Pursuant to Article 15(4) of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette, No 140/05 and 12/12), the Croatian Financial Services Supervisory Agency, at the Board meeting held on 17 March 2021, adopted the following

GUIDELINES FOR THE PREPARATION AND DISCLOSURE OF ESG RELEVANT ISSUER INFORMATION

1. INTRODUCTION

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs[1]. Operating in line with the sustainable development goals helps respond to global climate change and social challenges and ensure a better future for generations to come.

The sustainable economic development initiative has defined three basic sets of goals to be reached: environmental, social and governmental goals, or the so-called ESG goals.

Due to climate changes, considered to be one of the major problems of the present time, environmental goals are given particular importance. The year 2016 saw the entry into force of the Paris Climate Agreement, which recognised environmental sustainability development, i.e. sustainability and transition to a safe, climate-neutral and circular economy, as primary goals in ensuring long-term competitiveness of the EU economy.

Following the Paris Agreement, the European Commission published a communication titled "The European Green Deal", determining in more detail principles for achieving sustainable economy of the EU by turning climate and ecological challenges into opportunities and setting standards that will allow this to happen in a uniform and fair way.

In line with the goals of the European Union, the Republic of Croatia, in its 2030 National Development Strategy[2], has announced directing national and European sources of financing towards the fostering of sustainable economy and society, recovery and increasing resilience to crises, green and digital transition and balanced regional development in the following 10 years.

The key role in achieving these goals at the local and global level is played by the financial industry, whose task is to direct capital flows towards sustainable investments, i.e. investments that support sustainable development goals.

This also has an impact on business performance of issuers[3], as investors, suppliers and business partners have been paying more and more attention to non-financial reporting, i.e. ESG factors such as greenhouse gas emissions, carbon footprint, water management, protection of human and in particular children's rights, or corporate governance culture.

However, the practice has revealed challenges as to which investments and to what extent may be considered sustainable development investments, including challenges of preventing investments in entities that use greenwashing. The main problem faced by the financial industry is harmonising various ESG reporting standards, definitions and processes developed by numerous financial markets participants and rating agencies for their own needs.

[1] *World Commission on Environment and Development's 1987 Brundtland report*
[2] *National Development Strategy of the Republic of Croatia until 2030 (Official Gazette, No 13/2021)*
[3] *Issuer as defined in Article 455(7) of the Capital Market Act*

In order to achieve this goal, the European Union has been setting up a regulatory framework for ESG reporting standards, comprising the NFRD[4], that lays down the obligation to disclose non-financial statements for public-interest entities; the SFDR[5], that standardises ESG processes for financial markets participants[6] and financial advisers[7]; and the Taxonomy Regulation[8], that defines economic activities which may be considered as environmentally sustainable.

The SFDR and Taxonomy Regulation are of key importance for achieving the objectives of the initiatives of the Paris Agreement on environmental goals and the [UN Agenda 2030 for Sustainable Development](#) (hereinafter: 2030 Agenda) for directing financial assets towards sustainable investments. The measures implemented by the SFDR and Taxonomy Regulation are expected to have an impact on the directing of investment flows and on the work of financial industry experts even outside the EU geographical borders.

The discrepancy between the SFDR, Taxonomy Regulation and NFRD due to the lack of harmonisation currently poses a problem.

Having in mind that disclosures of a certain part of sustainability-related information under the SFDR are not obligatory for issuers at the moment and that the Taxonomy Regulation will start to apply prior to the NFRD compliance and the entry into force of delegated acts, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) is publishing these Guidelines for the purpose of enabling uniform action by all issuers on the Croatian market, in order for that information to be comparable, reliable and understandable.

2. SUBJECT MATTER AND SCOPE OF THE GUIDELINES

These Guidelines are intended for issuers on the regulated market of the Republic of Croatia subject to non-financial disclosure requirements pursuant to Articles 21a and 24a of the Accounting Act, but also for those who decide to disclose non-financial statements pursuant to Article 21 of the Accounting Act on a voluntary basis.

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[4]Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

[5]Financial market participants - financial sector services providers as defined in Article 2(1) of the SFDR (an insurance undertaking which makes available an insurance- based investment product, an investment firm which provides portfolio management, an institution for occupational retirement provision (IORP), a manufacturer of a pension product, an alternative investment fund manager (AIFM), a pan- European personal pension product (PEPP) provider, a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013, a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013, a management company of an undertaking for collective investment in transferable securities (UCITS management company) or a credit institution which provides portfolio management)

[6]Regulation (EU) No 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) No 2019/2088

[7] Financial advisers as defined in Article 2(11) of the SFDR (an insurance intermediary which provides insurance advice with regard to IBIPs, an insurance undertaking which provides insurance advice with regard to IBIPs, a credit institution which provides investment advice, an investment firm which provides investment advice, an AIFM which provides investment advice, a UCITS management company which provides investment advice).

[8] Regulation (EU) No 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) No 2019/2088.

Articles 21a and 24a of the Accounting Act have transposed the non-financial disclosures requirement under the NFRD into the Croatian legislation. As already mentioned in the introductory part, the requirements laid down by the Taxonomy Regulation and SFDR will only be covered by amendments to the NFRD; therefore, the Accounting Act does not currently define all the relevant ESG information that should be included in non-financial statements.
The Taxonomy Regulation and implementing regulations[9] will provide detailed provisions on the conditions under which an economic activity may be considered as environmentally sustainable. The Regulation is oriented towards environmentally sustainable objectives exclusively and prescribes direct obligations, with the following being applicable to issuers:

- obligation to disclose information for issuers of corporate bonds that are made available as environmentally sustainable[10] and
- disclosure obligation for all entities subject to non-financial reporting requirements under the NFRD (Articles 21a and 24a of the Accounting Act) as regards how and to what extent their activities are related with economic activities qualifying as environmentally sustainable[11].

The SFDR is not applicable to issuers directly, but it prescribes the obligation to disclose sustainability-related information for all financial market participants and financial advisers (entities subject to the SFDR), both at the level of the entity subject to the SFDR and at financial product level[12]. The fulfilment of this obligation involves the analysis of the ESG factors related to investments of a certain issuer. Issuers disclosing relevant ESG information needed for this analysis will have priority when investments are considered. Consequently, financial market participants and financial advisers will be less inclined to consider investments in issuers who have not publicly disclosed relevant ESG information.

Even though the SFDR does not prescribe the obligation for issuers directly, this Regulation is a powerful incentive for issuers to disclose the ESG indicators needed for the analyses and reports referred to in the SFDR. Therefore, disclosure of relevant ESG information amplifies issuers' visibility with ESG rating agencies.

The Guidelines provide information on the manner of fulfilling the obligations pursuant to the Taxonomy Regulation in the transitional period and cover the ESG indicators that issuers may disclose in order to ensure the required transparency towards financial market participants and financial advisers subject to the SFDR, ESG rating agencies, suppliers and others.

3. SUSTAINABLE DEVELOPMENT - SUSTAINABLE INVESTMENTS

In its 2030 Agenda, the UN General Assembly has defined sustainable development as one of the priorities at the global level. The Agenda contains an ambitious set of 17 goals[13], developed for the

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[9] *Implementing regulations are still being drafted. At the moment, a draft is accessible of the delegated act for determining sustainable economic activities with respect to the two main environmental goals: climate change mitigation and climate change adaptation.*

[10] *The part of the implementing regulation relating to corporate bonds is still being drafted.*

[11] *Delegated acts needed for the preparation of the reports have still not been adopted.*

[12] *Financial products as defined in Article 2(12) of the SFDR (a portfolio under management, an alternative investment fund, an IBIP, a pension scheme and a pension product provided a decision is adopted at the national level on the application of these regulations to such products, a UCITS or a PEPP).*

[13] *Goal 1 End poverty in all its forms everywhere; Goal 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture; Goal 3 Ensure healthy lives and promote well-being for all at all ages; Goal 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all; Goal 5 Achieve gender equality and empower all women and girls; Goal 6 Ensure availability and sustainable management of water and sanitation for all; Goal 7 Ensure access to affordable, reliable, sustainable and modern energy for all; Goal 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Goal 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Goal 10 Reduce inequality within and among countries;*

purpose of reducing numerous pervasive social, economic and environmental problems by the year 2030. In order to achieve these goals at the global level, it is necessary to direct capital flows towards sustainable financing, i.e. sustainable investments which will eventually lead to sustainable development.

Sustainable investment means an investment in an economic activity that:

1. contributes to an environmental objective ("E")
2. contributes to a social objective ("S")
3. does not significantly harm any of those environmental or social objectives and
4. invests in companies that follow good governance practices ("G"), in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

With this aim in view, the European Union is introducing the ESG reporting obligation in order to encourage investors to make sustainable investments and to direct issuers towards activities that promote some of the sustainable goals or do not significantly harm them.

4. WHAT IS ESG REPORTING

ESG factors are all indicators that a company (issuer) discloses in its statements and publicly disclosed information that may be taken into account by interested financial market participants, financial advisers, rating agencies, business partners or suppliers when assessing the impact of the company (issuer) on sustainable development parameters. The European Union has been the first to introduce a standardised ESG framework as regards the contents, assessment and rules of the disclosure (Taxonomy Regulation and SFDR).

Environment protection criteria involve the consideration of issuers' impact on the nature, i.e. environment. Social criteria examine the way issuers handle relationships with employees, suppliers, buyers and communities they operate with. Governance criteria focus on issues such as sound management structures of issuers, remuneration of staff, internal control system, transparency and shareholder rights.

The ESG statement is part of the non-financial statement of the issuer that contains relevant ESG information and data on ESG factors.

5. BENEFITS OF ESG REPORTING

Sustainable development is a globally important issue, which is why entrepreneurs tend more and more to make their cooperation conditional on ESG transparency, irrespective of the sector or industry they come from or operate in. Issuers disclosing ESG statements meet ESG transparency criteria for establishing business relationships with suppliers, business partners, credit institutions, investors and others.

ESG transparency enables third parties, partners or investors to assess whether the activity of the issuer supports sustainable development goals or at least does not significantly harm them. An

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Goal 11 Make cities and human settlements inclusive, safe, resilient and sustainable; Goal 12 Ensure sustainable consumption and production patterns; Goal 13 Take urgent action to combat climate change and its impacts; Goal 14 Conserve and sustainably use the oceans, seas and marine resources; Goal 15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; Goal 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels; Goal 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development.

increasing number of issuers have been cooperating exclusively with partners who exert a positive impact on sustainable development goals.

ESG factors and the application of the ESG reporting framework enable issuers to integrate environmental, social and governance issues in their long-term business strategy in a more transparent way. The ESG reporting process itself can help issuers develop the infrastructure needed to link strategic goals with the business model, risks, opportunities, operational indicators and financial performance.

By disclosing their ESG statements, issuers create better opportunities as regards capital market investments, as the SFDR obliges professional investors (financial market participants, financial advisers) to assess the ESG factors, while this information is also necessary for rating agencies for the provision of ESG ratings. Professional investors will be reducing their exposure to issuers who do not make ESG disclosures, and ESG rating agencies are not capable of providing ESG ratings for such companies in any case.

The following are the main benefits of ESG reporting for issuers:

- fulfilment of requirements needed to establish business relationships with suppliers and business partners
- ESG transparency, opening up of new business opportunities
- facilitating the development of issuers' business strategies for the purpose of reaching sustainable development goals
- greater openness to investments and market competitiveness
- market positioning (receiving an ESG rating).

By investing in financial instruments of issuers with good ESG indicators, investors encourage issuers to engage more in ESG relevant activities, create more jobs, contribute to real economy and reduce damaging effects on the environment and society in their operation (the principle of "do no significant harm")[14].

As already mentioned in the introduction to these Guidelines, the contents of ESG statements are not uniform, with data requested varying depending on market participants, rating agencies or partners. There are several sets of standards (frameworks) for non-financial reporting, and Croatian regulations define the obligation for issuers to disclose ESG (non-financial) statements in the above-mentioned Articles 21a and 24a of the Accounting Act and Corporate Governance Code.

As the standardisation of ESG reporting has already started at the EU-level, with a part of the regulation already having been adopted and the other part being drafted, these Guidelines provide instructions for issuers as regards the manner, deadlines and venues for reporting on economically sustainable activities in the transitional period with respect to the existing regulations, for the purpose of comparable data presentation and visibility for investors and other market participants.

The following text first offers an overview of the existing regulatory framework relating to non-financial reporting (NFRD and Code of Corporate Governance) and the existing regulations governing ESG reporting (Taxonomy Regulation and SFDR), and then provides Guidelines for issuers within the presentation of the Taxonomy Regulations and the SFDR.

[14] *Article 2a of the SFDR*

6. NON-FINANCIAL REPORTING PURSUANT TO THE NFRD AND ACCOUNTING ACT

The European Parliament has recognised the importance of ESG transparency, prescribing in the NFRD the obligation[15] for large undertakings which are public-interest entities and for those public-interest entities which are parent undertakings of a large group exceeding on their balance sheet dates (on a consolidated basis for parent undertakings of a large group) the criterion of the average number of 500 employees during the financial year to include in the (consolidated) management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

This obligation has been transposed into the Croatian legislation by means of Articles 21a and 24a of the Accounting Act. Issuers not subject to non-financial reporting requirements may decide to include non-financial statements in the management report on a voluntary basis.[16]

At the moment, there is a discrepancy between the information that needs to be disclosed by issuers required to disclose non-financial statements under the NFRD, i.e. the Accounting Act and the obligations laid down by Article 8 of the Taxonomy Regulation, which are directly applicable and relate to entities subject to non-financial reporting requirements. There is also a lack of harmonisation between the issuers' information analysed by financial market participants and financial advisers pursuant to the SFDR and the information disclosed by issuers subject to non-financial reporting requirements pursuant to the NFRD, i.e. the Accounting Act.

The scope of application and contents of the non-financial disclosures under the NFRD, i.e. Articles 21a and 24a of the Accounting Act are expected to be extended.

7. NON-FINANCIAL REPORTING FRAMEWORKS (STANDARDS)

In the EU market, there has already been a long practice of disclosing relevant ESG information by companies disclosing non-financial statements under the NFRD.

In practice, there have been several different non-financial frameworks and standards used by companies for the preparation of ESG statements. Those standards are not obligatory, but are widely used by issuers and their usage is considered to be good practice.

Pursuant to recital 9 of the NFRD, recognised national and international non-financial reporting frameworks (non-financial reporting standards) that companies may rely on when drawing up and disclosing non-financial information are the following:

- Eco-Management and Audit Scheme (EMAS)
- United Nations (UN) Global Compact
- Guiding Principles on Business and Human Rights implementing the UN "Protect, Respect and Remedy" Framework
- Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- International Organisation for Standardisation's ISO 26000
- International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy (ILO)
- Global Reporting Initiative (GRI).

[15] *As a document accompanying the NFRD, the European Commission published the Guidelines on non-financial reporting (Methodology for reporting non-financial information), with a supplement published in 2019 that covered climate-related information.*
[16] *Article 21(2)(4f) of the Accounting Act*

The extent of information, methodologies and manner of disclosure vary, depending on the non-financial reporting standard adopted by the issuer and on data requested by financial market participants or companies assessing the ESG rating of the issuer.

European companies most often use the GRI standards for non-financial reporting on economic, social and environmental impacts.

8. CORPORATE GOVERNANCE

For the purpose of supporting good practices aimed at fostering sustainable development, Hanfa and the Zagreb Stock Exchange have adopted the Corporate Governance Code, establishing the obligation for issuers to comply with sustainable development principles.

Article 83 of the Corporate Governance Code "Corporate social responsibility" lays down the obligation for companies to adopt and publicly disclose the impact assessment policy relating to the impact that their activities exert on the environment and community, human and workers' rights protection, and prevention and sanctioning of bribery and corruption.

The Code also requires issuers to disclose information that relates to good corporate governance rules ("G") in general, but also information relating to companies' strategies, taking account of the potential impact of their activities on the environment and community ("E"), promotion of ethical behaviour, respect for human rights and positive and stimulating working environment ("S").

That way, the obligation for issuers has been established to disclose part of relevant ESG information (ESG reporting) for all entities subject to the Corporate Governance Code, which includes those share issuers on the regulated market that are not subject to non-financial reporting requirements pursuant to the Accounting Act.

9. ESG RATING

ESG rating is an assessment based on the ESG factors and relevant data of a company or a financial product developed by a rating agency. These assessments are used by some investors when making an investment decision.

There are a number of ESG rating agencies on the market that provide clients with an assessment of potential investments based on ESG factors. Each rating agency has its own method of calculating the results and ranking the ESG factors, and methods can vary greatly, making it difficult for investors to clearly understand the ESG profile of a company (issuer).

The data requested by the ESG rating agencies from issuers for the assessment of the ESG rating are comparable to the data disclosed by companies using non-financial reporting standards and with ESG factors according to the SFDR.

A clear standard for determining ESG rating has not been established yet. A regulatory framework is expected to be adopted to establish standards and competences for assessing ECG ratings within the EU.

10. TAXONOMY REGULATION

The Taxonomy Regulation entered into force in July 2020, and according to that Regulation issuers are required to publish three indicators pursuant to Article 8 of the Taxonomy Regulation only for the first two environmental objectives, namely climate change mitigation and climate adaptation objectives, for reporting periods from 1 January 2021.

The aim of the Taxonomy Regulation is to help create the first "green list", a classification system for sustainable economic activities that will establish common standards for investors and companies (issuers) when investing in projects and economic activities that have a significant positive impact on the climate and the environment.

Article 8 the Taxonomy Regulation requires issuers subject to non-financial reporting to publicly disclose the information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. Issuers shall in particular disclose three indicators associated with economic activities that qualify as environmentally sustainable.

10.1. Identifying environmentally sustainable economic activities

An economic activity shall qualify as environmentally sustainable (Article 3 of the Taxonomy Regulation) where that economic activity:

- contributes substantially to one or more of the environmental objectives
- does not significantly harm any of the environmental objectives
- is carried out in compliance with the minimum safeguards laid down in Article 18 of Taxonomy Regulation (an issuer has to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights)
- complies with technical screening criteria.

Article 9 of the Taxonomy Regulation prescribes the following environmental objectives:

1. climate change mitigation
2. climate change adaptation
3. the sustainable use and protection of water and marine resources
4. the transition to a circular economy
5. pollution prevention and control
6. the protection and restoration of biodiversity and ecosystems.

Article 10 of the Taxonomy Regulation lists what is considered a substantial contribution to climate change mitigation, and Article 11 of the Taxonomy Regulation lists what is considered a substantial contribution to climate change adaptation.

The European Commission shall adopt a delegated act establishing technical screening criteria for determining the conditions under which a specific economic activity qualifies as contributing substantially to climate change mitigation, i.e. climate change adaptation and technical screening criteria for determining whether an economic activity causes significant harm to one or more of the environmental objectives.

10.2. Disclosure of indicators in non-financial statements pursuant to Article 8 of the Taxonomy Regulation in the transitional period until 31 December 2021

Pursuant to Article 8 of Taxonomy Regulation, issuers which are subject to an obligation to publish non-financial information pursuant to the provisions of the NFRD (provisions of the NFRD are implemented in the Accounting Act, Articles 21a and 24a) shall disclose the following three indicators:

1. the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable pursuant to Articles 3 and 9 of the Taxonomy Regulation (**Turnover**)
2. the proportion of their capital expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable pursuant to Articles 3 and 9 of the Taxonomy Regulation (**Capital expenditure**)
3. the proportion of their operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable pursuant to Articles 3 and 9 of the Taxonomy Regulation (**Operating expenditure**).

Pursuant to the provisions of the Taxonomy Regulation, the European Commission shall adopt a delegated act specifying the content and presentation of the information to be disclosed pursuant to Article 8 of the Taxonomy Regulation, including the methodology and the technical screening criteria established pursuant to the Taxonomy Regulation. The Commission shall adopt that delegated act by 1 June 2021.

For a period until that delegated act is adopted, issuers are invited to apply definitions for the determination of the three indicators proposed by ESMA in the Technical Advice to the European Commission. These indicators are:

- **Turnover** - the denominator of this indicator comprises revenue as defined in paragraph 82a) of IAS 1 "Presentation of Financial statements", while the numerator comprises turnover where the economic activity meets:
    - the criterion of making a significant contribution to environmental objectives
    - the criterion of not doing significant harm to any environmental objective
    - the criterion of minimum safeguards.

  For the environmental objective of climate change adaptation, turnover can also be counted where the activity enables other activities that undergo climate change adaptation.

- **Capital expenditure** - the denominator of this indicator comprises additions to tangible and intangible assets during the reporting period (including assets acquired in business combinations), before any re-measurements (including revaluations and impairments), depreciation costs and excluding fair value changes on the basis of IAS 16 paragraphs 73 (e) (i) and (iii), IAS 38 paragraphs 118 (e) (i), and IAS 40 paragraphs 76 (a) and (b) (for the fair value model), IAS 40 paragraphs 79 (d) (i) and (ii) (for the cost model), IAS 41 paragraph 50 (b) and (e) and IFRS 16 paragraph 53(h). The denominator comprises costs that meet, or are a part of the plan to meet:
    - the criterion of making a significant contribution to environmental objectives
    - the criterion of not doing significant harm to any environmental objective
    - the criterion of minimum safeguards.

  The plan should aim to make the economic activity in question aligned with the provisions of the Taxonomy Regulation within a maximum period of five years unless a longer period can be justified by the issuer on the basis of the features of the concerned investments.

- **Operating expenditure** - the denominator of this indicator comprises non-capitalised research and development costs, building renovation measures, short-term lease costs, maintenance and repair and any other direct expenditures relating to the day-to-day servicing of items of property plant and equipment that is necessary to ensure the continued and effective functioning of such assets. Only direct costs are included. The denominator comprises costs that meet, or are a part of the plan to meet:

- the criterion of making a significant contribution to environmental objectives
- the criterion of not doing significant harm to any environmental objective
- the criterion of minimum safeguards.

The plan should aim to make the economic activity in question aligned with the provisions of the Taxonomy Regulation within a maximum period of five years unless a longer period can be justified by the issuer on the basis of the features of the concerned investments.

When disclosing indicators, it is not allowed to double count turnover / CapEx / OpEx across several economic activities. Issuers must apply their best judgement of how to split turnover / CapEx / OpEx across their taxonomy-aligned economic activities and thus avoid inappropriate multiple counting of the same data in the amounts of turnover / CapEx / OpEx related to economic activities for the reporting period.

During a transitional period, until the entry into force of delegated acts governing the disclosure provided for in Article 8 of the Taxonomy Regulation (until 31 December 2021), issuers are encouraged to disclose indicators in the manner as shown in Table 1:

Table 1 Environmental objectives: climate change

Indicator			Criterion of making a substantial contribution to environmental objectives		Criterion of not doing significant harm to any of the environmental objectives	
	Amount	Share in total indicator	Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation
		(%)	(%)	(%)	YES/NO	YES/NO
Turnover						
Total turnover						
Turnover from eligible economic activities which significantly contribute to environmental objectives which are aligned with the Taxonomy Regulation						
Turnover from eligible economic activities which are not aligned with the Taxonomy Regulation						
Turnover from economic activities which are not eligible						
Capital expenditure						

Total capital expenditure						
Capital expenditure on eligible economic activities which significantly contribute to environmental objectives which are aligned with the Taxonomy Regulation						
Capital expenditure on eligible economic activities which significantly contribute to environmental objectives which are not aligned with the Taxonomy Regulation						
Capital expenditure on economic activities which are not eligible						
Operating expenditure						
Total operating expenditure						
Operating expenditure of eligible economic activities which significantly contribute to environmental objectives which are aligned with the Taxonomy Regulation						
Operating expenditure of eligible economic activities which significantly contribute to environmental objectives which are not aligned with the Taxonomy Regulation						
Operating expenditure of economic activities which are not eligible						

The European Commission published on its website the Draft Delegated Regulation establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, which will apply from 1 January 2022.

During the transitional period, for the purposes of classifying economic activities contributing to the first two environmental objectives, the provisions of the Draft Delegated Regulation may apply.

Along with Table 1, **it is recommended that issuers, for the purposes of better understanding of the data disclosed in the non-financial statement, further clarify how the indicators were calculated and what items from the financial statement were included in the calculation and**

the manner in which an economic activity complies with the Taxonomy Regulation i.e. the prescribed criteria.

Where the issuer discloses capital expenditure (CapEx) and operating expenditure (OpEx) in accordance with the Guidelines on APMs, it is necessary to further clarify the differences in calculation, if any, between the data disclosed in the non-financial statement (under the Taxonomy Regulation) and the data disclosed e.g. in the management report.

It is also recommended that the issuer discloses in the non-financial statement how the economic activities which significantly contribute to environmental objectives were determined, that is, on the basis of which criteria and what guided the assessment of how the economic activity contributes to climate change mitigation and adaptation (a statistical classification of economic activities may be provided). In addition, it is recommended to explain in the non-financial statement the reasons for the increase or decrease in the reporting period (specify and explain for each indicator).

Economic activities which contribute to environmental objectives are listed in the Draft Delegated Regulation. Where an economic activity of the issuer is not explicitly specified in the Delegated Regulation but the issuer considers that the activity contributes to environmental objectives, the issuer may disclose three indicators referred to in Article 8 of the Taxonomy Regulation for this activity in the non-financial statement.

Where the issuer draws up consolidated financial statements, all three indicators should be calculated and disclosed at group level.

10.3. Deadlines and manner of publication

It is recommended that issuers with an obligation to publish non-financial statements and those who voluntarily publish non-financial statements include in their annual statements, in part annual statement (management report) in the framework of the non-financial statement, the disclosures set out in point 10.2 of these Guidelines.

Where the issuer publishes non-financial information in a separate non-financial statement, the disclosures referred to in point 10.2 of these Guidelines may be published in that separate report in accordance with the CMA[17] rules on the publication of regulated information (publication via the media, the Zagreb Stock Exchange website and the Officially Appointed Mechanism for the central storage of regulated information).

Issuers who publish the disclosures referred to in point 10.2 of these Guidelines in a separate non-financial statement are recommended to publicly disclose information at the same time as the annual statement pursuant to Article 462 of the CMA and no later than within the deadline pursuant to Article 30(5) of the Accounting Act.

Please note that the entities subject to the obligation to publicly disclose non-financial statements pursuant to Articles 21a and 24a of the Accounting Act will have to start fulfilling their obligations referred to in Article 8(1)(2) and (3) of the Taxonomy Regulation:

- from 1 January 2022, for the environmental objectives referred to in Article 9(a) and (b) (climate change mitigation and climate change adaptation) and
- from 1 January 2023, for the environmental objectives referred to in Article 9(c) to (f) (the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems).

[17] *Capital Market Act (Official Gazette, No 65/18 and 17/20)*

11. SFDR

This Regulation requires financial market participants and financial advisers which provide investment advice or insurance advice with regard to insurance-based investment products (IBIPs), regardless of the design of the financial product and the target market, to publish written policies on the integration of sustainability risks and ensure the transparency of such integration, taking into account adverse sustainability impacts in their processes and providing sustainability-related information with respect to financial products.

The SFDR defines what can be considered as a "sustainable investment" by relating sustainable development goals to ESG factors that differ depending on the type of objective.

The objectives are:

1. environmental objectives ("E) - measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or
2. social objectives ("S") - in particular investments that contribute to tackling inequality or that foster social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, and
3. good governance practices ("G") - in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

In this respect, the accompanying draft delegated act defines a set of ESG factors on the basis of which entities subject to SFDR assess and disclose sustainability risks, effect on sustainability and adverse sustainability impacts in their processes and provide information related to sustainability in relation to financial products.

Although the SFDR does not impose a direct obligation on issuers, it is clear that if issuers do not disclose the relevant data, SFDR-obliged entities will not be able to assess the ESG impact of the investment, which will have negative consequences on the issuer's investment potential.

At the moment, it is not prescribed which ESG factors issuers are required to disclose for the purposes of analyses and reports of obliged entities under the SFDR. For this reason, issuers are instructed to use the recognised ESG reporting frameworks (standards) set out in the recital 9 of the NFRD[18] (non-financial reporting standards).

It is recommended that issuers, when choosing non-financial reporting standards and the content of reporting, take into account ESG factors that SFDR-obliged entities will have to analyse or consider when making an investment decision. According to the proposed Draft Delegated act, the SFDR-obliged entities will have to analyse:

- all ESG factors listed in Table 1 of Annex I to these Guidelines and
- at least one ESG factor, of their own choice, from Tables 2 and 3 of Annex I to these Guidelines.

It is recommended that issuers include in their ESG statements the factors set out in Table 3 of Annex I to these Guidelines on the impact of issuers on children and their welfare[19]. Children affect the business sector as consumers and as part of the family of employees. They are a unique group of participants in local communities as well as society as a whole: children have specific vulnerabilities and needs, and in some cases business activities that do not have negative consequences on adults can be very harmful to children and children's rights. Taking this impact into

[18] *See Chapter 7 of these Guidelines.*

[19] *More information on how to include the protection of children's rights and interests can be found in the document "Children are our most important business: Guide 2.0".*

account gives great potential in improving children's rights through the manner in which the business sector handles its employees, manages its assets and products, provides services and affects economic and social development.

In order to attain greater openness to investments and to achieve market competitiveness, issuers are encouraged to publish the ESG factors listed in Annex I to these Guidelines[20] in their ESG statements using non-financial reporting standards[21]. The beginning of the disclosure obligation for obliged entities under the SFDR is 1 January 2022.

12. DEADLINES AND MANNER OF DISCLOSURE

Issuers shall decide independently whether to prepare and publicly disclose their ESG statements by applying non-financial reporting standards for the purpose of disclosing data that SFDR obliged entities will need for analyses and disclosures according to the SFDR.

It is recommended that issuers who opt for such reporting start disclosing data as soon as possible, and certainly as of 1 January 2022.

It is recommended that issuers include in their annual statements, in the part annual statement (management report) in the framework of the non-financial statement, the ESG statement made by applying non-financial reporting standards.

Where the issuer publishes non-financial information in a separate non-financial statement, the ESG statement made by applying non-financial reporting standards shall be published in that separate report in accordance with the CMA rules on the publication of regulated information (publication via the media, the Zagreb Stock Exchange website and the Officially Appointed Mechanism for the central storage of regulated information).

Issuers who publish the ESG statement made by applying non-financial reporting standards in a separate non-financial statement are recommended to publicly disclose information at the same time as the annual statement pursuant to Article 462 of the CMA and no later than within the deadline pursuant to Article 30(5) of the Accounting Act.

13. FINAL PROVISIONS

These Guidelines will be published on Hanfa's website and will enter into force on the day of their adoption.

CLASS: 011-02/21-01/05
REGNO: 326-01-60-62-21-1
Zagreb, 17 March 2021

PRESIDENT OF THE BOARD
Ante Žigman

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[20] Based on the draft regulatory technical standard defining the content, methodology and format of the disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of the SFDR published on 2 February 2021.
[21] See Chapter 7 of these Guidelines.

Annex I

<table>
<tr><td colspan="4" align="center">Table 1

ESG factors relevant for reporting the principal adverse sustainability impacts under the SFDR, based on the draft delegated act published on 2 February 2021.</td></tr>
<tr><td colspan="3">Factors relevant to investments in issuers based on which financial market participants and financial advisers determine sustainability impacts</td><td rowspan="2" align="center">Comparable to data published according to the GRI non-financial reporting standard</td></tr>
<tr><td colspan="2">Adverse impact on sustainability factor (SFDR)</td><td align="center">Contents</td></tr>
<tr><td colspan="4">Climate and other environment-related indicators</td></tr>
<tr><td rowspan="5">Greenhouse gas emissions (GHG emissions)</td><td rowspan="4">1 GHG emissions</td><td>Scope 1 GHG emissions</td><td>GRI 305</td></tr>
<tr><td>Scope 2 GHG emissions</td><td>GRI 305</td></tr>
<tr><td>From 1 January 2023, Scope 3 GHG emissions</td><td>GRI 305</td></tr>
<tr><td>Total GHG emissions</td><td>GRI 305</td></tr>
<tr><td>2 Carbon footprint</td><td>Carbon footprint</td><td>GRI 305</td></tr>
</table>

	3 GHG intensity of issuers	GHG intensity of issuers	GRI 305
	4 Activities related to the production and distribution of fossil fuels	General information on issuer's activities	GRI 102, GRI 201, GRI 300 (specific GRI standards for certain sectors are being prepared)
	5 Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	GRI 301, GRI 302
	6 Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of issuers, per high impact climate sector	GRI 302
Biodiversity	7 Activities negatively affecting biodiversity-sensitive areas	Sites/plants located in or near to biodiversity-sensitive areas whose activities negatively affect those areas	GRI 304
Water	8 Emissions to water	Tonnes of emissions to water generated by issuers per million EUR invested, expressed as a weighted average	GRI 303
Waste	9 Hazardous waste ratio	Tonnes of hazardous waste generated by issuers per million EUR invested, expressed as a weighted average	GRI 306
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters			
Social and employee matters	10 Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines	Has the issuer violated the UNGC principles or OECD Guidelines for Multinational Enterprises?	GRI 419

	for Multinational Enterprises		
	11 Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Have issuers got developed policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises?	GRI 103, GRI 419
	12 Unadjusted gender pay gap	Average unadjusted gender pay gap of the issuer	GRI 102, GRI 202, GRI 405
	13 Board gender diversity	Average ratio of female to male board members in issuers	GRI 102, GRI 202, GRI 405
	14 Controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	General information on issuer's activities	GRI 102, GRI 412

Table 2

Additional climate and environment-related ESG factors relevant for reporting the adverse sustainability impacts under the SFDR, based on the draft delegated act published on 2 February 2021

Factors relevant to investments in issuers based on which financial market participants and financial advisers determine sustainability impacts			Comparable to data published according to the GRI non-financial reporting standard
Adverse sustainability impact (SFDR)	Adverse sustainability impact (SFDR) - qualitative or quantitative	Contents	
Climate and other environment-related indicators			
Emissions	1 Emissions of inorganic pollutants	Tonnes of inorganic pollutants equivalent per million EUR invested, expressed as a weighted average	/

	2 Emissions of air pollutants	Tonnes of air pollutants equivalent per million EUR invested, expressed as a weighted average	GRI 305
	3 Emissions of ozone depletion substances	Tonnes of ozone depletion substances equivalent per million EUR invested, expressed as a weighted average	GRI 305
	4 Carbon emission reduction initiative	Has the issuer got a carbon emission reduction initiative in accordance with the Paris Agreement?	GRI 103, GRI 201, GRI 307
Energy management	5 Breakdown of energy consumption by type of non-renewable sources of energy	Share of energy from non-renewable sources used by issuers broken down by each non-renewable energy source	GRI 103, GRI 302
Water, waste and material emissions	6 Water usage and recycling	1 Average amount of water consumed and reclaimed by issuers (in cubic meters) per million EUR of revenue of issuers Weighted average percentage of water recycled and reused by issuers	GRI 103, GRI 303
	7 Water management policies	Has the issuer established water management policies?	GRI 103, GRI 303
	8 Exposure to areas of high water stress	Does the issuer carry out its activities on sites located in areas of high water stress without water management policies?	GRI 103, GRI 303
	9 Production of chemicals	Does the issuer perform activities which fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006?	GRI 102
	10 Land degradation, desertification, soil sealing	Does the issuer perform activities which cause land degradation, desertification or soil sealing?	GRI 300
	11 Sustainable land/agriculture practices	Has the issuer established sustainable land/agriculture practices or policies?	GRI 103, GRI 300
	12 Sustainable oceans/seas practices	Has the issuer established sustainable oceans/seas practices or policies?	GRI 103, GRI 300
	13 Non-recycled waste ratio	Tonnes of non-recycled waste generated by issuers per million EUR invested,	GRI 103, GRI 306

		expressed as a weighted average	
	14 Natural species and protected areas	1 Do the issuer's operations affect threatened species? 2 Has the issuer got a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas?	GRI 103, GRI 304
	15 Deforestation	Has the issuer established policies to address deforestation?	GRI 103
Green securities	16 Securities not certified as green under a future EU legal act setting up an EU Green Bond Standard	Has the issuer issued a security certified as green?	/

Table 3

Additional factors for social and employee, respect for human rights, anti-corruption and anti-bribery matters, relevant for reporting the adverse sustainability impacts under the SFDR, based on the draft delegated act published on 2 February 2021

Factors relevant to investments in issuers based on which financial market participants and financial advisers determine sustainability impacts			Comparable to data published according to the GRI non-financial reporting standard
Adverse sustainability impact (SFDR)	Adverse sustainability impact (SFDR) - qualitative or quantitative	Contents	
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters			
Social and employee matters	1 Workplace accident prevention policies	Has the issuer established workplace accident prevention policies?	GRI 103, GRI 403
	2 Rate of accidents	Rate of accidents in issuers expressed as a weighted average	GRI 103, GRI 403
	3 Number of days lost to injuries, accidents, fatalities or illness	Number of days lost to injuries, accidents, fatalities or illness of issuers expressed as a weighted average	GRI 103, GRI 403

	4 Lack of a supplier code of conduct	Has the issuer established a supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour)?	GRI 103, GRI 414
	5 Lack of grievance/complaints handling mechanism related to employee matters	Has the issuer established a grievance/complaints handling mechanism related to employee matters?	GRI 103, GRI 406
	6 Insufficient whistleblower protection	Has the issuer established policies on the protection of whistleblowers?	GRI 102
	7 Incidents of discrimination	1 Number of incidents of discrimination reported in issuers expressed as a weighted average 2 Number of incidents of discrimination leading to sanctions in issuers expressed as a weighted average	GRI 103, GRI 406, GRI 419
	8 Excessive CEO pay ratio	Average ratio within issuers of the annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest-compensated individual)	GRI 102
Human rights	9 Lack of a human rights policy	Has the issuer established human rights policies?	GRI 103, GRI 412
	10 Lack of due diligence	Has the issuer established a due diligence process to identify, prevent, mitigate and address adverse human rights impacts?	GRI 103, GRI 412
	11 Lack of processes and measures for preventing trafficking in human beings	Has the issuer established policies against trafficking in human beings?	GRI 103, GRI 408, GRI 409
	12 Operations and suppliers at significant risk of incidents of child labour	Is the issuer exposed to operations and suppliers at significant risk of incidents of child labour exposed to hazardous work in terms of geographic areas or type of operation?	GRI 103, GRI 408
	13 Operations and suppliers at significant risk of	Is the issuer exposed to operations and suppliers at significant risk of incidents of child labour exposed to	GRI 103, GRI 409

	incidents of forced or compulsory labour	hazardous work in terms of geographic areas or type of operation?	
	14 Number of identified cases of severe human rights issues and incidents	Number of cases of severe human rights issues and incidents connected to investee companies (issuers) on a weighted average basis	GRI 102, GRI 412, GRI 419
Anti-corruption and anti-bribery	15 Lack of anti-corruption and anti-bribery policies	Does the issuer have anti-corruption and anti-bribery policies consistent with the United Nations Convention Against Corruption?	GRI 103, GRI 205
	16 Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery	Has the issuer had cases in which insufficiencies were identified in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery?	GRI 205
	17 Number of convictions and amounts of fines for violations of anti-corruption and anti-bribery laws	Number of convictions and amounts of fines for violations of anti-corruption and anti-bribery laws of the issuer	GRI 205, GRI 419

Abbreviations and definitions used in this document:

ABBREVIATIONS	TERM / DEFINITION
SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
Sustainable investment	Investment in an economic activity that contributes to one or more of the environmental objectives, does not significantly harm other environmental and/or social objectives and has good governance practices established for it.
ESG factors	Factors indicating environmental, social and employee, respect for human rights, anti-corruption and anti-bribery matters
Issuer	Issuer as defined in Article 455(7) of the CMA
Environmental objectives	Six environmental objectives as defined in Article 9 of the Taxonomy Regulation
Taxonomy Regulation	Regulation (EU) No 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) No 2019/2088
NFRD	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
MIFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU
UCITS	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
AIFMD	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/10
CMA	Capital Market Act (Official Gazette, No 65/18 and 17/20)
Ordinance on corporate governance related information	Ordinance on corporate governance related information that needs to be submitted by issuers to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission (Official Gazette, No 59/20)
Accounting Act	Accounting Act (Official Gazette, No 78/15,134/15, 120/16, 116/18, 42/20 and 47/20)

Technical screening criteria	Technical screening criteria established on the basis of Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2) and Article 15(2) of the Taxonomy Regulation.
Financial market participants	Financial market participants - financial sector services providers as defined in Article 2(1) of the SFDR (an insurance undertaking which makes available an insurance-based investment product, an investment firm which provides portfolio management, an institution for occupational retirement provision (IORP), a manufacturer of a pension product, an alternative investment fund manager (AIFM), a pan-European personal pension product (PEPP) provider, a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013, a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013, a management company of an undertaking for collective investment in transferable securities (UCITS management company) or a credit institution which provides portfolio management)
Financial advisers	Financial advisers as defined in Article 2(11) of the SFDR (an insurance intermediary which provides insurance advice with regard to IBIPs, an insurance undertaking which provides insurance advice with regard to IBIPs, a credit institution which provides investment advice, an investment firm which provides investment advice, an AIFM which provides investment advice, a UCITS management company which provides investment advice)
Financial products	Financial products as defined in Article 2(12) of the SFDR (a portfolio under management, an alternative investment fund, an IBIP, a pension scheme and a pension product provided a decision is adopted at the national level on the application of these regulations to such products, a UCITS or a PEPP)
IFRS or IAS	International financial reporting standards are International Accounting Standards published in the Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.
APM	Alternative performance measure means a financial measure of historical or future financial performance, financial position or cash flows, other than financial measure defined in the applicable financial reporting framework.
ESG statement	The ESG statement is part of the non-financial statement of the issuer that contains ESG relevant information and data on ESG factors.
Non-financial reporting standards	In its recital 9, the NFRD lists the recognised national and international non-financial reporting frameworks

	that companies may rely on when drawing up and reporting non-financial information: - Eco-Management and Audit Scheme (EMAS) - United Nations (UN) Global Compact - Guiding Principles on Business and Human Rights implementing the UN ‘Protect, Respect and Remedy’ Framework - Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises - International Organisation for Standardisation's ISO 26000 - International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy - Global Reporting Initiative (GRI) - other recognised international standards.