members of the management/supervisory board, which are not subject to statutory provisions on conflicts of interests,
11. a definition of the company's communication strategy, including the high quality standards for drawing up and the disclosure of accounting, financial and non-financial information,
12. the protection of interests of the company's employees, which is achieved by defining the manner, content and standards of their work as well as by ensuring an adequate level of ethical conduct in the company, including the prevention of discrimination.

**Corporate governance statement:** due to a required higher level of transparency in accordance with Article 70 of Companies Act, all companies subject to audit are required to disclose the corporate governance statement, which is a part of the business report. The content of the corporate governance statement must comply with Article 70 of Companies Act.



**Counterproposal:** enables a shareholder to provide well-grounded counterproposals to the proposed resolutions that are on the agenda of the company's general meeting. A counterproposal cannot constitute a proposal for deciding on an additional item to be put on the agenda. Shareholders may present counterproposals up to after 7 days following the convocation of the meeting as well as at the meeting itself, whereby the 7-day period after the published convocation is meant to bind the company's management to notify all other shareholders of the content of the counterproposal.

**Diversity policy:** document defining a company's commitments to diversity undertaken with regards to the representation in management and supervisory bodies from the perspective of, for example, gender, age or education. It must contain specific objectives and ways of their implementation.

**Expanded/core management:** company's expanded/core management as defined by company's internal acts.

**Independence:** absence of any influence on a person's impartial, professional, objective, honest and comprehensive assessment in performing their tasks or in their decision taking within the function they are performing. Persons are considered dependent if they fulfil conditions defined in point 23 of this Code.

**Indirect holding:** an indirect holder of shares, participating interests or other rights that ensure participation in governance or capital is a person for whose account another person – who is the direct holder – acquired these shares, participating interests or other rights that ensure participation in governance. A person is the indirect holder of shares, participating interests or other rights that ensure participation in governance, or of other securities whose direct holder is another person, whereby the person who is the indirect holder controls the person who is the direct holder.

**Inside information:** any accurate information referring indirectly or directly to one or more issuers of financial instruments (shares, bonds, etc.) or to one or more financial instruments, which has not yet been made available to the public or has not yet been released, and which would, if publicly disclosed, likely have a material impact on the prices of these financial instruments and on the prices of related derivative financial instruments.

**Institutional investors:** a legal person whose main activity is investing its own assets to maintain the asset value and generate returns on such investments (insurers, pension funds, asset managers, etc.).

**Listed company:** a joint-stock company whose shares are listed on a regulated market in compliance with the law.

**Major holding thresholds:** the proportions of voting rights in a listed company held by a single shareholder, representing 5, 10, 15, 20, 25, 30, 50 and 75 per cent of all the voting rights in the respective public company. In determining major holdings, all the company's shares with voting rights are considered, including own shares and shares with a limited exercise of voting rights either due to the law or the company's articles of association, pursuant to the law.

**Manager:** an employee leading a business area or an organisational unit in the company and having the authority to enter into legal transactions or to make independent human resources and organisational decisions.

**Managerial and supervisory bodies:** the management board and the supervisory board.

In the Slovene corporate governance practice, the **two-tier board structure** is predominant. As with non-executive directors in the one-tier system of governance, the **supervisory board** is nominated by the company's shareholders in order to promote their interests by monitoring the operations of the company's management board. Members of the **management board** (their counterpart in the one-tier system would be executive directors) are responsible for running the company, and are appointed and discharged by a resolution of the supervisory board.

**Minority shareholders:** the lowest percentage of shareholders, as stipulated by law or the articles of association, who are entitled to the so-called minority rights (the convening of a general meeting at the initiative of shareholders who represent 5 per cent of the company's share capital, and the request for the expansion of the agenda of the meeting; voting on shareholders' election proposals prior to the proposals of the supervisory board or the board of directors, if so requested by the shareholders who represent 10 per cent of the company's share capital; recalling of a supervisory board member or a member of the board of directors through court proceedings, if so requested by the shareholders who represent 10 per cent of the company's share capital).

**Pre-emptive right:** the right of existing shareholders to buy, in the event of increase in the company's share capital, shares of a new issue first (before it is offered to any third party), in proportion to their current holding of the company's share capital. The pre-emptive right

to shares of a new issue is one of the property rights carried by shares, which facilitates holders to maintain their existing proportionate interest or equity investment, and thus fosters unchanged internal relations among shareholders upon capital increases.

**Public disclosure:** the adequate disclosure of data or information, either verbally at the general meeting or in writing in the materials for the meeting, in the company's annual report, on its website, in newspapers, electronically or in another prescribed manner pursuant to the law.

**Qualifying holding:** a direct or indirect holding of a participating interest, shares or other rights in a legal person that enable the holder to acquire either min. 10 per cent of voting rights, or a min. 10 per cent stake in the respective legal person's capital, or an amount of voting rights or a stake in the legal person's capital that are less than 10 per cent but nevertheless make it possible to exert a significant influence over the management of the undertaking in which that holding subsists.

**Regulated information:** every piece of information that the public company, or another person that requested admission of securities to trading on a regulated market without the consent of the public company, must disclose pursuant to the Financial Instruments Market Act.

**Related persons:** legally independent persons who are related to each other, either in terms of governance, capital or in some other manner, whereby these relations make them cooperate in setting up their business policy and act in concert to reach common business objectives, or so that one person can direct or materially influence the other person(s) in deciding on the matters of finance and business operations, or so that one person's business operations or business results materially influence another person's business operations or business results. Related persons are persons:

- who are related by way of being immediate family members;
- that participate in another person either collectively, directly or indirectly;
- that participate in each other;
- that form a group of companies, pursuant to the company law;
- who are members of managerial or supervisory bodies or procurators or employees, who have entered into employment contracts to which the substantive agreement in the collective wage agreement does not apply with the com-

pany in which they perform this function or in which they are employed, and the immediate family members of these persons.

**Significant shareholder:** a person whose shares indirectly or directly represent 5 per cent or more of a listed company's share capital, or 5 per cent or more of the voting powers in a listed company.

**Stakeholders:** stakeholders in companies are interest groups that contribute, either voluntarily or involuntarily, to the ability and activities of companies to create added value, and are therefore also the vehicle of potential gains and risks undertaken by the company.

**Statement of Compliance with the Corporate Governance Code:** once a year the companies listed on the Prime and Standard Markets of the Ljubljana Stock Exchange must disclose their compliance with the code that applies to the company or that the company voluntarily decided to apply on the basis of the "comply or explain" principle. They disclose this in a document, which is defined as a "Statement of compliance with a code" in the Ljubljana Stock Exchange Inc. Rules (Ljubljana Stock Exchange Inc. Rules, Articles 25 and 26). This document is an integral part of the corporate governance statement, which is a special part of the business report in the companies' annual reports in accordance with Article 70 of the Companies Act.

**Statement of Independence:** a statement signed by all members of a supervisory board in accordance with the recommendation 11 of this Code and Appendix B.

**Supervisory body:** bodies authorised by law or a company's acts to supervise its business and its management body; listed companies are supervised either by the supervisory board (two-tier system of governance) or the board of directors (one-tier system of governance), which in turn delegate the company's regular operations and representation to executive director(s), who are also member(s) of the board of directors.

**Transparency:** the level of information disclosure about a securities issuer, which enables the receivers of such information (investors) to correctly assess the financial position, business operation, risks and the management of the issuer's company, and helps them to take an informed investment decision. It is one of the main components of the corporate governance system, its key elements being: quality of disclosure, frequency of information delivery, availability. High quality disclosure has the following features: comprehensiveness or completeness, reliability, relevance, timeliness, comparability.

### III. RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

#### CORPORATE GOVERNANCE FRAMEWORK

- 1 The key objective of a joint-stock company engaged in a revenue-generating business is long-term and sustainable maximising of the company's value. Should the company have other objectives, they should be defined in the memorandum of association.**

#### CORPORATE GOVERNANCE POLICY

- 2 The management board works together with the supervisory board in drawing up and adopting a Corporate Governance Policy ("CG Policy"), thereby laying down the major guidelines of corporate governance as compliant with the company's long-term objectives. The CG Policy is communicated to the stakeholders by being published on the corporate website.**
  - 2.1 In drawing up the CG Policy of a company, the management board cooperates with the supervisory board, whereby it takes account of the company's development needs and its specificities, such as its size and area of business. The supervisory board takes part by drawing up its own activities schedule for each financial year and by defining the issues to be dealt with. These include adoption of a meeting calendar, key contents of supervision, form of communication with the management board, the role of the supervisory board in adopting the Corporate Governance Policy and Diversity Policy, which is performed with regards to the representation in management and supervisory bodies, supervisory board performance assessment, the role of the supervisory board in assessing internal controls system (especially risk management, internal audit and financial and operative control systems as well as the system of compliance with legislation and relevant standards), and the procedure of drawing up general meeting resolutions, chiefly the proposed appointments of supervisory board members. In drawing up the CG Policy of a company, the company may make reference to other publicly available documents.
  - 2.2 The CG Policy is updated regularly and is always compliant with the company's latest governance policy. It contains the date of its latest update and is available on the company's website.

#### COMPANY AND STAKEHOLDERS

- 3 In relations with its stakeholders, a company exercises its rights with due responsibility and meets the obligations it has undertaken in a manner that is compatible with the company's objectives and that serves its long-term interests.**
  - 3.1 The company provides for appropriate communication and mutual protection of confidentiality as well as for the maintenance of best business practice with representatives of individual stakeholders.
  - 3.2 In adopting actual decisions, a company considers the legitimate interests of all stakeholders. Unless considered a business secret or inside information, the company communicates all decisions having a direct impact on a given stakeholder group to the respective group.
  - 3.3 Within the framework of regular reporting, a company also reports about its relationships with Stakeholders.



## DIVERSITY POLICY

- 4 The management board, together with the supervisory board, draws up and adopts the Diversity Policy performed with respect to the representation in management and supervisory bodies.**
- 4.1 The Diversity Policy defines target diversity pursued with respect to the representation in management and supervisory bodies from the perspective of age, education or other personal characteristics of the members as appropriate for the company with regards to its characteristics.
  - 4.2 The Diversity Policy specifically defines the target diversity pursued with respect to the representation in management and supervisory boards from the perspective of gender. The Policy determines the ratio of both genders in the bodies as appropriate for the company depending on the size of the bodies.
  - 4.3 The Diversity Policy specifically sets out the objectives of diversity for each body and ways of their implementation, as well as the effects on the human resources procedures and other processes in the company.

CORPORATE GOVERNANCE STATEMENT AND  
STATEMENT OF COMPLIANCE WITH THE CODE

- 5 The company includes a CG statement in the company's business report. Until the CG statement is drawn up, the supervisory board, within the framework of the adoption of the company's annual report, defines its position on the corporate governance in the supervisory board performance report.**
- 5.1 The company which, in addition to this Code, applies any other code, draws up one CG statement, in which it includes as many statements of compliance with a code as the codes it applies. Compliance with recommendations of this Code counts as an adequate explanation as to why the company did not abide by possible different recommendations of the other code.
  - 5.2 The statement of compliance with the Code must be clear, understandable and accurate. It must define deviations from all recommendations of the Code, which the company does not abide by in their entirety. The company also discloses all deviations from the Code, which it failed to comply with during the entire financial year.
  - 5.3 For each deviation the company discloses how and why it deviated from a recommendation of the Code. Explanations of deviations must be substantive. Merely stating the fact that none of the recommendations of this Code are binding for the companies is not an appropriate explanation.
  - 5.4 Should the company, instead of the recommended practice, have its own corporate governance practice, which is more suitable for the company, the company should state and explain the practice, as well as explain these deviations. The company should also state why this practice is more suitable for the company.
  - 5.5 In the CG statement the company discloses the composition of the management and supervisory boards by name in tables, which are in Appendix C1 and C2 herein. For each management or supervisory board member the company completes all data contained in the tables in the Appendix herein.
  - 5.6 In the CG statement the company discloses the composition and amount of the remuneration package of the management and supervisory boards by name in tables, which are in Appendix C3 and C4 herein.
  - 5.7 At least once in every three years a company ensures external assessment of the adequacy of the CG statement. An independent institution with relevant professional references must perform the external assess-

ment. External assessment is not considered as business assurance, which is provided by the accounting experts with public authorisation (auditors) or accounting experts without public authorisation (e.g. internal auditors). It is performed separately from the audit of the annual report and is not performed by the institution, which is the provider of auditing services for the company, or is in any way connected with them.

## RELATIONS WITH SHAREHOLDERS

### RELATIONS WITH SHAREHOLDERS

- 6 The company ensures a governance system that respects the principle of equal treatment of shareholders and fosters a responsible enforcement of shareholder rights. Under the same conditions, the company exercises equal treatment of all shareholders irrespective of whether they are legal or natural persons, institutional investors, local or international, state or a state capital investment manager.**
- 6.1 The company encourages all shareholders to be active and responsible in enforcing their rights, and to engage in mutual dialogue.
- 6.2 The company encourages all significant shareholders, institutional investors and the state in particular, to publicly disclose their investment policy with respect to the stake they hold in the company concerned, i.e. their voting policy, the type and frequency of their engagement in the company's governance, and the dynamics of their communication with the respective company's managerial or supervisory bodies. The company is considered to have called its shareholders to make such a disclosure pursuant to this Principle if the convocation of the meeting includes the respective invitation.

### MANAGEMENT AND SUPERVISORY BOARDS' ACTING IN THE BEST INTEREST OF THE COMPANY

- 7 The management and supervisory boards are obliged to act exclusively in the best interest of the company irrespective of the will or wishes of individual shareholders and other stakeholders of the company. The Boards act exclusively at their own discretion in the interest of the company and do not communicate with individual shareholders and other stakeholders about their decisions, their future conduct or company's performance outside of the mechanisms laid down in laws and recommended in this Code.**

### GENERAL MEETING

- 8 The company facilitates and encourages shareholders to actively enforce their voting rights by informing them of the convening and progress of general meetings in a timely and accurate manner and by holding general meetings with due responsibility. To facilitate the shareholders' right to be informed, the company provides them with reliable data on the company and its related companies, as required for shareholders to make informed assessments of the items on the agenda. Each shareholder has the right to attend the general meeting and there discuss the items on the agenda, ask questions and provide proposals, vote on proposals, as well as to be informed of the adopted decisions, on a non-discriminatory basis. The General meeting does not exercise voting rights only, thus also the holders of the preference shares without voting rights may attend the General Meeting.**
- 8.1 Each institution or individual planning an organized collection of proxy notices for the general meeting informs the management board of such an intention in advance of the actual collection. The company

thereupon posts on its website, along with the other information on the convening, a public announcement stating who is organizing the collection of proxy notices and for which general meeting. Such an announcement includes:

- a list of proxies;
- their contact details (address to which proxy notices are to be mailed);
- the period available for sending proxy notices;
- a proxy notice.

Not later than one month after the general meeting, the company also discloses the costs of the organized collection of proxy appointments.

- 8.2 On its website, the company provides, together with the convocation of the general meeting, a sample registration to the general meeting. In addition to the sample for direct registration to the general meeting, the company also provides a sample registration with authorisation to participate in the general meeting and a sample registration through a proxy.
- 8.3 Not later than upon convening the general meeting, the company provides understandable information about the consequences that the potential adoption of any proposed resolutions might have for the existing and potential shareholders, and substantiates why such resolutions should be adopted – either resolutions on changes of the company's articles of association (capital increase or decrease, waiver of existing shareholders' pre-emptive right, changes in the nominal value of shares, transformation of the type of shares) or resolutions on the company's corporate restructuring (division, merger, transfer of property, change in legal form of organization).
- 8.4 In cases of a proposed resolution on listing, transfer of listing to another regulated market or a proposed resolution on the delisting of shares from the regulated market, the company communicates in a clear manner the consequences of such a proposal and resolution being adopted, both for the existing and potential shareholders, and substantiates the proposed resolution. The company also discloses in due time the presumed activity plan of the delisting from the regulated market.
- 8.5 If the general meeting is to elect members of the supervisory board, the company's substantiation of the proposals for such resolutions must include, along with the statutorily required data, at least the information on proposed nominee's current and past membership on other managerial or supervisory bodies and any potential conflicts of interests, pursuant to the criteria given in Appendix B of this Code. The company must additionally disclose information whether the proposed nominee is independent in relation to the company in accordance with the criteria in this Code.
- 8.6 If the general meeting is to elect members of the supervisory board, the proposer must disclose the process of finding, nomination and evaluation of the nominees for the members of the supervisory board.
- 8.7 If the general meeting is to decide on the management remuneration policy, it should adopt it at the proposal of the supervisory board and align it substantively with the current market situation and the situation in the company in such a way as to promote long-term sustainability of the company and to ensure that the remuneration is in line with the achieved results and financial position of the company. The management remuneration policy should substantively follow the Companies Act and the provisions of the Code, and should define at least:
  - the largest share of variable remuneration in relation to the fixed remuneration;
  - criteria used for determining types of variable remuneration (not specific criteria);
  - the maximum amount of termination payment in relation to the fixed remuneration;
  - specification of the highest share of remuneration given as shares, stock options and other types of financial instruments, along with any restrictions of such remuneration.

- 8.8 The general meeting takes separate votes about the resolution on the distribution of accumulated profit, and about the resolution on formally discharging managerial and supervisory bodies from responsibility, even though both matters are discussed under the same item on the agenda. The general meeting likewise adopts separate resolutions for discharging the management board on the one hand and the supervisory board on the other.
- 8.9 If the general meeting is to adopt a resolution on having reviewed the annual financial statements, or if the general meeting has the power to endorse the financial statements, a representative of the company's certified auditor is summoned to the meeting.
- 8.10 In the public announcement about the conducted general meeting, the company provides statutorily required information as well as:
- a clear identification of the five largest shareholders present or represented at the meeting, along with their respective numbers of shares held and the numbers of their voting rights; voting rights should also be given as a percentage of the total voting rights in the company and as a percentage of the voting rights in the respective class of shares;
  - notice on the distribution of accumulated profit, as well as data on the dividend amount, the record date when the shareholders entitled to dividend payments are to be identified, and the predetermined payable date;
  - when the adopted resolutions refer to the issue of new serial securities, a detailed account of the rights and obligations arising from such securities.

## SUPERVISORY BOARD

### COMPOSITION AND NOMINATION OF SUPERVISORY BOARD

- 9 The composition of the supervisory board ensures diligent supervision and decision taking that is in the best interest of the company. Members of the supervisory board are appointed with a view to their complementary professional expertise, experience and skills, and objectives of the Diversity Policy implemented from the perspective of gender, age, education and other personal characteristics of the members, if the company adopted such a Policy.**
- 9.1 The supervisory board has a sufficient number of members to facilitate efficient discussions and the adoption of quality decisions based on the diversity of its members' experience and skills.
- 9.2 In the proposed new composition of the supervisory board for the general meeting all nominees for members of the supervisory board are independent. In the event of changed circumstances that affect the member's meeting the criteria of independence, such a member immediately informs the supervisory board. The recommendation to appoint independent members applies both to shareholders as well as workers' councils. The fact that a member of the supervisory board nominated by a workers' council is employed at the company does not preclude his/her independence in accordance with the principle 23 and Appendix B3 of this Code.
- 9.3 If the general meeting or works council do not abide by the recommendations on nomination of independent supervisory board members and the adopted Diversity Policy, the company discloses this information in the CG statement.
- 9.4 When the supervisory board is set up, when the terms of office of new members begin and upon the appointment of special supervisory board committees, the chairman of the supervisory board ensures that newcomers receive an efficient induction to the work on the board, whereby the management board and secretary of the supervisory board provide organizational support. In the event that more than half of the

members in the composition of the supervisory board are replaced, the supervisory board, in due time after the completed induction to work of the new supervisory board members, confirms or adopts the Corporate Governance Policy and makes firm commitments with respect to its activities related to establishing and implementing their key corporate governance institutes.

#### SELECTION PROCEDURE FOR SUPERVISORY BOARD MEMBERS

### **10 The selection procedure for new supervisory board members, and the procedure of drawing up the related proposal of the general meeting resolution for appointing new board members, are transparent and defined in advance. In selection, the supervisory board pursues Diversity Policy objectives concerning the representation in the company's supervisory bodies.**

- 10.1 In assessing a candidate's eligibility for a supervisory board member, statutory criteria are applied as well as the following additional criteria, to the greatest possible extent:
- adequate personal integrity and business ethics,
  - min. university-level education (old programme) or Master's degree in a profession (2<sup>nd</sup> Bologna level) ,
  - adequate experience in supervision, corporate governance or management, or work experience in the company's industry,
  - comprehensive business and relevant professional knowledge,
  - the ability to act and make decisions in the company's long-term interest, thereby subduing to this cause potential alternative personal or other individual interests (of third persons, employees, the management board, shareholders, the public and the government),
  - candidates are not managers, supervisors, representatives or consultants of competitive companies in the industry of the respective company's primary business, and they are also not significant shareholders or stakeholders in such competitive companies,
  - they have sufficient time or will have sufficient time once they are appointed,
  - they are capable of efficient communication and teamwork,
  - they are prepared to undertake continuous training and professional development,
  - they have a certificate evidencing their specialized professional competence for membership on a supervisory board, such as a Certificate of the Slovenian Directors' Association or another relevant certificate.
- 10.2 If a remuneration committee or a nomination committee operate within the supervisory board, the board carefully studies its recommendations and discloses in the materials for the general meeting whether it has applied these recommendations in its appointment of the candidates for supervisory board members. If the supervisory board has no such nomination committee, it conducts the procedures recommended for nomination committees in Appendix A3 of the Code by itself.
- 10.3 Prior to beginning the assessment of potential candidates for supervisory board members, the supervisory board or nomination committee considers the needed competency and professional profile of the nominee, which comprises the level of professional knowledge, experience and skills necessary for a supervisory board member's high-quality conduct of his function. To this end, the supervisory board draws up in advance an outline of the function as well as the professional knowledge, experience and skills necessary to perform such a function (supervisory board member profile), against which the candidates are assessed. Such a profile is drawn up according to the size, line of business, strategy and other characteristics and needs of the company.



## STATEMENT OF INDEPENDENCE

- 11 All members of the supervisory board sign a statement of independence, in which they declare themselves on their meeting of the criteria of conflict of interest from Appendix B of this Code. In this statement, they also indicate whether they consider themselves independent. Should they recognize any potential conflict of interest and consider themselves independent, they state in the statement why this conflict of interest is not permanent and relevant pursuant to this Code. In the statement they also state explicitly that they have the relevant professional training and know-how to work on a supervisory board. Such signed statements are then posted on the company's website.**

## SUPERVISORY BOARD'S TASKS

- 12 The supervisory board monitors the company throughout the financial year, takes an active part in drawing up the CG Policy of the company and in establishing the corporate governance system, carefully evaluates the work of the management board and performs other tasks pursuant to the law, company regulations and the Code.**
- 12.1 The supervisory board's responsibility is to adopt decisions with due care, in good faith and based on obtained complete and timely information. For this purpose the members of the supervisory board should make sure that the key corporate information and systems for ensuring compliance are credible and appropriate and such as to enable the supervisory board appropriate monitoring and supervision.
- 12.2 Within a due period after the appointment, the supervisory board either endorses or supplements the existing rules of procedure, or adopts new rules of procedure, as compliant with the needs of the current supervisory board and the Code. The supervisory board rules of procedure govern especially:
- the manner of calling meetings, communication among members and dissemination of materials,
  - the manner of voting and decision-taking,
  - the frequency of board meetings,
  - the content and manner of drawing up, coordinating and endorsing the minutes,
  - the tasks of the chairman and secretary of the supervisory board,
  - communication with the public regarding the supervisory board's resolutions,
  - detailed criteria for assessing conflicts of interests and procedures in cases of potential conflicts of interests,
  - the list of all types of transactions for which the management board needs prior approval of the supervisory board based on a supervisory board resolution and the company's articles of association,
  - the system of outsourcing for purposes of the supervisory board,
  - supervisory board evaluation, education and training of the members of the supervisory board.
- 12.3 In its rules of procedure, the supervisory board sets the scope of topics and timeframes to be respected by the management board in its periodic reporting of the supervisory board. The communicated data enable supervisory board members to make an objective and balanced assessment of the company's financial position. The management board provides the materials for supervisory board sessions and other information to the supervisory board in writing. Provided adequate protection and information security are ensured, such notices may be e-mailed. The documents needed by supervisory board members to make quality decisions are made available to them or to the supervisory board committees in due time.
- 12.4 The company's supervisory board or board of directors once a year discuss and take a position on the workers' council's report on the status of workers' participation in management. In the definition, they also adopt a position on the proposal of measures in the report.
- 12.5 To distribute materials and convene meetings, the supervisory board makes use of information technology. If the size of the supervisory board or geographical dispersion of the members justifies this, the supervisory board uses information technology also for holding meetings and voting on proposed resolutions. The

company ensures efficient protection and information security when sending materials to supervisory board members, including contemporary approaches of electronic platforms for electronic convening of meetings, sending of materials, document archives and archives of other company or supervisory board acts.

- 12.6 The supervisory board usually invites management board members to its meetings. In case of an item on the agenda or part of an item of the agenda that would best be discussed in their absence, or in cases where their presence could affect the supervisory board's independent work or open discussion (deciding on the appointment of the chairman of the supervisory board and members of committees, appointment or recall of a member of the supervisory board, deciding on the evaluation and remuneration of the management board, supervisory board evaluation, etc.), the supervisory board discusses and/or adopts decisions in the absence of the management board.
- 12.7 Members of the supervisory board inform the supervisory board of acceptance of membership in the supervisory board of another company immediately or as soon as possible.
- 12.8 The supervisory board rules of procedure stipulate the board's communicating with the public with respect to the decisions adopted at its meetings. In exceptional cases, the board adopts a resolution making the passed resolutions either public or confidential, and defining the manner of the board's communicating with the public. Such communication is done by the chairman of the supervisory board, unless otherwise required by a supervisory board resolution or exceptional circumstances.
- 12.9 The company provides the supervisory board with room and technical means to facilitate its work, including induction of new members, provision of additional training to existing members of the supervisory board and committees during the term of office, services from external experts, and funds to cover any other reasonable costs related to the board's work, including remuneration for supervisory board committees and remuneration for external members of such committees. The company has in place appropriate outsourcing procedures needed for the work of the supervisory board, separately for services where the company is represented by the management board and for services where the company is represented by the chairman of the supervisory board.
- 12.10 The supervisory board ensures the establishment and implementation of a management board remuneration system as compliant with Principle 16 of the Code. The supervisory board defines the objectives to be reached by management board members, as well as the criteria for variable remuneration, separately for each financial year and as aligned with the company's annual plans, and assesses the performance of management board members as compliant with these criteria – separately for each year and depending on the company's annual statements.
- 12.11 The supervisory board's report presented at the general meeting offers a precise and credible account of the board's activities during the year. Along with statutorily required items, the supervisory board includes in its report the relevant information about its internal organization and resolving conflicts of interest, as well as presents the board's operations. The report also states to what an extent the board's self-assessment has contributed to the improvement of supervisory board's performance.

#### EDUCATION OF SUPERVISORY BOARD MEMBERS

### **13 The supervisory board members undergo continuous education and ensure that the members' know-how; experience and skills meet the needs of the company.**

- 13.1 Once a year, the supervisory board defines an education plan for supervisory board members and committees as well as indicative costs of the training. The education plan defines the scope and content areas of training depending on the needs of individual members and the body as a whole. The education costs for the members of the supervisory board and committees fall under operating costs of the company and are not part of the payment for the performance of the function.

## SUPERVISORY BOARD EVALUATION

**14 Once a year, the supervisory board evaluates its composition, performance and potential conflicts of interests of its individual members, as well as the board's functioning and its cooperation with the management board. In the process of evaluation, the supervisory board also assesses the work of supervisory board committees.**

- 14.1 The evaluation procedure includes the following activities and positions:
- evaluation of the work of the supervisory board and committees,
  - assessment of the current composition of the board with respect to the requirements related to the company's regular operations, to the supervisory board performance assessment and to compliance with recommended practices of composition from the perspective of professionalism, independence, and from following the Diversity Policy,
  - assessment of the areas of supervision and the scope of supervision system, as well as the quality of supervision in financial and non-financial areas,
  - assessment of the management board reporting system and examination of whether the communication and cooperation between the supervisory board and the management board is adequate,
  - assessment of the convocation of supervisory board sessions and the quality of materials,
  - assessment of the functioning of the board as a team, of the body's dynamic, of the possibility of expressing individual opinions and reservations and of resolving conflicts among members,
  - assessment of the management of the board's work and the functioning of the chairman of the board,
  - assessment of the logistic and technical support of the company and the work of the secretary and professional services,
  - attendance of members on supervisory board sessions, examination of systems for the management of conflicts of interest and dependence.
- 14.2 Supervisory board evaluation should be performed objectively and professionally according to an appropriate methodology, e.g. in accordance with the Slovenian Directors' Association's Supervisory Board Assessment Manual<sup>1</sup>. In order to carry out the evaluation procedure, the supervisory board, if necessary, makes use of an external professional support of suitably qualified experts with references from the area of corporate governance and experience in operating in supervisory boards and committees.
- 14.3 Depending on the results of such evaluation procedure, the supervisory board takes additional measures as required, and takes account of the related findings in its subsequent work and preparation of proposals for the general meeting. Implementation of measures is regularly monitored.
- 14.4 At least once in every three years the supervisory board ensures an external assessment in which it cooperates with an institution or external experts with relevant experience in supervisory board's work, in-depth knowledge of corporate governance and the functioning of the supervisory boards and their committees. A report on the external assessment should be drawn up regarding which the supervisory board adopts a position and based on which it adopts a plan of performance improvement measures.

## CHAIRMAN OF THE SUPERVISORY BOARD

**15 Members of the supervisory board elect the chairman of the board by simple majority. The chairman of the board chairs and represents the supervisory board, but cannot adopt decisions on its behalf. Before he is entitled to communicate any position to the management board or third parties, the respective issue must first be discussed on the supervisory board, which then adopts requisite resolutions. The same applies to signing of contracts with members of the board, external auditors or external experts, where the company is represented by the chairman of the supervisory board.**

<sup>1</sup> <http://www.zdruzenje-ns.si/stroka/samooocenjevanje-ns/>

- 15.1 Members of the supervisory board elect the chairman of the board by simple majority. The chairman should have adequate knowledge, experience, skills and the ability to mediate and lead, and time availability. The chairman should be a person with high personal integrity, who has trust of members of the board in his professionalism, communication skills, integration capacity, independence, ethics and moral virtues.
- 15.2 A person that was on the management board of the company concerned or on the management of a related company in the past year cannot be appointed chairman of the supervisory board.
- 15.3 The chairman of the board should not be at the same time the chairman of the board's committees in this company.
- 15.4 The deputy chairman assumes the chairman's rights and obligations only if the chairman can no longer exercise them. The deputy chairman of the board should be elected among members of the board who are representatives of the capital. All recommendations for the chairman of the supervisory board also apply to deputy chairman.
- 15.5 The chairman of the supervisory board ensures that the procedures related to preparatory work, consultations, adopting of resolutions and decision taking are precisely adhered to. The agenda for a supervisory board meeting consists of items to be discussed at the meeting. The agenda also specifies whether an item and corresponding materials are of an informative nature only or whether actual decisions are to be adopted on their basis (adopted report, consent or authorization granted to the management board, etc.). Provided that the members receive adequate materials and have sufficient time to prepare, the supervisory board may add additional items to the agenda on the spot, by a simple majority vote.
- 15.6 It is the chairman's responsibility, in cooperation with the secretary of the board, that diligent minutes are taken of each supervisory board meeting, which contain a summary of the discussion and state the potential reservations expressed during the meeting by the members with respect to any item on the agenda. The minutes contain a report of voting of members by name on all resolutions, which were not adopted or rejected unanimously. The secretary of the supervisory board draws up draft minutes and mails them to all supervisory board members within 15 days of the meeting. The chairman includes the comments that arrive in due time into the materials for endorsing the minutes at the next meeting. In accordance with the resolutions of the supervisory board, the chairman of the supervisory board signs the minutes of the supervisory board, resolutions of the supervisory board, employment agreements with the members of the management board, agreements with the external auditor and external experts and other decisions or acts of the supervisory board.
- 15.7 The chairman ensures that members make knowledgeable and informed contributions to discussions, and that there is sufficient time for reflection and discussion prior to decision taking.
- 15.8 Each year on the general meeting the chairman of the supervisory board presents to the shareholders the work of the supervisory board and is available for explanations regarding the supervisory board's operations and supervision of the company.

#### THE SUPERVISORY BOARD SECRETARY

- 16 At the proposal of the management board, the supervisory board appoints a supervisory board secretary, who takes minutes, attends to the archives, offers organizational support to the board and provides advice on governance matters. Members of the board can also consult the secretary outside supervisory board meetings.**
- 16.1 The role of the supervisory board secretary is to offer organizational and professional support to the supervisory board and its chairman. Along with monitoring supervisory board procedures as stipulated by the rules of procedure, the secretary also fosters a smooth information flow among members; helps organize induction and works toward obtaining outside support for the operations of the supervisory board.

- 16.2 The secretary must keep all obtained information and protect the documents as confidential or as a business secret according to the same standards as are applicable to the supervisory board members. The supervisory board ensures the secretary has signed a statement in which he makes a commitment to protect the confidentiality of information on the same level as the members of the supervisory board, unless he has already made such a commitment on a different basis.
- 16.3 If the functioning of the supervisory board and its committees is so broad and complex as to require a special organisational unit, this function may be shared between several persons who represent the secretariat of the management board and supervisory board. It is recommended that the supervisory board appoint the supervisory board secretary by name irrespective of the organisation of the said function.
- 16.4 The supervisory board secretary should regularly undertake professional education and training in the area of corporate governance and topics associated with the performance of the supervisory function and the function of supervisory board secretary. The supervisory board secretary may become a member of professional associations that are associated with the secretary's professional training. The company shall provide funds for the abovementioned purpose as in the case of internal auditor training.

#### PAYMENT OF THE SUPERVISORY BOARD

- 17 Members of the supervisory board receive adequate payment for performing their function. The payment is such that enables an appropriate composition of the board and reflects the responsibilities and tasks endowed to the supervisory board by the law, recommendations of good practice and the Code.**
- 17.1 Aside from attendance fees, members of the supervisory board are also entitled to payment for performing their function, in the amount set by the general meeting. Members of the supervisory board receive strictly cash payments and their remuneration cannot be directly related to the company's performance as given in the company's statements.
- 17.2 Members of the supervisory board that are also members of board committees receive additional payment for their work on the committees, in compliance with a general meeting resolution or based on provisions of the company's articles of association. This additional payment cannot exceed 80 per cent of the remuneration for membership on the supervisory board. The general meeting resolution or amendment of the articles of association stipulating such payment shall be adopted in advance. The remuneration for external members of committees comes from the funds set aside for supervisory board activities. The final decision regarding the payment to external members is adopted by the supervisory board in adequate proportion to the payment to the supervisory board members and is independent of general meeting resolutions.

#### SUPERVISORY BOARD COMMITTEES

- 18 The supervisory board sets up special committees, which analyse specific issues and advise the supervisory board with respect to these issues. Decision taking nevertheless remains the collegiate responsibility of the entire supervisory board.**
- 18.1 Aside from an audit committee, the supervisory board also sets up a remuneration committee and/or nomination committee. Depending on the size of a supervisory board and the complexity of the work, the tasks of the remuneration committee and the nomination committee, as laid down in Appendix A of the Code, may be undertaken by the same committee. Committees are set up as soon as possible after the constitutive meeting of the supervisory board and early enough to be able to diligently undertake their tasks.
- 18.2 When setting up a committee, the supervisory board defines its tasks. It thereby takes into account the



company's specifics as well as the number of members on the board and their professional expertise. The external member of the supervisory board committee must be independent in relation to the company and the management board and have no conflicts of interest in accordance with the criteria in this Code, which apply to the supervisory board members.

- 18.3 A committee's mandate is not tied to the mandate of the supervisory board members. The supervisory board may at any time replace an external member of the committee.
- 18.4 The supervisory board, working with the management board and the secretary of the board, provides a committee with complete materials and documents required for its work.
- 18.5 In performing their function, all committee members take account solely of the company's objectives. The rules on conflict of interest, which apply to supervisory board members, also apply, mutatis mutandis, to external committee members (who are not members of the supervisory board). The supervisory board makes sure that all external committee members sign a statement binding them to protect data confidentiality according to the same standards as supervisory board members.
- 18.6 After each committee meeting, the supervisory board receives a report on the adopted resolutions and on the potential positions that the committee adopted for the supervisory board, either spoken or in writing.
- 18.7 Committee members have professional and personal characteristics of the kind that enable them high-quality and independent work, while primarily enabling:
  - independence,
  - time available for work on the committee,
  - sufficient expertise in the professional subject-field dealt with by the committee.

## MANAGEMENT BOARD

### MANAGEMENT OF THE COMPANY

- 19 The management board, whose work, knowledge and experience ensure an optimum fulfilment of their function along with risk management and risk assessment, manages the company thus facilitating the company's long-term performance. It is the responsibility of the management board that the company defines and stipulates the company's values and operations strategy, while its organization facilitates an efficient performance of its tasks. The management board achieves the company's optimum performance by employing suitable directors as well as engaging other human and financial resources.**
- 19.1 The management board by example promotes and within the framework of its tasks ensures such corporate culture that fosters ethical conduct and commitment to compliance of company operations, compliance and ethical conduct in employees and other persons who perform work or services for the company based on an agreement. For this purpose the management board, in the context of the management of the company, adopts a code of conduct or a code of ethics and sets up and guides a system ensuring compliance and business ethics.
- 19.2 The management board defines and establishes an efficient and transparent management system, under which it provides:
  - clear and transparent organisation, including clear and specified authorisations, responsibilities and lines of reporting;
  - efficient system of risk management in accordance with the recommendations of this Code;
  - efficient system of internal controls in accordance with the recommendations of this Code;

- employee remuneration policy based on the company's capacity for sustainable risk-taking, promotion of lawful and ethical conduct and discouragement of breaches of compliance and ethics and excessive risk-taking;
- regular performance assessment of the management system, ongoing detection of weaknesses and constant improvement of this system.

- 19.3 Optimality of adopted management decisions is ensured with an open discussion among management board members on management board sessions and open discussion among management board and supervisory board members on the supervisory board sessions if necessary according to the management rules of an individual company.

#### BRIEFING THE SUPERVISORY BOARD

- 19.4 The management board briefs the supervisory board regularly, promptly and coherently on all matters relevant for the company's operations, its strategy, risk management (including all deviations from risk-taking capability, the potential breach of related limits or breaches of compliance and business ethics, and adopted measures), etc. When the supervisory board requests a report or presentation of documentation, the management board complies with such as request as soon as possible. In providing information to the supervisory board, the management board complies with the high standards of confidentiality and information security.
- 19.5 The chairman of the management board immediately informs the chairman of the supervisory board of events and circumstances that can have a significant impact on the operations and situation of the company.
- 19.6 Before being appointed to management or supervisory bodies of other companies, a member of the management board obtains a prior consent of the supervisory board. Members of the management board also inform the supervisory board of assuming functions in other organisations.
- 19.7 A member of the management board immediately informs the supervisory board in writing of any legal transactions on the basis of which he or his close family members have acquired shares or participating interests in a company, which make their holding in the respective company reach or exceed, or fall below, the qualifying holding.

#### COMPOSITION AND APPOINTMENT OF THE MANAGEMENT BOARD

- 20 The management board is composed so as to foster the adoption of decisions in the best interest of the company. The management board consists of several members, who ensure a diligent and responsible meeting of the company's objectives. The management board acts in compliance with high ethical standards and takes into account the interests of all groups of stakeholders. There is mutual trust among members of the management board, which enables open discussion and a constructive approach in cases when opinions differ. The competences of members and their methods of work are stipulated in the management board rules of procedure.**
- 20.1 The supervisory board is responsible for appointing and discharging members of the management board. The continuity of their work is ensured by making a prudent and timely selection of a successor for individual members of the management board within the framework of systemic provision of management board succession. When forming a proposal on the management board succession the supervisory board cooperates with the management board.
- 20.2 Prior to appointing the management board, the supervisory board examines whether the candidates meet not only statutory conditions but also the additional conditions stipulated by the articles of association and by the management board member competence and professional profile, as defined by supervisory board

resolutions or proposals of the remuneration committee.

- 20.3 The supervisory board shall carefully study to what an extent the pre-established criteria and the recommendations for appointing management board members, as drawn up by the remuneration committee or another competent body, are met, and compliance with the company's acts and the Diversity Policy.
- 20.4 Aside from meeting statutory conditions and the conditions stipulated by the company's articles of association and other by-laws, the chairman of the management board also has leadership and organizational skills as well as the reputation of a good businessperson in the wider social environment.

#### DISTRIBUTION OF MANAGEMENT BOARD TASKS

- 20.5 Individual members and the chairman of the management board, being a collegiate body, provide full, precise and prompt information to the management board on all relevant business with respect to the areas of their competence.
- 20.6 The tasks and competences are distributed among management board members by the supervisory board or by the management board rules of procedure or another management board act, and are afterwards communicated to the supervisory board by the management board. If the company has in place a system in which the chairman of the management board proposes management board members, the tasks and competences are distributed to management board members by the supervisory board through cooperation with the chairman of the management board. Internal division of tasks and competencies does not affect the question of company representation and does not mean that the management board is not obliged to act in concert. The management board adopts all important decisions together as a collective body and mutually informs its members in accordance with the previous point.

#### CONTRACT WITH A MEMBER OF THE MANAGEMENT BOARD

- 20.7 The supervisory board is obliged to ensure a suitable contract of the company with management board members. Prior to the signing of the contract and each annex by the chairman of the supervisory board, the contract or annex are confirmed by a supervisory board resolution. The contract contains a specific definition of tasks, responsibilities and competencies of a management board member, specifies the remuneration system and manner and frequency of determining criteria for variable remuneration in detail, specifies a member's duty with respect to loyalty to the company, methods of discharge and the amount of termination payment. The duration of the contract is subject to the term of office of a member or chairman of the management board.

#### REMUNERATION OF THE MANAGEMENT BOARD

- 21 Companies have in place a remuneration system that enables them to acquire appropriate members into the management board given the company's needs, while at the same time ensuring that management board interests are aligned with the company's long-term interests.**
- 21.1 The management board remuneration package consists of a fixed and variable component. The granting of the variable part is performance-linked and subject to predetermined criteria. Aside from successful operations, performance criteria shall also facilitate the company's sustainable development and include non-financial criteria relevant for generating the company's long-term value, such as abiding by the company's valid regulations and ethical standards. The fixed component of remuneration is appropriate to allow the company to withhold variable components of remuneration when performance criteria are not met.

- 21.2 When a variable component is granted, the amount of the variable component that exceeds the total fixed component paid over the past year shall be deferred for at least one year.
- 21.3 Termination payment cannot exceed the total fixed payments received over the past year.
- 21.4 If the variable part of remuneration is given as shares, the shares do not pay out for at least 3 years after they were awarded.
- 21.5 Stock option plans and comparable financial instruments do not stand for the majority of a member of the management board's variable component of remuneration. The criteria for granting stock options and similar financial instruments exclude general market performance, as attested by comparative parameters such as stock index returns or anticipated advances in the price of the company's share. Claims and cash compensation for un-exercised options are not allowed. The member of the management board who acquires shares on the basis of option rights (stock option plan) or stock purchase plans cannot be entitled to sell these shares for at least 2 years after the end of the mandate in which he acquired them.
- 21.6 Variable remuneration given as shares, as well as the execution of stock options and any other rights to acquire shares or be remunerated on the basis of share price movements, must not be made possible for at least 3 years after such rights were awarded.

#### INDEPENDENCE AND LOYALTY

- 22 Members of the supervisory and management board make independent decisions. In taking action and making decisions, members of the supervisory and management board take account of the company's objectives and subordinate to them the potentially different individual own or third party interests, the interests of the management board, shareholders, the public, and the government.**

#### INDEPENDENCE OF SUPERVISORY BOARD AND COMMITTEE MEMBERS

- 23 All supervisory board and committee members are independent. A nominee or supervisory board or committee member shall be deemed dependent if the conflict of interest is, in accordance with Appendix B of this Code, of a more lasting (and not merely transient) nature and is relevant. Criteria for assessment of the relevance of the conflict of interest are predominantly:**
- **Type and number of actions and decisions to which the conflict of interest (may) applies;**
  - **Likelihood of actual realisation of the conflict of interest and**
  - **Effect of the conflict of interest on the management board's ability of objective assessment and on company's operations.**

**Circumstances listed in Appendices B3 and B4 always assume dependence. Assumptions are rebuttable if the supervisory board member proves that the conflict of interest is not permanent and at the same time not relevant despite meeting a criterion from points in Appendices B3 and B4.**

#### CONFLICT OF INTEREST

- 23.1 Members of the supervisory and management board take all precautionary measures to avoid any conflict of interest that might affect their judgement. The criteria pointing to a conflict of interests of supervisory board and committee members are given in Appendix B of the Code.

- 23.2 Once a year, upon (re)appointment, members of the supervisory board sign and provide the board with their statement of meeting the criteria from Appendix B. They thereby take a position with respect to potential conflicts of interests, including general assessment pursuant to provision B1 and compliance assessment with the criteria stipulated in Appendices B3 and B4, and commit to immediately inform the supervisory board of any potential new conflicts of interests.

#### NON-COMPETE OBLIGATION

- 23.3 In case of a suspected breach of the non-compete obligation, the relevant member of the supervisory board or management board immediately informs the supervisory board. If the supervisory board determines the case at hand to be a breach of the non-compete obligation, the relevant member of the supervisory board or management board shall stop with the breach immediately and transfer the gains from the relevant deal to the company as well as compensate it for any potential damage.
- 23.4 Should the member of the supervisory board or management board not inform the supervisory board of his potential breach of the non-compete obligation, or should the said person inform the board but thereafter not comply with the supervisory board's instructions, the supervisory board deprives the relevant member of the management board of his office or proposes to the general meeting for the relevant member of the supervisory board to be deprived of office.

#### MEASURES IN THE EVENT OF CONFLICT OF INTEREST

- 23.5 In case of a suspected conflict of interest the relevant supervisory board or management board member immediately informs the supervisory board. If the supervisory board determines the case at hand to represent a material conflict of interests, the relevant member shall immediately terminate the controversial relationship, failing which makes the supervisory board assess the need for the relevant person's function as member of the supervisory board or management board to terminate, and takes appropriate action.
- 23.6 Actions in the event of a potential non-relevant conflict of interests of a supervisory board or committee member, are predominantly:
- the relevant member of the supervisory board discloses the conflict of interests to the supervisory board;
  - the relevant member abstains from voting on all subjects where the member is or could be affected by the conflict of interest;
  - the relevant member leaves the supervisory board meeting and does not participate in the discussion on subjects where the member is or could be affected by the conflict of interest;
  - by making an express written statement or a statement, which is on the member's request recorded in the supervisory board meeting minutes, the relevant member in advance waives his right to receive materials and information on the subject in which a conflict of interest is recognised.
- 23.7 When there are well-founded reasons for this, the chairman of the supervisory board may, prior to holding a vote, ask the members of the board to state their potential conflicts of interests with respect to the subject put up for the board's vote. Measures related to the prevention of conflict of interest on individual sessions and supervisory board members' explanations and statements in this regard, are recorded in the minutes of the supervisory board meeting.

#### LIABILITY INSURANCE

- 24 Companies should enter into an agreement for liability insurance for damages for members of the management and supervisory body. The agreement should abide by legal limitations and at the same time effectively protect the company against damage.**



## AUDIT AND SYSTEM OF INTERNAL CONTROLS

### EXTERNAL AUDITOR

- 25 By selecting an auditor through a process in which the company's management and supervisory bodies as well as the audit committee take an active part, the company fosters the appointment of an auditor that can ensure an independent and impartial audit of the company's financial statements pursuant to the professional and ethical principles of audit as well as other auditing rules. To meet these requirements, the company facilitates all the conditions necessary for a quality communication flow with the auditor during the course of the audit.**
- 25.1 Prior to embarking on the process of selecting an auditor, the audit committee and the supervisory board that proposes to the general meeting the auditor to be appointed set up the appointment criteria and the minimum conditions for cooperation with the auditor. These include the mandatory disclosure of any non-audit services the auditor has performed for the company or its related companies in the past year.
- 25.2 The audit committee examines the managerial bodies' responsiveness to the issues stated in the letter to the management, as drawn up by the auditor during the pre-audit or after the conducted audit.
- 25.3 At least once every seven years, the company hires a different audit firm.

### SYSTEM OF INTERNAL CONTROLS

- 26 The company sets up an efficient system of internal controls, which fosters quality risk management. In cooperation with the audit committee, the company ensures a substantive, periodical and impartial professional surveillance over the works of the system of internal controls, tailored to the company's business and scope of operations.**
- 26.1 The management board ensures that adequate organization and competent human resources are in place for timely risk detection and assessment, and for adequate risk management, with respect to the risks the company is exposed to owing to its business operations.

### INTERNAL AUDIT

- 26.2 The internal audit shall be established in accordance with the rules laid down by International Standards for the Professional Practice of Internal Auditing. The main task of persons in charge of internal audit is independent monitoring of the orderliness and cost-effectiveness of the company's operations, and of its compliance with the regulations and the company's internal acts, with special emphasis on the quality and adequacy of the system of internal controls. Their conduct encourages quality valuations and improvement of risk control and risk management procedures, and contributes to added value by providing independent and impartial guarantees to the management and supervisory bodies.
- 26.3 The audit committee offers professional support to the supervisory board in approving the annual internal audit plan, ensuring prompt monitoring of risk management.
- 26.4 The company makes sure the reports and findings of the internal audit are available to members of the audit committee and to the auditor of the company's financial statements.

## TRANSPARENCY OF OPERATIONS

### COMPANY'S CORPORATE COMMUNICATION STRATEGY

#### **27 The CG Policy defines the company's corporate communication strategy, which dictates high quality standards with respect to the drawing up and preparation of accounting, financial and non-financial information.**

- 27.1 The company provides information to the public in a manner that ensures equal, transparent and prompt informing. A public announcement contains all the information necessary for a securities investor to assess the situation and estimate the effect of a business or other event and circumstances on the price of the company's security. The wording of the public announcement is clear, comprehensible and not misleading. The company publishes announcements on a pre-selected place of publication, and periodic and internal information additionally on the company's webpage.
- 27.2 The company's management is responsible for drawing up and implementing a corporate communication strategy that prevents insider dealing (abuse of inside information) and market manipulation. The company's management adopts a Corporate Communication Rulebook, which contains in particular:
- a set of rules on the protection of confidentiality, business secret and inside information for members of management and supervisory bodies and for other persons having access to inside information during their mandate and after it expires; the rules lay down how this type of information is to be labelled and protected as well as provide for sanctions in case of potential breaches;
  - a clear definition of the information flow inside the company, along with the recording and supervision of access to inside information from origin to public announcement, as well as warnings that the relevant information has not been publicly disclosed yet and therefore constitutes inside information;
  - a list of the appointed persons responsible for communicating with investors and the publics (the recommended persons to organize internal procedures are management board members or executive directors, financial directors or IR officers; for the supervisory board this person is the chairman of the board);
  - the contents and procedures of communicating with the public (e.g.: prompt disclosure of information through public announcements, publications, press conferences, the company' website, provision of materials, open-door day).

### TRADING RESTRICTIONS WITH SHARES

- 27.3 The company lays down rules on trading restrictions with the company's shares, stipulating trading restrictions, temporal restrictions for trading (closed trading windows) and ordering members of the company's bodies as well as related natural persons, legal entities and other persons with access to inside information to disclose their transactions in the company's shares and in the shares of related companies.

### FINANCIAL CALENDAR

- 27.4 Prior to the beginning of the year, the company draws up its financial calendar, in which it provides the expected dates of its significant announcements in the coming financial year (general meetings, announcement of the record date for dividend payments, dividend payment date, annual and interim reports, etc.). The financial calendar is published and publicly available on the company's website.

## INFORMING THE PUBLIC

**28 The company sets up a manner of informing the public that provides for equal, timely and economical access to all relevant information to both the shareholders and the public.**

- 28.1 The company publishes regulated and other important information on a chosen place of publication, which enables quick and non-discriminatory access to the information (such as for example the Ljubljana Stock Exchange information dissemination system SEOnet) and submits the information into the system for the central storage of regulated information (such as the Ljubljana Stock Exchange system for the central storage of regulated information – INFO STORAGE). The company strives for its official website to be as transparent as possible. The company's website contains all the key information about the company and its operations.
- 28.2 The company's website includes the name and contact information of its IR and PR officers.
- 28.3 The company provides its regulated and other important information not only in Slovene but also in a language of international finance.

## PUBLIC ANNOUNCEMENT OF IMPORTANT INFORMATION

**29 The company provides for a prompt and precise public announcement of information related to all the relevant aspects of the company, its financial situation, operations, ownership, governance and expectations for the future, as well as other information, which affects the status of investors (regulated and other important information).**

- 29.1 The company provides prompt information about its financial and legal situation, and about its operations, by publishing:
- Annual, half-year and interim reports, which the company committed to comply with,
  - Plans and expectations with respect to future operations, company development and company objectives,
  - Operation estimates, potential deviations from forecasts and changed operating conditions,
  - Information about the significant risks and uncertainties that the company is exposed to, as well as aims with respect to risk management and related measures,
  - Information about all business events and circumstances which could have a significant impact on the business situation of the company and investors,
  - Information about the impact of events from the environment, which can affect the company's legal and financial situation.
- 29.2 The company also publishes a corporate sustainability report, posting it on its website as a separate report or as a part of the annual report. The sustainability report includes a report on social responsibility (responsibility to employees, consumers, the local community and environmental protection). An auditing firm reviews whether the corporate sustainability report was submitted in the form of a statement on non-financial operations in the annual report or as a separate report on the company's website. If the company performs the corporate sustainability reporting according to GRI (Global Reporting Initiative) guidelines or other international standards of corporate sustainability reporting, another institution suitable for independent external assessment of corporate sustainability reporting verifies the correctness of information in the corporate sustainability report.
- 29.3 The company draws up and publicly publishes a programme of acquisition of own shares and discloses any acquisition or disposal of own shares promptly or not later than at the time when the acquired or disposed shares make up for 1 per cent of the company's share capital, and upon each subsequent exceeded whole per cent.

- 29.4 As soon as possible, the company publicly announces information on executed transactions of managers (i.e. persons who perform managerial jobs) and persons closely related to them, of which these persons must inform the company.
- 29.5 In the annual report in the corporate governance statement (as part of the table in appendices C1 and C2), the company discloses for its members of the management board and the supervisory board their memberships on the managerial or supervisory bodies in non-related companies.
- 29.6 In the annual report, the company discloses any potential cross-holdings with other companies (i.e. the company has a substantial holding with attached voting rights in another company, whereby the latter company also holds a substantial number of shares with voting rights in the former company).
- 29.7 The company discloses the remuneration of each member of the management board and of the supervisory board broken down to all items that are contained in the tables in the Appendices C3 and C4.
- 29.8 To facilitate comparability of financial statements, the company draws up and publishes its annual and half-year consolidated financial statements pursuant to the International Financial and Reporting Standards (IFRS).
- 29.9 On its webpage, the company publicly publishes rules of procedure of its bodies (management and supervisory bodies and general meeting). The documents are published in a user-friendly form, which enables normal reading and searching through the document.

#### PUBLICATION OF CORPORATE GOVERNANCE STATEMENT

- 30 The company makes a detailed account of its governance practice in the Corporate Governance Statement, which it draws up pursuant to the Companies Act. The Corporate Governance Statement is made part of the company's annual report and is also an independent document posted on the company's official place of publication and the company's website.**

## **ADOPTION, AND ENTRY INTO FORCE**

### ADOPTION OF THE CODE

The Corporate Governance Code has been drawn up and adopted through common accord by the Ljubljana Stock Exchange and the Slovenian Directors' Association.

### ENTRY INTO FORCE OF THE CODE

The Code takes effect on 1 January 2017. The Code shall be published in the newsletters and on the websites of both organisations responsible for the Code.

Ljubljana, 27 October 2016



# APPENDIX A: SUPERVISORY BOARD COMMITTEES

## A.1 Audit committee

The supervisory board establishes an audit committee, which is composed and has the tasks as stipulated by the law and the guidelines of the company's CG Policy. The number of members is determined based on the company's specific characteristics, whereby the following should be observed:

- size and complexity of the company,
- relevant risk areas,
- the composition and the total number of supervisory board members and the existence of other supervisory board committees whose work is related to the work of the audit committee,
- legal possibility that also a representative of employees is a member of the committee,
- availability of suitably qualified supervisory board and other members.

When composing an audit committee the following should be achieved: a continuity and balanced level of experience in various areas, professional knowledge, characteristics and skills. For all members the following is required: independence, personal integrity and fairness, good communication skills, capability of constructive dialogue and critical assessment and trustworthiness. For assessment of independence of supervisory board members who are also members of the audit committee provisions of point 23 of this Code apply.

As a member of the audit committee an "Independent expert" in the sense defined by the Companies Act is an external expert and is thus not a supervisory board member. External expert should, in addition to required professional competencies, meet the criterion of independence, meaning independence in relation to the company and its management and other circumstances, which could affect judgement. Assessment of independence of external expert should be substantive and not only formal. The external expert's mandate is not linked to the supervisory board members' mandate.

The Audit committee carries out its work on the request of the supervisory board and is not directly accountable to anyone. The audit committee especially has no direct contacts with the public through the media or through other channels.

The audit committee monitors the establishment and efficiency of operations of the so-called whistleblowing system and warning procedures in the company, i.e. the policies and procedures in place for easier acquisition and consideration of the alerts on irregularities in financial reporting or other matters anonymously communicated to the company by its employees.

The audit committee cooperates with the external and internal auditor even in the absence of the management board, and ensures a continuous and efficient exchange of opinions. The audit committee is operationally responsible and the supervisory board is fully responsible for the selection procedure of the proposed external auditor. The audit committee shall inform the external auditor of the criteria for monitoring its success, which it must monitor in accordance with the law.

The audit committee is responsible for monitoring effectiveness and success of the internal audit of the company.

## A.2 Remuneration committee

The supervisory board forms a remuneration committee, the competences of which include primarily:

- support to the supervisory board, and drawing up of proposals related to the criteria and candidates for membership on the management board, whereby the committee shall evaluate the balance between skills, knowledge and experience, and shall draw up a description of their roles and qualifications required for an individual appointment,
- periodic assessment of the size, composition and work of the management board,
- support in the evaluation of the management board's work, and drawing up of substantiated reasons for the recall of individual members of the management board in case they appear,
- support in the drawing up and implementation of the management board remuneration system.

Members of the committee have expert knowledge and experience in the areas, which enable the committee to effectively perform its responsibilities.

The chairman of the remuneration committee is not a former member of the management board if at least 3 years did not pass since his mandate.

When the remuneration committee employs the services of a consultant, it must make sure that the same person does not at the same time advise the HR department in the company or its executive directors (or members of the management board).

The remuneration committee shall regularly monitor the implementation of the management board remuneration policy, when the policy is adopted by the general meeting, including share-based remuneration, and its implementation.

## A.3 Nomination committee

The supervisory board establishes a nomination committee, the competences of which include primarily:

- support to the supervisory board, and drawing up of proposals related to the criteria and candidates for membership on the supervisory board, whereby the committee shall evaluate the balance between skills, knowledge and experience, and shall draw up a description of their roles and qualifications required for an individual appointment,
- support in the evaluation of efficiency and self-evaluation of the supervisory board's work pursuant to this Code,
- support in the drawing up a general meeting's proposal for the supervisory board remuneration,
- assistance in the supervisory board's other decisions that are related to the supervisory board itself and that may give rise to a conflict of interest in members of the supervisory board.

Members of the committee have expert knowledge and experience in the areas, which enable the committee to effectively perform its responsibilities.

In performing its functions, the committee shall exercise independent judgement and integrity.

## APPENDIX B: CONFLICT OF INTERESTS

- B.1** A conflict of interests exists when the impartial and objective performance of tasks and decision taking on part of a member of the supervisory board or management board is compromised due to personal business interests being involved, their family's interests, emotions, political or national bias or any other related interests with other natural or legal persons.
- B.2** Each member of the management board and supervisory board individually, shall avoid circumstances, which could lead to a conflict of interest. If such circumstances arise, the member shall disclose the conflict immediately in accordance with the law and this Code and propose or adopt measures to eliminate the conflict of interest.
- B.3** To avoid conflicts of interests in a member of the supervisory board, the following requirements shall be taken into account:
- Members of the supervisory board shall neither be executive directors or members of the management board in the company concerned nor in any related company, and shall not have occupied such a position over the past three years.
  - Members of the supervisory board shall not be employed in the company and should not have occupied such a position over the past three years, except if they were appointed into the board of directors or supervisory board as employee representatives, pursuant to the law, and are not managers.
  - Members of the supervisory board shall not receive, and should not have received, substantial sums from the company or related companies aside from the payment or extra payment for the function of the chairman, deputy chairman and membership in committees which they receive for being members of the supervisory board. These additional sums refer mainly to any form of stock options or any other form of performance-related remuneration.
  - Members of the supervisory board are not and do not represent, in any way, controlling shareholders.
  - Members of the supervisory board shall not have, and have not entered over the past year, in significant business contacts with the company or a related company, either directly or as partners, shareholders, directors or managers of a person that has entered into such contacts. Having entered into business contacts implies being a supplier of goods or services (including financial, legal, consulting services), an important client or an organization that is a recipient of substantial sums from the company or the group.
  - Members of the supervisory board shall not be, and have not been over the past years, partners or employees of the company's or related company's current or former external auditor.
  - Members of the supervisory board shall not be executive directors or members of the management board in another company in which an executive director or member of the management board is a member of the supervisory board in the company concerned. Members of the supervisory board may also not be related in any other way with executive directors or members of the management board on account of cooperating with them in other companies or bodies.
  - Members of the supervisory board shall not be on the same supervisory board for longer than 3 mandates (or for more than 12 years in cases when the company's articles of association provides for a mandate of less than 4 years).
  - Members of the supervisory board are not close family members of the members of the management board or persons occupying the positions from (a) to (h).
- B.4** Aside from the situations from B.3, a conflict of interests may occur for a member of the supervisory board also if the respective person:
- is a member of the expanded management in a related company,
  - cooperated in drawing up the proposed content of the company's annual report.

# APPENDIX C: COMPOSITION AND REMUNERATION OF THE MANAGEMENT AND SUPERVISORY BOARDS<sup>2</sup>

## C.1: Composition of the management board in the financial year \_\_\_\_\_

First and last name	Function (chairman, member)	Area of work in the management board	First appointment to the office	Termination of office/mandate	Gender	Nationality	Year of birth	Education	Professional profile	Membership in supervisory bodies of non-related companies

## C.2: Composition of the supervisory board and committees in the financial year \_\_\_\_\_

First and last name	Function (SB chairman, deputy chairman, member)	First appointment to the office	Termination of office/mandate	Capital / workers' representative	Attendance on the SB sessions according to the total number of sessions (e.g. 5/7)	Gender	Nationality	Year of birth	Education	Professional profile	Independence according to Article 23 of the Code (YES /NO)	Existence of a conflict of interest in financial year (YES/NO)	Membership in supervisory bodies of other companies
	Membership in committees (audit, remuneration, nomination, etc.)			Chairman / member	Attendance on the committee sessions according to the total number of sessions (e.g. 5/7)								

### External committee member (audit, remuneration, personnel, etc.)

First and last name	Committee	Attendance on the committee sessions according to the total number of sessions (e.g. 5/7)	Gender	Nationality	Education	Year of birth	Professional profile	Membership in supervisory bodies of non-related companies

<sup>2</sup> Board of Directors (executive / non-executive members)

### C.3: Composition and the amount of remuneration\* of the management board members in the financial year \_\_\_\_\_

First and last name	Function (chairman, member)	Fixed remuneration – gross (1)	Variable remuneration - gross			Deferred remuneration (3)	Termination payments (4)	Benefit (5)	Clawback (6)	Sum gross (1+2+3+4+5+6)	Sum net
			Based on quantitative criteria	Based on qualitative criteria	Sum (2)						

\* For purposes of this disclosure travel expenses, costs of accommodation and subsistence allowance do not need to be disclosed as by nature they do not represent management board remuneration.

### C.4: Composition and the amount of remuneration of the supervisory board and committee members in the financial year \_\_\_\_\_

First and last name	Function (chairman, deputy chairman, member, external member of a committee)	Basic SB payment – gross annual (1)	Attendance fees (2)	Sum gross (1+2)	Sum net*	Travel expenses

\* Amount paid to an individual's account as remuneration after prepayment of income taxes, which does not take into account potential subsequent surcharge of prepayment .



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