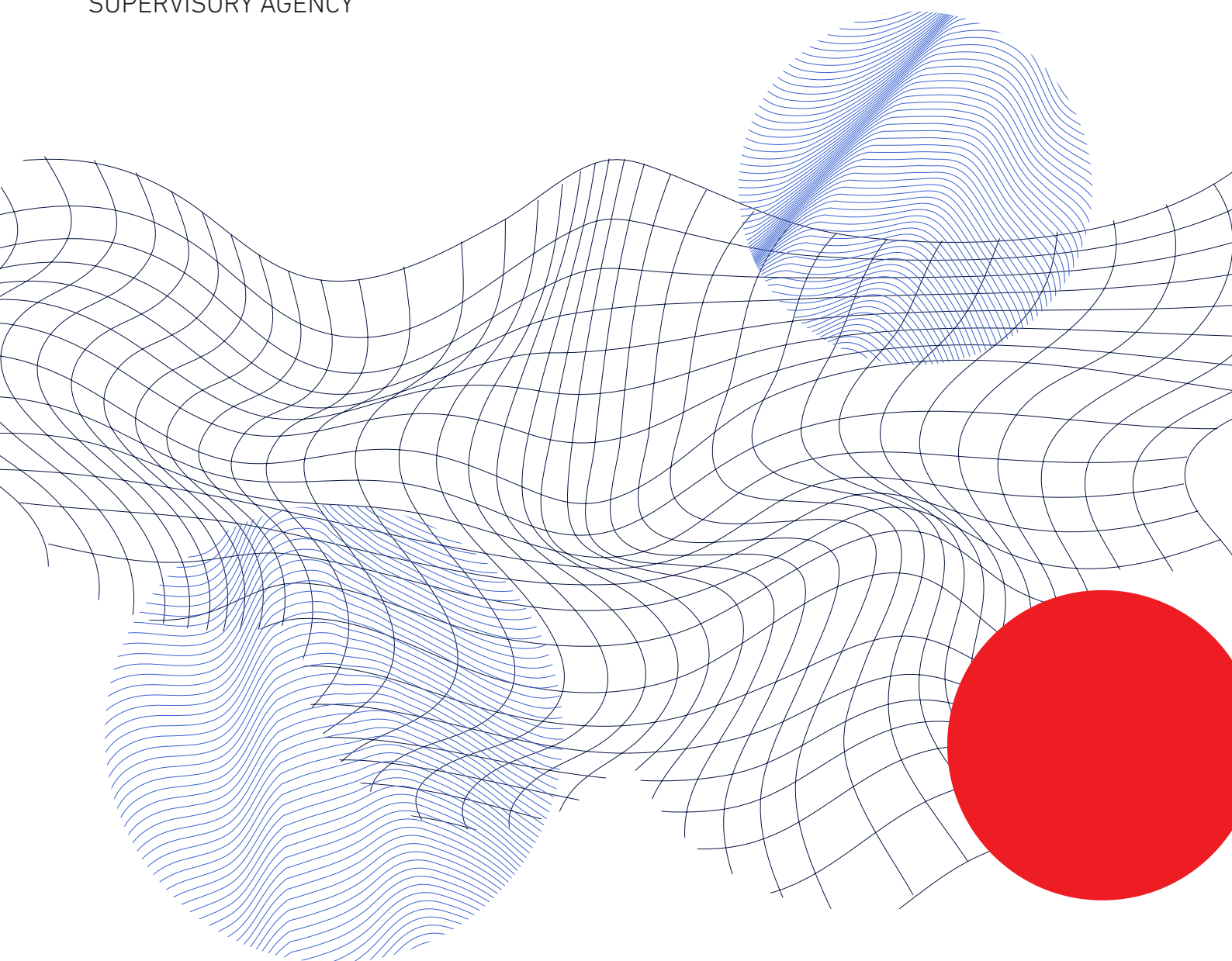


ANNUAL REPORT ON CORPORATE GOVERNANCE 2020

CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



Contents

Introduction	4	Short overview on share issuers	59
Summary of key information in the 2020 Annual Report on Corporate Governance	7	Number of share issuers	59
Overview of selected corporate governance areas for share issuers	12	Shares not traded at all	60
Introduction	12	Admissions to trading and removals from trading on the regulated market of the ZSE	60
Independence of supervisory board members	13	Classification of issuers by sectors	62
Independence of audit committee members	17	Market capitalisation	62
Management and supervisory board evaluation	19	Capital and its origin	64
Conflicts of interest	21	Initial capital	64
Internal control system	24	Ownership structure	65
Gender structure of management and supervisory boards	25	Origin of share issuers' capital	67
Target percentage of female board members	27	Duties and responsibilities of board members	68
Remuneration policy	29	Conflicts of interest	68
Non-financial reporting (ESG reporting)	31	Related party transactions	69
Environmental factors	36	Code of conduct for management and supervisory board members and participation in the decision-making process	71
Governance factors	37	Issuers' compliance with the Code in the area relating to leadership	73
Social factors	37	Supervisory board and its committees	73
Compliance of issuers whose shares are admitted to the ZSE with the section "Corporate social responsibility"	38	Number of members and composition of the supervisory board	74
Share issuers' compliance with the Corporate Governance Code	40	Independence of supervisory board members	76
List of issuers according to their compliance with the Corporate Governance Code	42	Relationship between supervisory board members with management board members and other supervisory board members	77
Issuers' compliance by sections of the Code	45	Supervisory board meetings	79
Overall compliance of share issuers with the Code for the year 2020	53	Supervisory board committees	79
Recommendations for improving the quality of corporate governance reporting	54	Issuers' compliance with the Code in the area relating to the supervisory board and its committees	81
Annual report on corporate governance for share issuers	57	Management board	82
Introduction	57	Number of members and composition of the management board	82
		Meetings of the management board	84

Terms of office and duration of management board membership	84	Investor relations	103
Resignations of management board members	84	Dividend payments	105
Relationship between management board members and members of the management/supervisory board within the issuer and with other companies	84	Corporate Governance Code	105
Issuers' compliance with the Code in the area relating to the supervisory board and management board	86	Issuers' compliance with the Code in the area relating to disclosure and transparency	105
Remuneration of board members	88	Annual report on corporate governance for bond issuers	107
Management board remuneration policy	90	Introduction	107
Severance allowance for management board members	92	Capital and its origin	107
Remuneration of supervisory board members	92	Initial capital	107
Remuneration paid to the senior management	94	Ownership structure of corporate bond issuers	108
Severance allowance for the senior management	95	Supervisory board and its committees	109
Issuers' compliance with the Code in the area relating to the remuneration of management and supervisory board members	95	Supervisory board	109
Risks, internal control and audit	96	Supervisory board committees	111
Internal control and audit	96	Management board	111
Internal control system	96	Duties and responsibilities of board members	113
Internal audit system	97	Conflicts of interest and related party transactions	113
External audit	99	Remuneration of board members	114
Issuers' compliance with the Code in the area relating to risks, internal control and audit	100	Remuneration of management board members	114
General meeting	101	Remuneration of supervisory board members	115
Internal rules of procedure of the general meeting	101	Remuneration of the senior management	116
Participation in the general meeting	101	Risks, internal control and audit	117
Issuers' compliance with the Code in the area relating to shareholders and the general meeting	102	Internal control and audit	117
Transparency and corporate social responsibility	103	Managing company risks	117
		External audit	117
		Transparency and corporate social responsibility	117
		Corporate Governance Code	118
		List of Tables	119
		List of Charts	121

Introduction

Implementation of the Corporate Governance Code and other regulations in 2020

The Corporate Governance Code, adopted on 15 October 2019 by the Croatian Financial Services Supervisory Agency (Hanfa) and Zagrebačka burza d.d. (Zagreb Stock Exchange), significantly improved the corporate governance framework, while companies whose shares are admitted to the regulated market were faced with challenges of complying with the recommendations of the Corporate Governance Code (hereinafter: the Code) and achieving higher standards of corporate governance culture.

The companies whose shares are listed on the regulated market (stock exchange) in the Republic of Croatia, with the exception of shares of closed-ended investment funds, started to apply the Code on 1 January 2020. Notwithstanding this date, companies were required to inform Hanfa of their compliance with the Code, i.e. their corporate governance practices also for the year starting on 1 January 2019, via new questionnaires in order to identify the existing practices and to monitor progress in the years following the entry into force of the Code.

The initial level of companies' compliance with the Code is presented in the 2019 Annual Report on Corporate Governance, while this Annual Report on Corporate Governance gives the degree of compliance with the Code starting from the date of its application (1 January 2020) and provides a comparison with the compliance data from the previous year.

In addition to the full implementation of the Code, companies whose shares were admitted to the regulated market were obliged to apply the provisions of the Act Amending the Companies Act¹ which entered into force on 20 April 2019, with the exception of certain provisions that entered into force on 1 May 2020 and 1 January 2021 respectively.

Starting from 20 April 2019, companies whose shares are admitted to the regulated market are obliged to apply provisions stipulating the adoption and content of remuneration policies, related party transactions and prior approval of the supervisory board for related party transactions, as well as the disclosure or related party transactions.

Furthermore, as from 1 May 2020 companies whose shares are admitted to the regulated market are obliged to start applying the provisions of the Act Amending the Companies Act which prescribe the adoption of a decision on the remuneration of supervisory board members and the preparation of a report on all remuneration paid or committed to be paid by the company, or another company belonging to the same group, to each current and former member of the management board and supervisory board or to the executive director and member of the board of directors during the last financial year.

Finally, as of 1 January 2021, companies whose shares are admitted to the regulated market are obliged to apply the provisions of the Act Amending the Companies Act prescribing the exercise of voting rights in the general meeting by electronic communication, confirmation of the shares being deposited for the purpose of exercising voting rights, the right of shareholders to request, within one month after the general meeting was held, that the company confirms to them whether and how their votes were cast and the obligation of the company to give that confirmation to shareholders, the exercise of voting rights via intermediaries and persons acting accordingly, transfer of information on the exercise of rights from shares, via intermediaries and intermediaries in the chain, and processing and correcting of shareholder data.

¹ Act Amending the Companies Act (Official Gazette, No 40/19)

The establishment of prescribed and transparent policies and procedures to determine the remuneration of management board members, the determination and level of remuneration of management and supervisory board members and the reporting of remuneration, related party transactions, prior approval of the supervisory board as well as the disclosure of related party transactions and the right of shareholders to exercise voting rights by proxy or electronically without any limitations were previously regulated by the Code which entered into force prior to the entry into force of the amendments to the Companies Act.

In addition to the above-mentioned obligations to implement the provisions of the Act Amending the Companies Act, depending on the date of their entry into force, companies whose shares are admitted to the regulated market are obliged, pursuant to Article 462(5) of the Capital Market Act², to prepare their annual reports and consolidated annual statements in accordance with Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards for the specification of a single electronic reporting format³, specifying a single electronic reporting format. In order to enable issuers to focus their activities on other aspects of their business due to the impact of the COVID-19 pandemic, Hanfa postponed the application of this obligation in 2020. Hanfa's decision is based on an agreement between the European Parliament and the Council to give Member States the possibility to postpone the application of this obligation by one year. Hanfa notified the European Commission on behalf of the Republic of Croatia of the postponement of the obligation of such reporting.

Therefore, in addition to the application of the Code, companies whose shares are admitted to the regulated market are subject to significant new requirements (the application of which is mandatory), aiming at increasing transparency, investor protection and the adoption of environmental, social and governance standards (ESG), and this Annual Report on Corporate Governance will determine the degree of compliance with the requirements of the Code, with particular emphasis on certain areas governed by the Code.

2020 Annual Report on Corporate Governance

Hanfa started to publish its Annual Report on Corporate Governance in 2011; therefore, this edition of the Annual Report on Corporate Governance for 2020 starts a new ten-year period of presenting data on corporate governance of issuers, precisely for the year which is, at the same time, the first year of application of the Code.

In relation to previous annual reports on corporate governance (2011-2018), the 2019 Annual Report on Corporate Governance presented for the first time, in addition to the aggregate statistical overview of the situation per corporate governance area, a comprehensive statistical overview of the companies' compliance with the recommendations of the Code.

Reporting by companies on the implementation of the Code consists of the annual completion of two questionnaires: the compliance questionnaire (by which companies declare their (non)compliance with the recommendations of the Code) and the governance practices questionnaire (by which companies provide additional and detailed information on their corporate governance practices), and, on the basis of the authorisation from the Capital Market Act, Hanfa is authorised to process and publicly publish data on corporate governance, application of the Code and compliance with the Code.

The compliance questionnaire requires the company to explain whether they comply (fully or partially) or fail to comply with each of the recommendations of the Code. If a company does not comply with a provision of the Code, or complies with it only partially, it should explain and specify in the questionnaire in what way it does not comply with the Code and the reason why, with reference to the company's specific circumstances, and it should describe the actions it has taken instead of complying with a recommendation

² *Capital Market Act (Official Gazette, No 65/2018, 17/2020, 83/2021)*

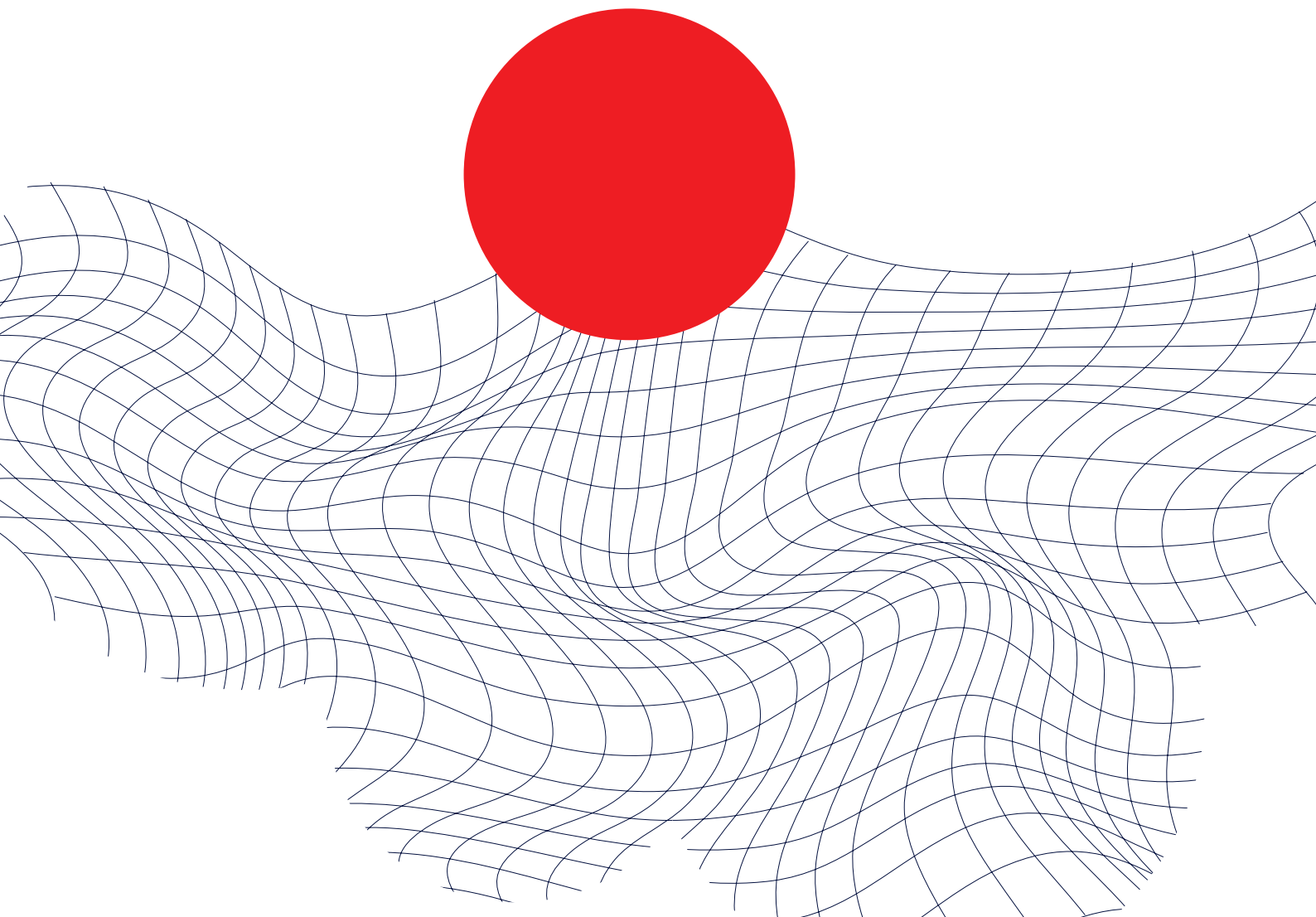
³ *OJ, L 143*

from the Code to make sure it meets the objective set out in the relevant Code principle; and, if the company intends to comply with the Code provision in the future, specify when it will start doing so. The compliance questionnaire is published and sent to Hanfa for the purpose of monitoring compliance for each individual company and cumulatively for all the companies on the regulated market.

Therefore, this Annual Report on Corporate Governance, as well as the one from last year, will also present, in addition to statistical overviews of the situation per corporate governance area, the compliance of companies whose shares are admitted to the regulated market with the specific section of the Code, i.e. with the recommendations of the Code for individual areas of corporate governance, as well as the overall compliance of these companies with the Code as a whole.

Apart from this, in this year's Annual Report on Corporate Governance Hanfa will present compliance with the new and important provisions and recommendations of the Code (independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control system, gender diversity and ESG policies).

Data on compliance with the Code (via the compliance questionnaire), as well as data on governance practices (via the governance practices questionnaire) for 2020 were submitted for the first time by all of the companies obliged to submit data to Hanfa.



Summary of key information in the 2020 Annual Report on Corporate Governance

Hanfa started to publish its Annual Report on Corporate Governance in 2011, therefore this edition of the Annual Report on Corporate Governance for 2020 starts a new ten-year period of presenting data on corporate governance of issuers, precisely for the year which is, at the same time, the first year of application of the Code.

For the first time, the compliance questionnaire and the governance practices questionnaire for 2020 were submitted by all of the companies obliged to submit questionnaires to Hanfa.

The analysis of data on compliance with the Code (via the compliance questionnaire), as well as data on governance practices (via the governance practices questionnaire) for 2020 identified the following:

- ✓ The overall compliance of share issuers with the Code in 2020 is higher than the overall compliance with the Code in 2019. More specifically, 60% of all the questions in the 2020 compliance questionnaire were answered "YES" by share issuers and 30% of the questions were answered "NO", while the remaining 10% were answered "Partially" (in 2019, 52% of all the questions in the compliance questionnaire were answered "YES" by share issuers and 38% of the questions were answered "NO", while the remaining 10% were answered "Partially").
- ✓ According to the data from the 2020 compliance questionnaire, the highest degree of compliance of share issuers was identified for the Code sections "Shareholders and the general meeting" and "Leadership", and the lowest degree of compliance for the sections "Remuneration of board members" and "Appointment of board members".
- ✓ The most significant increase in compliance compared to the previous year can be seen in the section "Supervisory board and its committees" and in the section "Remuneration of board members".

This Annual Report on Corporate Governance presents compliance with the new and important provisions and recommendations of the Code by selected individual segments of corporate governance (independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control system, gender diversity and ESG policies). The analysis summary with respect to each selected segment is given below.

Independence of supervisory board members

- ✓ Provision 22 of the Code stipulates that the majority of supervisory board members of share issuers in the Republic of Croatia should be independent.
- ✓ As regards the independence of supervisory board members of share issuers in the 2010-2020 period, an upward trend is visible. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2010 to 2020 stands at 39%. Therefore, during that period, on average 61% of supervisory board members were not independent.
- ✓ According to the data collected from share issuers, supervisory boards consist on average of 5 members, of which on average 2 are independent.

- Since, in accordance with the Code, three supervisory board members should be independent, the minimum requirement of the Code regarding the independence of the majority of supervisory board members is not met.

Independence of audit committee members

- Provision 27 of the Code stipulates that the majority of audit committee members should be independent, and the chair should be an independent member of the supervisory board.
- According to the data collected, the average number of share issuers' audit committee members in 2020 was 3, and on average 1 member of the audit committee was independent. The data fully correspond to the data on the average number of audit committee members and the average number of independent audit committee members in the previous year. Therefore, as regards the independence of audit committee members, there were no changes relative to the previous year.
- To conclude, in 2020, as in the previous year, the minimum requirement of independence of the majority of audit committee members was not met.

Management and supervisory board evaluation

- Provision 39 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness and composition of the supervisory board and its committees, as well as the performance of individual members. The evaluation should be led by the chair, or by the deputy chair if the chair is not independent.
- In 2020, supervisory boards of all the issuers whose shares were admitted to the Prime Market (100%) evaluated their effectiveness in the last 12 months, representing a significant increase in compliance compared to the previous year, when supervisory boards of 60% of issuers evaluated their effectiveness in the previous 12 months. A slight improvement in compliance with the Code provision in question is evident for issuers on the Regular Market (51% in 2019, 54% in 2020) and a slight decline in compliance for issuers on the Official Market (59% in 2019, 57% in 2020).
- Provision 48 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness of the arrangements for cooperation between the supervisory and management boards, and the adequacy of the support and information it receives from the management board. The results of the evaluation should be included in the report from the supervisory board in the annual report.
- Supervisory boards of all the issuers on the Prime Market evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2020, which is a 20% increase relative to 2019. Furthermore, in the case of issuers on the Official Market, a significant share of supervisory boards evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2020 (90%), making it a 77% increase relative to 2019. Issuers on the Regular Market show a slight decline in the share of issuers where supervisory boards evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2020 (64%), compared to 2019 (67%).
- Provision 49 of the Code stipulates that at least once a year, the management board should evaluate its own effectiveness and that of its individual members, and should report the conclusions of the evaluations to the supervisory board.
- Compliance with the Code with respect to the evaluation of the accountability and effectiveness of individual management board members in 2020 for share issuers stood at 83% in the Prime Market, 33% in the Official Market and 45% in the Regular Market.

Conflicts of interest

- Provision 7 of the Code stipulates that members of the supervisory and management boards should not be permitted to make decisions based on personal interests or the interests of persons connected with them, and board members should not participate in decisions where they have a conflict of interest.
- In 2020, 14 conflicts of interest were reported by 4 issuers, an increase of 180% compared to 2019, when 5 conflicts of interest were reported by 2 issuers.
- Although the increase in the number of reported conflicts of interest in 2020, compared to 2019, is significant and indicates higher awareness of the importance and need to manage conflicts of interest, the largest number of conflicts of interest, as in 2019, were reported by issuers whose shares are admitted to the Official Market (10 reports), while the number of reports from issuers whose shares are admitted to the Regular Market (1 report) and the Prime Market (3 reports) is low.
- The governance practices questionnaire showed that 56 supervisory board members of 24 issuers were related to management board members in 2020 (55 supervisory board members of 25 issuers in 2019). Furthermore, the total number of reported issuers' transactions with board members of issuers in 2020 is the highest in comparison to the period from 2015 to 2019 and, at the same time, the highest average gross amount of related party transactions was achieved in 2020. Despite the above-mentioned data on the relation between management and supervisory board members and data on related party transactions in 2020, only 4 conflicts of interest were reported by management boards, while supervisory boards did not report any conflicts of interest.
- Taking into account information on the relation between management and supervisory board members, as well as data on related-party transactions and the absence of internal rules of procedure in cases of related-party transactions for more than 50% of issuers, the number of reported conflicts of interest is extremely small and calls into question the effectiveness of conflict of interest management and conflict of interest control mechanisms that should be provided by issuers through internal rules and the operation of internal control and supervisory board.

Internal control system

- One of the basic principles of the Code concerning the section relating to the leadership of share issuers implies that the supervisory and management boards shall ensure that the company has in place the strategy, resources, risk management and internal control systems and relations with shareholders to support its long-term success and sustainable development.
- In 2020, 53% of share issuers had an internal control system in place (54% in 2019).
- The share of issuers in the Official Market and the Regular Market with the internal control system in place in 2020 increased in comparison to that share in 2019, showing that issuers have recognised the importance of establishing an effective internal control system as a factor for ensuring reliable information used by management boards in managing business operations of the company. However, in the case of issuers in the Regular Market, the share is still low, despite the increase (from 38% in 2019 to 43% in 2020). All share issuers in the Prime Market in 2020, as well as in 2019, have an internal control system in place.
- However, the existence of an internal control system does not in itself ensure the effectiveness and efficiency of the system. It was the conflict of interest management that pointed to the shortcomings of the internal control system. Issuers should therefore make additional efforts in the coming period to establish an effective and efficient internal control system.

Gender diversity of management and supervisory boards

- ✓ The Code prescribes that every five years, the supervisory board of the issuer should set a target for the percentage of female members on the supervisory and management boards to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been set.
- ✓ The target percentage of female supervisory board members in 2020 was not defined by 38% of share issuers from the Regular Market, 24% of issuers from the Official Market and 17% of issuers from the Prime Market. The target percentage of female management board members in 2020 was not defined by 29% of issuers from the Regular Market and 38% of issuers from the Official Market, while all of the issuers from the Prime Market defined the target percentage of female management board members in 2020.
- ✓ Although the achievement of the target percentage of female board members is set for a period of five years from the date of defining the target percentage, it was established that in 2020, 28% of issuers achieved the target percentage of female supervisory board members and 24% of them achieved the target percentage of female management board members.
- ✓ Compared to 2019, in 2020 there was a decrease in the share of issuers without any female management board members (73% in 2019, 66% in 2020) and female supervisory board members (40% in 2019, 38% in 2020), but the share of issuers without female management board members remains very high (66%), indicating slight progress towards achieving gender diversity and leaving significant room for improvement in this segment.

Non-financial reporting (ESG reporting)

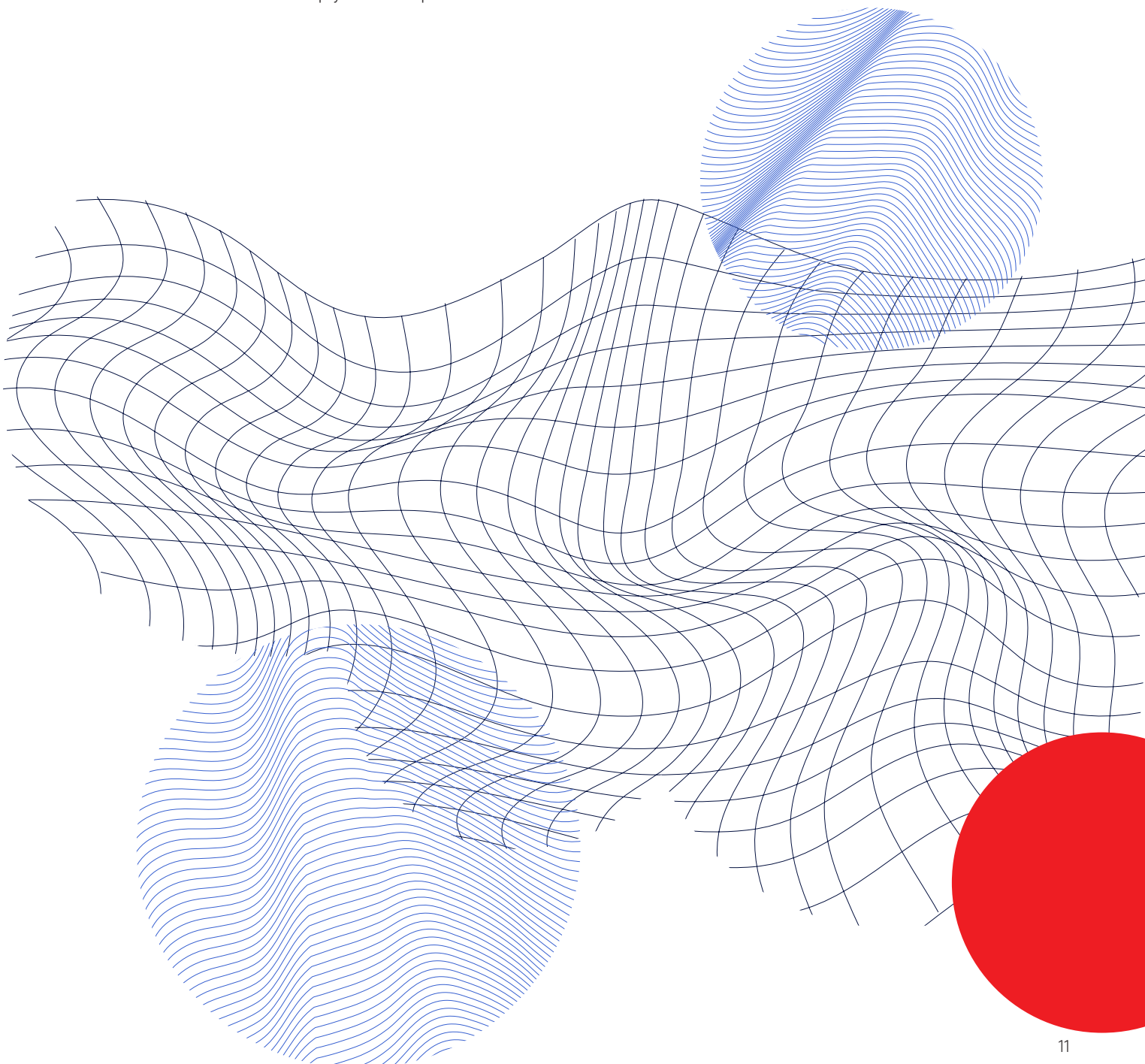
- ✓ Non-financial statements were disclosed by 59 share issuers (57%). In these statements, the largest part of information referred to economic, employee-related and respect for human rights matters, while the least information referred to environmental factors and social activities.
- ✓ The European Commission study assessing the impact of regulations which will regulate sustainable financing, i.e. the development of tools and mechanisms for integrating environmental, social and governance factors in the EU banking legislative framework, as well as the business strategies and investment policies of banks, found that the published information on environmental factors is insufficient and that the segment of reporting on environmental factors requires significant improvements.
- ✓ Share issuers' compliance with Section 10 of the Code "Stakeholders and corporate social responsibility" stood at 66% on the Prime Market, 54% on the Official Market and 48% on the Regular Market in 2020.
- ✓ Comparing the responses received for 2020 with those for 2019, there is a visible increase in the compliance with the section "Corporate social responsibility" in all segments of the regulated market. As the main reason, issuers stated procedural issues in their explanations, i.e. the fact that the management board has adopted policies but the supervisory board still has not. Similarly, a significant number of issuers stated in their explanations that they plan to adopt these policies in the next reporting period.

Remuneration policy

- ✓ Provision 51 of the Code stipulates that the supervisory board should determine the annual remuneration of each management board member, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy. The remuneration policy should

be prepared in accordance with the relevant legal requirements and must include provisions that will specify the circumstances under which part of a management board member's remuneration would be withheld or recovered.

- ✓ The largest increase in the share of issuers that complied with this provision in 2020 was recorded with respect to share issuers in the Prime Market (a 47% increase), while the increase in the said share of issuers in the Official Market and the Regular Market is significantly smaller than in 2019.
- ✓ Provision 56 of the Code stipulates that companies should make freely available on their website their remuneration policy as approved by the shareholders at the general meeting.
- ✓ As regards the availability of a company remuneration policy on its website free of charge, in all segments of the regulated market, there is a significant increase in the compliance of share issuers. The greatest increase in compliance was recorded by issuers in the Prime Market (67%), where no issuer complied with this provision of the Code in 2019. However, the share of issuers in the Prime Market that comply with the Code provision in question remains lower than the share of compliant issuers in the Official Market (86%). In relation to other segments of the regulated market, the Prime Market is the most demanding segment in terms of the requirements it sets before issuers, particularly in terms of transparency. Therefore, issuers admitted to the Prime Market should certainly take measures in the future to comply with this provision of the Code.



Overview of selected corporate governance areas for share issuers

Introduction

The 2020 Annual Report on Corporate Governance shows the compliance with recommendations of the Code for individual selected corporate governance areas. This chapter shows the compliance in the following corporate governance areas: independence of the supervisory board, supervisory board committees, gender diversity.

Furthermore, the following are selected corporate governance areas providing additional compliance overview in this annual report on corporate governance: independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control, gender diversity, remuneration policies and ESG policies.

The independence of supervisory board members was selected considering the fact that the Code, as well as the previous code, retains a provision stipulating that the majority of supervisory board members should be independent, whereby the new Code introduces a provision stipulating that the chair or deputy chair of the supervisory board should be independent. The independence of supervisory board members creates a composition of the supervisory board which ensures its functioning in the best long-term interest of the company instead of in the interest of individual shareholders and other stakeholders.

The independence of audit committee members was selected since the Code lays down the obligation to establish an audit committee and stipulates that the majority of its members should be independent, while its chair should be an independent supervisory board member. In order to ensure the independence of audit committee members, an additional provision stipulates that management board members may not be audit committee members.

In order to ensure that management and supervisory board members act in the best long-term interest of the company, the Code prohibits management and supervisory board members from taking decisions based on personal interests or interests of their related persons and from participating in decisions in respect of which they have a conflict of interest. Taking account of the importance of avoiding conflicts of interest and managing potential conflicts of interest, as well as conflicts of interest that have occurred and materialised for the entire company, this area was selected as an area relevant for assessing the compliance of companies.

Management and supervisory board gender structure was selected since the new Code introduced, for the first time, a provision in the corporate governance in the Republic of Croatia regulating the issue of women's participation in supervisory and management boards as a mandatory factor in determining the balanced composition of management and supervisory boards. The Code prescribes that every five years the supervisory board should set a target percentage of female members on the supervisory and management board to be achieved within the next five years. The target should be published in the annual report, together with an explanation as to why the specific percentage was chosen, a plan setting out how it will be achieved, as well as the progress on the plan. The Code allows the supervisory board of a company to determine the target percentage of women on the management and supervisory board, which means that the Code does not specify which percentage of women on the management and supervisory board is

acceptable and desirable, but only that such objective should be set by the company. In order to monitor measures taken by the supervisory board of a company as regards the share of women on the management and supervisory board and whether there were any changes or improvements in those shares in relation to 2019, this area was selected as an area relevant for assessing the compliance of companies.

The internal control system is a key factor for the company's success, ensuring the reliability of the information used by the management board and published in financial statements and other disclosures. Having in mind the importance of the internal control system, regulated by the new Code in more detail in comparison with the previous code, this area was selected as an area relevant for assessing the compliance of companies.

The evaluation of the management and supervisory board comprises the evaluation of the effectiveness and composition of the supervisory board and its committees, as well as of individual performance of committee members; the evaluation of the effectiveness of arrangements for cooperation between the supervisory and management board; and the evaluation of the adequacy of the support and information provided to the supervisory board by the management board, carried out by the supervisory board, and the evaluation of the effectiveness of the management board and its members, carried out and provided by the management board. Since such evaluation aims to determine areas which show room for improvement and increase in work effectiveness and relationships between the management and supervisory board, this area was selected as an area relevant for assessing the compliance of companies.

At the moment, a legislative framework is being adopted governing business activities of financial sector participants for the purpose of redirecting financial flows towards sustainable economic activities and presenting business activities relating to sustainable finance in a transparent manner. This means that a regulated process of publishing sustainability-related information for all financial market participants and financial advisers will allow for ESG factors to be integrated into analyses carried out during investment decision making processes. Therefore, only those issuers who publish ESG relevant information will be considered for potential investments. Taking account of the importance of ESG disclosures, the application of ESG factors and their publication were selected as an area relevant for assessing the compliance of companies.

The remuneration policy, its adoption, and the content and adoption of remuneration reports are governed not only by the Code, but also by the Companies Act. Considering the importance of the adoption and disclosure of the remuneration policy and remuneration reports, this area was selected as an area relevant for assessing the compliance of companies.

Independence of supervisory board members

Provision 22 of the Code stipulates that the majority of supervisory board members of share issuers in the Republic of Croatia should be independent.

The independence of supervisory board members contributes to the adoption of objective decisions relating to management board members, the company itself and its shareholders, such as decisions on remuneration, new appointments, anti-takeover measures and audit function.

The following table provides a comparison between independence requirements for supervisory board members in the Republic of Croatia and those in OECD and G20 countries.

Table 1 Minimum number or ratio of independent directors on the management board or supervisory board, 2020

			Minimum number			Minimum ratio		
			No threshold	1 person	2-3 persons	20-25%	30-49%	50%+
One-tier board	CEO/ Board Chair	Required			Israel* Greece*	Columbia*	Israel Greece	Israel Sweden
		Recommended			Belgium* Costa Rica* Hong Kong, China* New Zealand* Malaysia*		Hong Kong, China* Malaysia* Peru Singapore Turkey	Australia Ireland New Zealand Singapore United Kingdom
			Chile*	Turkey Canada* Greece* Saudi Arabia* Spain*	Mexico*	Saudi Arabia* India* Turkey	India* Korea* United States of America*	
One-tier board or two-tier board	CEO/ Board Chair	Required			Norway*	Brazil*	Lithuania*	Denmark The Netherlands Norway
		Recommended	Slovakia*				Brazil	Finland Switzerland
			Czech Republic* Luxembourg*				France	Hungary* France Slovenia
Two-tier board		Germany*		Russia* Poland	Russia*	Indonesia* China Russia	Argentina Austria Estonia Iceland Latvia Republic of South Africa*	
Hybrid options			Italy* Japan*	Japan* Italy			Portugal*	

*rule/regulation requirement

Source: OECD (Corporate Governance Factbook 2021, Figure 4.2. Minimum number or ratio of independent directors on the (supervisory) board), available at: <https://www.oecd.org/corporate/Corporate-Governance-Factbook.pdf>

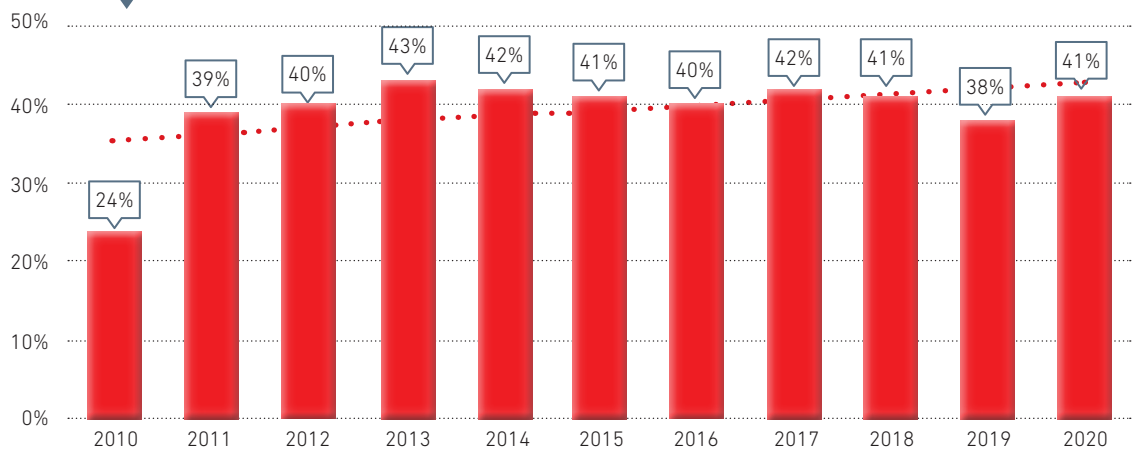
The comparison between independence requirements for supervisory board members in the Republic of Croatia and those in EU Member States whose share issuers have two-tier board systems leads to the following conclusion:

- ✓ In the Republic of Croatia, the majority of supervisory board members of share issuers had to be independent, just like in Austria, Estonia and Latvia (as in 2019).
- ✓ At the end of 2020 (as in 2019), supervisory boards of share issuers in the Republic of Croatia consisted of 5 members on average, which means that at least 3 members had to be independent in order to meet the independence requirement.

- Germany used to have an independence requirement ensuring that at least 1 person was independent, but there is no threshold for supervisory board members' independence now, which points to the relaxation of the independence requirement in comparison with the previous years.
- Slovakia, Czech Republic and Luxembourg do not have any independence thresholds for management/supervisory board members, which points to lower independence requirements in comparison with the Republic of Croatia.

The following chart provides a comparative overview of the ratio of independent supervisory board members of share issuers in the Republic of Croatia from 2010 to 2020.

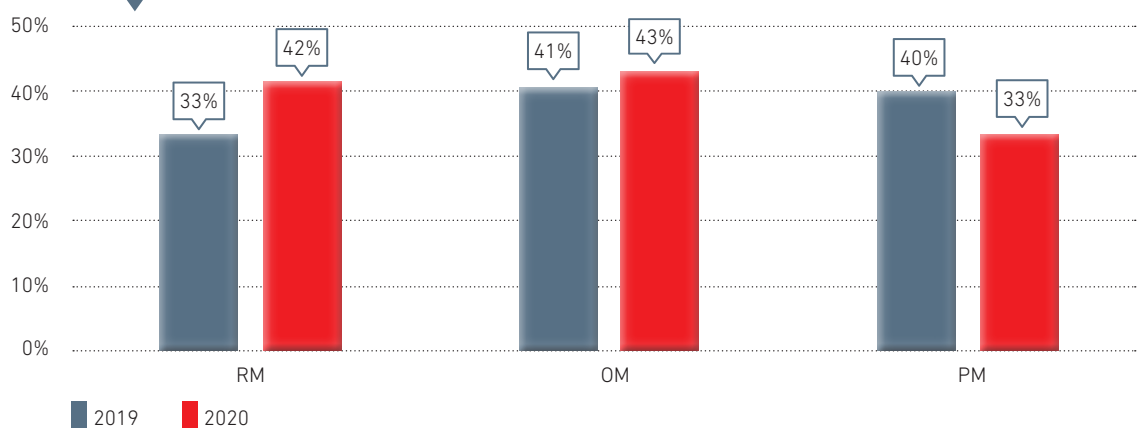
Chart 1 Independence of supervisory board members of share issuers in the Republic of Croatia, 2010 - 2020



Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018

The independence of supervisory board members of share issuers in the 2010-2020 period shows an upward trend. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2010 to 2020 reached 39%. This means that 61% of supervisory board members were not independent in that period.

Chart 2 Share of issuers with an independent majority of supervisory board members by segments of the regulated market, 2019 and 2020

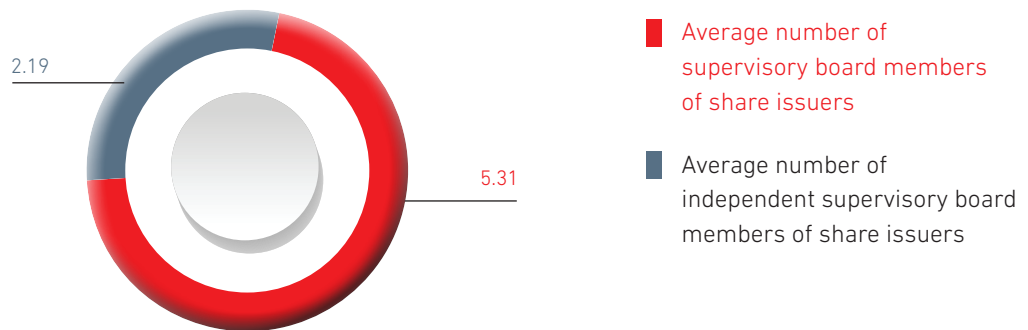


Source: Governance practices questionnaire 2019 and 2020

As regards the independence of supervisory board members of share issuers in 2020 and 2019 depending on the regulated market segment, the share of issuers on the Regular Market (RM) and Official Market (OM) with an independent majority of supervisory board members recorded a small increase relative to 2019, while the share of issuers (in relative amount) on the Prime Market (PM) with an independent majority of supervisory board members fell slightly, but remained unchanged in absolute amount. However, shares of issuers with an independent majority of supervisory board members by individual segments of the regulated market are lower than 50%.

According to data collected from share issuers, supervisory boards consist of 5 members on average. Pursuant to the Code, 3 supervisory board members should be independent. The following chart shows the average number of supervisory board members and the average number of independent supervisory board members in 2020.

Chart 3 Average number of supervisory board members and average number of independent supervisory board members of share issuers in 2020



Source: Governance practices questionnaire 2020

The chart shows that the minimum majority independence requirement set by the Code for supervisory board members was not fulfilled.

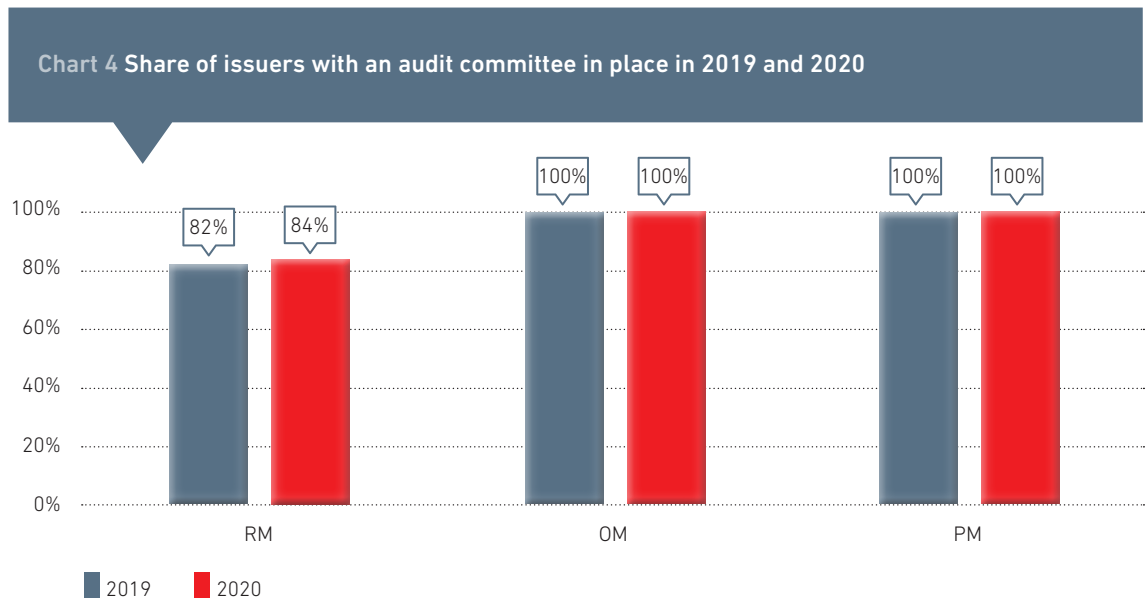
Even though data on independent supervisory board members of share issuers in the Republic of Croatia point to certain (slight) progress towards the increase in their independence, share issuers should put in additional effort in order to ensure the independence of the majority of their supervisory board members and comply with the Code.

Pursuant to the Code, the majority of supervisory board members should be independent and must not have any business, family or other relationships with the company, majority shareholder or group of majority shareholders or with members of the management board or supervisory board of the company or of the majority shareholder.

According to data collected, the relationship between supervisory board members and management board members (predominant business relationship reaches 53%) and other supervisory board members (predominant business relationship reaches 74%), as well as related party transactions may affect the achievement of the objective regarding the independence of the majority of supervisory board members, which, as a consequence, may have an impact on the effectiveness of the work of the supervisory board and its decision making process.

Independence of audit committee members

Provision 24 of the Code stipulates that the supervisory board of a share issuer in the Republic of Croatia should establish at least a nomination committee, a remuneration committee and an audit committee, while the obligation to establish an audit committee is also laid down in the relevant legal provisions governing audit issues.



Source: Compliance questionnaire 2019 and 2020

2020 saw a slight increase in the compliance of share issuers with the Code as regards the establishment of the audit committee by the supervisory board on the Regular Market, while issuers on the Official Market and Prime Market were fully aligned with the Code in this respect in 2019 and 2020.

The majority of OECD and G20 countries require the audit committee and audit committee members to be independent. Provision 27 of the Code stipulates that the majority of audit committee members should be independent, and its chair should be an independent member of the supervisory board. Management board members may not be members of supervisory board committees.

The following table shows minimum independence requirements for audit committee members in selected EU countries.

Table 2 Minimum ratio of independent members of the supervisory board's audit committee in the Republic of Croatia and certain EU Member States

Countries	Minimum independence of audit committee members
Croatia	>50%
Austria	1 or 2 members
Belgium	1
Czech Republic	>50%
Denmark	50%
Estonia	-
France	66%
Germany	1
Greece	>50%
Hungary	100%
Ireland	>50%
Italy	100%
Latvia	>50%
Lithuania	>50%
Luxembourg	50%
Netherlands	>50%
Poland	>50%
Portugal	>50%
Slovakia	>50%
Slovenia	100%
Spain	>50%
Switzerland	100%

Source: Corporate Governance Code and OECD (Corporate Governance Factbook 2021, Table 4.9 Board-level committees, available at: <https://www.oecd.org/corporate/Corporate-Governance-Factbook.pdf>)

The comparison between independence requirements for members of the supervisory board's audit committee relating to share issuers in the Republic of Croatia and those in certain EU Member States shows the following:

- ✓ Compared with other countries, the Republic of Croatia has the same minimum independence requirement for audit committee members as 10 other countries (>50%).
- ✓ There is no particular requirement or recommendation relating to minimum independence for audit committee members in Estonia.

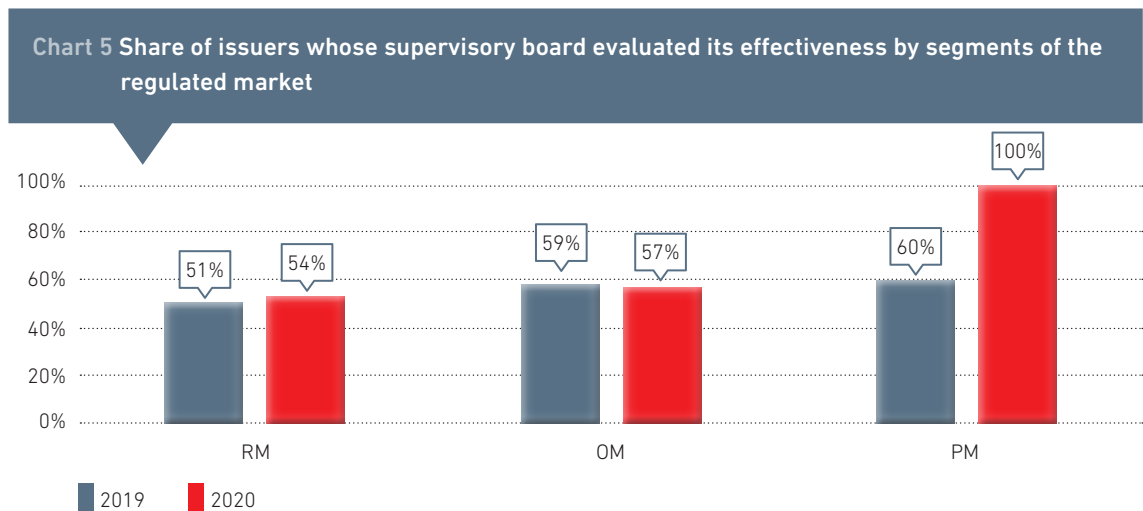
The comparison between independence requirements for members of the supervisory board's audit committee relating to share issuers in the Republic of Croatia and those in certain EU Member States such as Slovenia, Hungary and Italy shows that these countries have maximum independence requirements for audit committee members, stipulating that all committee members must be independent (majority of independent members in the Republic of Croatia).

According to data collected, the average number of share issuers' audit committee members in 2020 was 3, and on average 1 member of the audit committee was independent. The data fully correspond to the data on the average number of audit committee members and the average number of independent audit committee members in the previous year. Therefore, as regards the independence of audit committee members, there were no changes relative to the previous year. To conclude, in 2020, as in 2019, the minimum majority independence requirement set by the Code for audit committee members was not met. Share issuers recognised the importance of the audit committee for the company, which is shown by the ratio of

issuers who established it and by the number of audit committee members, significantly larger than the number of other supervisory board's committee members (nomination committee or remuneration committee members). They should therefore put in additional effort in order to ensure the independence of the majority of audit committee members and comply with the Code.

Management and supervisory board evaluation

Provision 39 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness and composition of the supervisory board and its committees, as well as the performance of individual members. The evaluation should be led by the chair, or by the deputy chair if the chair is not independent.



Source: Compliance questionnaire 2019 and 2020

According to data collected, supervisory boards of 57% of share issuers evaluated their effectiveness in the previous 12 months (53% of issuers in 2019); of which in 80% of share issuers the evaluation was led by the chair or deputy chair of the supervisory board (in 2019, this share reached 41%).

In 2020, supervisory boards of all issuers on the Prime Market evaluated their effectiveness in the previous 12 months, which is a significant increase in compliance relative to the previous year, in which supervisory boards of 60% of issuers evaluated their effectiveness in the previous 12 months. A small rise in compliance with this provision of the Code was recorded by issuers on the Regular Market, and a slight fall by issuers on the Official Market.

The evaluation pursuant to provision 40 of the Code should include an assessment of whether the supervisory board profile needs to be updated, and should have an impact on the decision on the size and composition of the supervisory board and its committees, and on the decision whether to recommend the reappointment of certain supervisory board members. It should also identify whether there is room for improvement in the operation and preparation of supervisory board meetings.

A report on the evaluation of the supervisory board and its committees pursuant to provision 41 of the Code should be included in the annual report, and should contain information on how the evaluation was carried out, whether any external evaluators were hired, who was consulted during the process, and actions that were or will be taken based on results of the evaluation.

The following table shows the share of issuers by segments of the regulated market whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees, which contains all the circumstances referred to in provision 41 of the Code, i.e. where the evaluation of the supervisory board included the assessment of all the circumstances referred to in provision 40 of the Code.

Table 3 Share of issuers whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees, which contains the assessment of all the circumstances referred to in provision 41 of the Code

	Share of issuers whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees		Share of issuers whose supervisory board evaluated its effectiveness in the previous 12 months and where the evaluation of the supervisory board included the assessment of all the circumstances referred to in provision 40 of the Code	
	2019	2020	2019	2020
RM	25%	23%	8%	35%
OM	18%	14%	5%	33%
PM	40%	67%	20%	67%

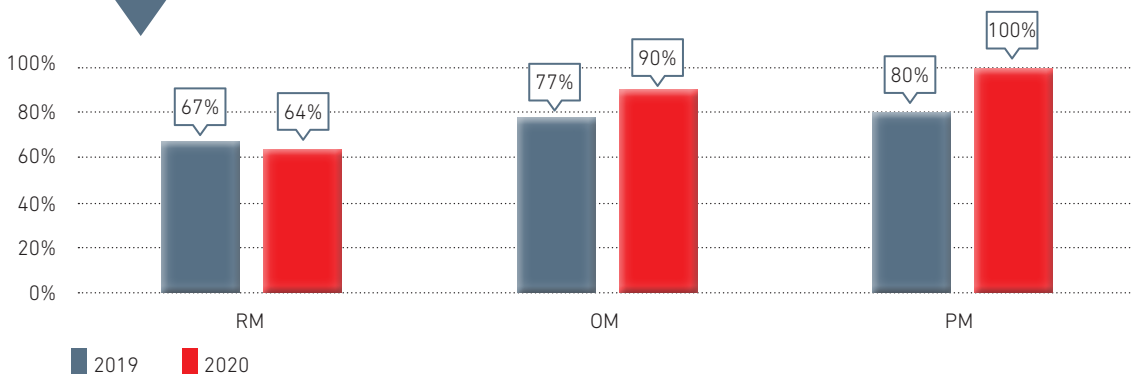
Source: Compliance questionnaire 2019 and 2020

Provision 48 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness of the arrangements for cooperation between the supervisory and management board, and the adequacy of the support and information it receives from the management board. Results of the evaluation should be included in the report from the supervisory board in the annual report.

Supervisory boards of 73% of share issuers evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in the previous 12 months, which is a slight increase compared to 2019, when this share reached 70%.

The following chart shows the share of issuers whose supervisory board evaluated its effectiveness, by segments of the regulated market, in 2019 and 2020.

Chart 6 Share of issuers whose supervisory board evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in 2019 and 2020 by segments of the regulated market



Source: Compliance questionnaire 2019 and 2020

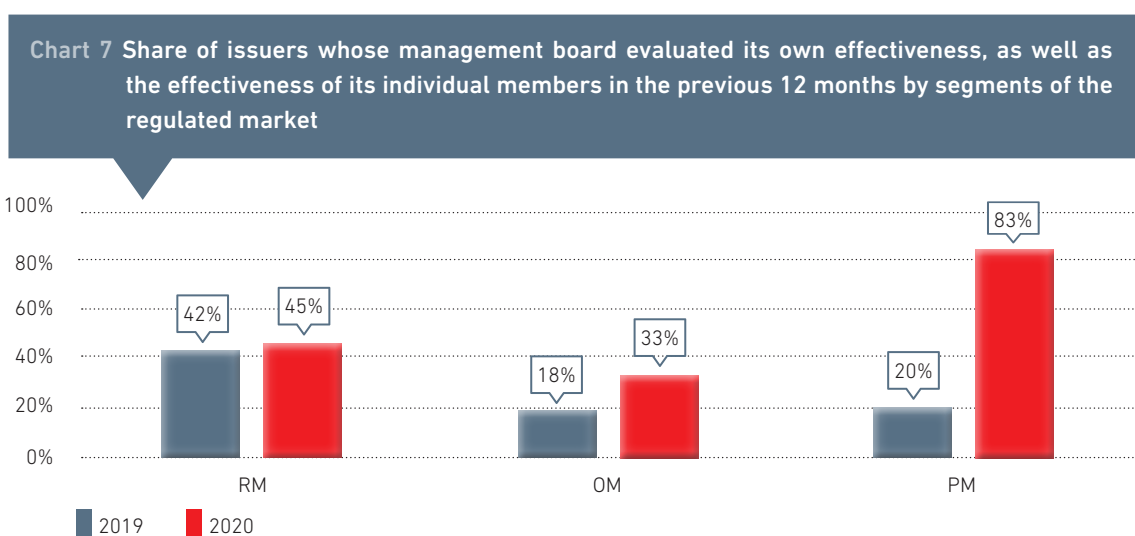
In 2020, share issuers on the Official Market and Prime Market recorded an increase in compliance as regards the evaluation of the effectiveness of the arrangements for cooperation between the supervisory and management board. Supervisory boards of all issuers on the Prime Market evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in 2020.

There is a small decrease in the number of issuers on the Regular Market whose supervisory board evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in 2020 compared to 2019.

The aforementioned data relating to all share issuers on the regulated market show a slight rise in the compliance with the provisions of the Code governing the evaluation of the supervisory board and its committees.

In addition to the evaluation of the effectiveness of the management board by the supervisory board pursuant to provision 49 of the Code, the management board should, at least once a year, evaluate its own effectiveness, as well as the effectiveness of its individual members, and should report conclusions of the evaluations to the supervisory board.

The following chart shows the share of issuers whose management board evaluated its own effectiveness, as well as the effectiveness of its individual members in the previous 12 months by segments of the regulated market.



Source: Compliance questionnaire 2019 and 2020

The largest increase in the compliance with the Code as regards the evaluation of the accountability and effectiveness of the management board and of the effectiveness of individual management board members in 2020 compared to 2019 was recorded by share issuers on the Prime Market (63%), while the smallest increase was recorded by share issuers on the Regular Market (3%). Share issuers on the Official Market recorded an increase in the compliance with these provisions of the Code; however, a 33% compliance percentage is the lowest compared to compliance percentages recorded by issuers on other regulated market segments (as in 2019). Issuers on the Official Market, a segment with higher transparency requirements and standards, should increase their compliance with the Code as regards the evaluation of the accountability and effectiveness of the management board and of the effectiveness of individual management board members in future.

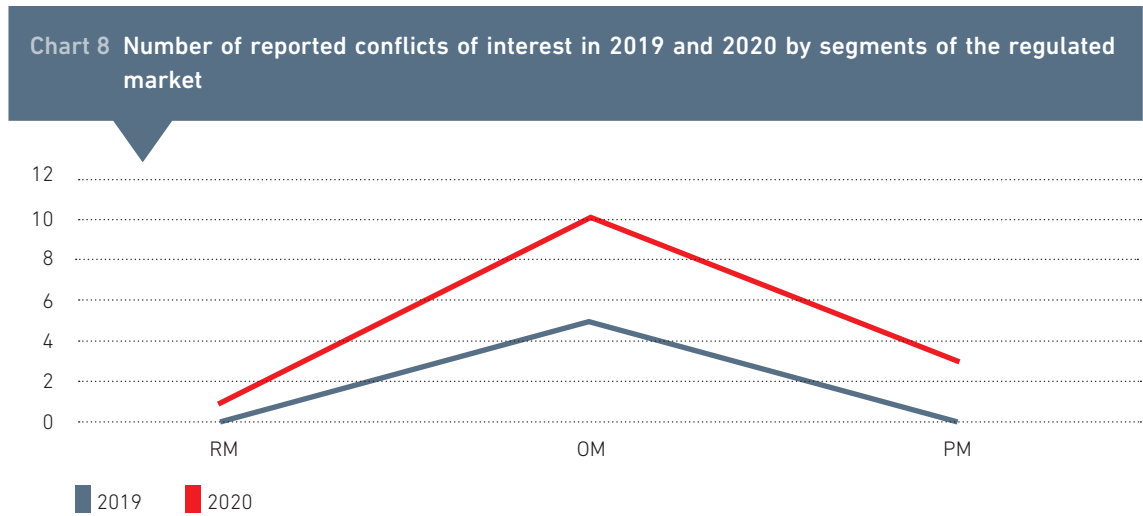
Conflicts of interest

Members of the supervisory and management board are obliged to act in the best long-term interest of the company instead of in their own interest or in the interest of individual shareholders or other parties. In order to ensure acting in the best long-term interest of the company, situations should be avoided which could lead to a conflict of interest or which unequivocally constitute a conflict of interest.

It is therefore necessary to set up clear internal control mechanisms that can recognise and manage a potential conflict of interest or take adequate measures in a situation when a conflict of interest has arisen.

Provision 7 of the Code stipulates that members of supervisory and management boards should not be permitted to make decisions based on their personal interests or interests of their related persons, and should not participate in decisions in respect of which they have a conflict of interest.

For the sake of comparison, the following chart shows the number of reported conflicts of interest in 2019 and 2020 by segments of the regulated market.



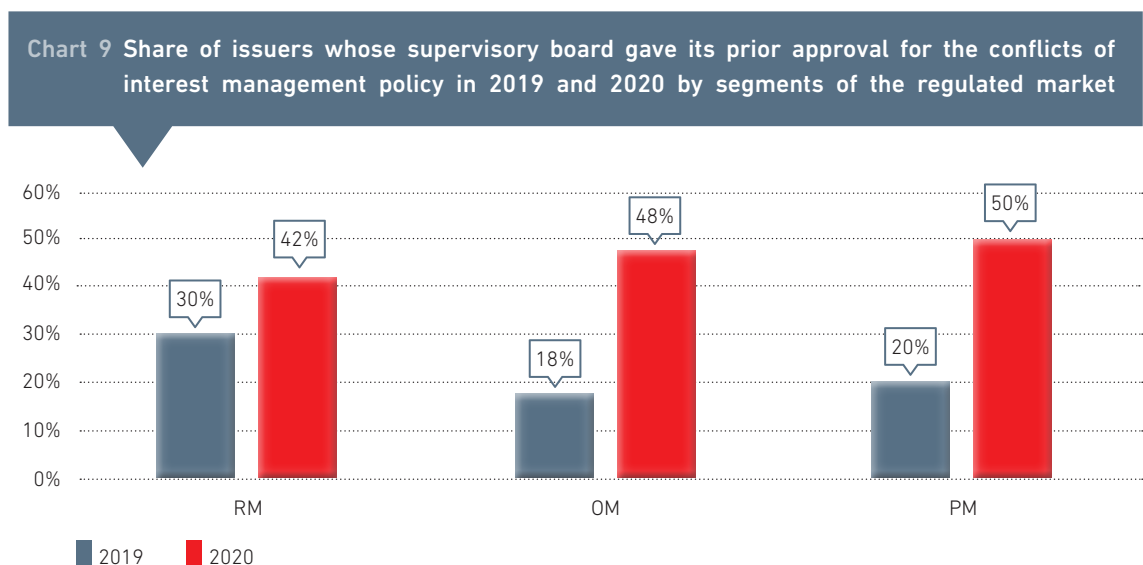
Source: Governance practices questionnaire 2019 and 2020

A total of 14 conflicts of interest were reported by 4 issuers in 2020 (a 180% rise compared to 2019, when 5 conflicts of interest were reported by 2 issuers whose shares were admitted to trading on the Official Market), of which:

- ✓ 10 conflicts of interest were reported by 2 issuers whose shares are admitted to trading on the Official Market
- ✓ 3 conflicts of interest were reported by one issuer whose shares are admitted to trading on the Prime Market
- ✓ One conflict of interest was reported by one issuer whose shares are admitted to trading on the Regular Market.

These data point to a significant rise in reported conflicts of interest in relative amount in 2020 compared to the number of reported conflicts of interest in 2019; however, conflicts of interest were reported by only 4 issuers.

Provision 7 of the Code stipulates that the supervisory board should give its prior approval for the conflicts of interest management policy. The following chart shows the share of issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2019 and 2020 by segments of the regulated market.



Source: Compliance questionnaire 2019 and 2020

The 2020 data relating to all regulated market segments, and in particular to the Official Market and Prime Market, show a significant rise in compliance as regards the granting of the supervisory board's prior approval for the conflicts of interest management policy compared to the 2019 data, but this share hasn't exceeded 50% yet.

Table 4 Comparative overview of reported conflicts of interest during the year and prior approvals given by supervisory boards for the conflicts of interest management policy in 2019 and 2020 by segments of the regulated market

	2019		2020	
	Number of cases of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of cases of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy
RM	0	-	1	YES
OM	5	NO	10	YES
PM	0	-	3	NO

Source: Questionnaires related to corporate governance 2019 and 2020

The data presented show that issuers whose shares are admitted to trading on the Prime Market do not comply with the Code as regards the provisions governing prior approval for the conflicts of interest management policy.

Although the increase in the number of reported conflicts of interest in 2020, compared to 2019, is significant and indicates higher awareness of the importance and need to manage conflicts of interest, the largest number of conflicts of interest, as in 2019, were reported by issuers whose shares are admitted on the Official Market, while the number of reports from issuers whose shares are admitted on the Regular Market and the Prime Market was low.

Furthermore, out of 14 cases of conflicts of interest reported in 2020, 10 cases were reported by the senior management, 4 cases by the management board, while the supervisory board did not report any conflicts of interest (in 2019, the supervisory board reported one case of conflict of interest, while 4 cases were reported by the senior management). All the cases of conflicts of interest reported in 2020, as well as in 2019, involved persons who abstained from voting on entering related party transactions.

The governance practices questionnaire showed that 56 supervisory board members of 24 issuers were related to management board members in 2020 (55 supervisory board members of 25 issuers in 2019). Furthermore, the total number of reported issuers' transactions with board members of issuers in 2020 is the highest in comparison to the period from 2015 to 2019; at the same time, the highest average gross amount of related party transactions was recorded in 2020, too. Despite the above-mentioned data on the relation between management and supervisory board members and data on related party transactions in 2020, only 4 conflicts of interest were reported by management boards, while supervisory boards did not report any conflicts of interest.

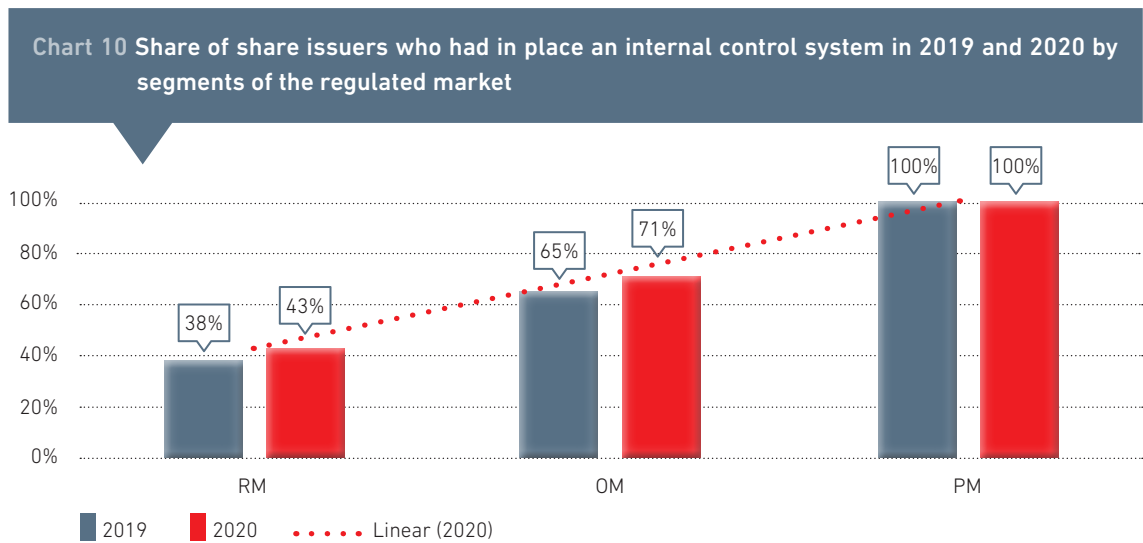
According to data on governance practices, 65% of issuers failed to adopt internal rules of procedure in cases of related party transactions, while this share stood at 74% in 2019.

Taking into account information on the relation between management and supervisory board members, as well as data on related-party transactions and the absence of internal rules of procedure in cases of related party transactions for more than 50% of issuers, the number of reported conflicts of interest is extremely small and calls into question the effectiveness of conflict of interest management and conflict of interest control mechanisms that should be provided by issuers through internal rules and the operation of the internal control and supervisory board.

Internal control system

One of the basic principles of the Code concerning the section relating to the leadership of share issuers implies that supervisory and management boards should ensure that the company has in place the strategy, resources, risk management and internal control systems and relations with shareholders to support its long-term success and sustainable development.

In 2020, 53% of issuers had an internal control system in place (54% of issuers in 2019). The following chart shows the proportion of share issuers who had in place an internal control system in 2020 by segments of the regulated market.



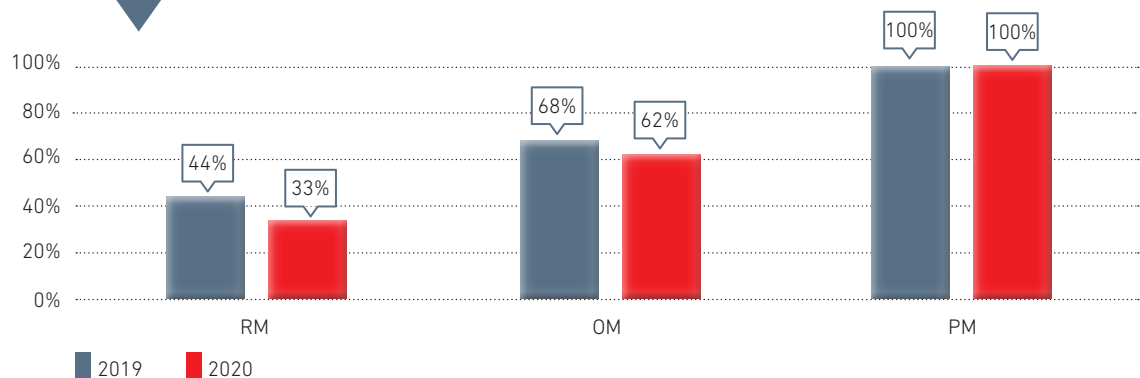
Source: Governance practices questionnaire 2019 and 2020

The data provided show an increase in the share of issuers on the Official Market and Regular Market who have an internal control system in place, which points to the fact that issuers have recognised the importance of establishing an effective internal control system as a factor which ensures reliable information used by the management board in its management activities. However, in spite of this increase, the share of such issuers on the Regular Market is still low.

In 2020, there were 15 employees in the internal control system on average, which is an increase compared to the average number of employees in the internal control system in 2019 (12).

Provision 65 of the Code stipulates that at least once a year, the audit committee should review the effectiveness of the risk management and internal control system as a whole, and make recommendations to the supervisory and management boards as necessary.

Chart 11 Share of share issuers who had in place an internal control system and whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once a year in 2019 and 2020 by segments of the regulated market



Source: Questionnaires related to corporate governance, 2019 and 2020

2020 saw a decrease in the share of issuers on the Regular Market and Official Market who have in place an internal control system and whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once a year.

The audit committee of all share issuers on the Prime Market who have in place an internal control system evaluated the effectiveness of the risk management and internal control system as a whole at least once a year, which points to full compliance of issuers on the Prime Market with this provision of the Code.

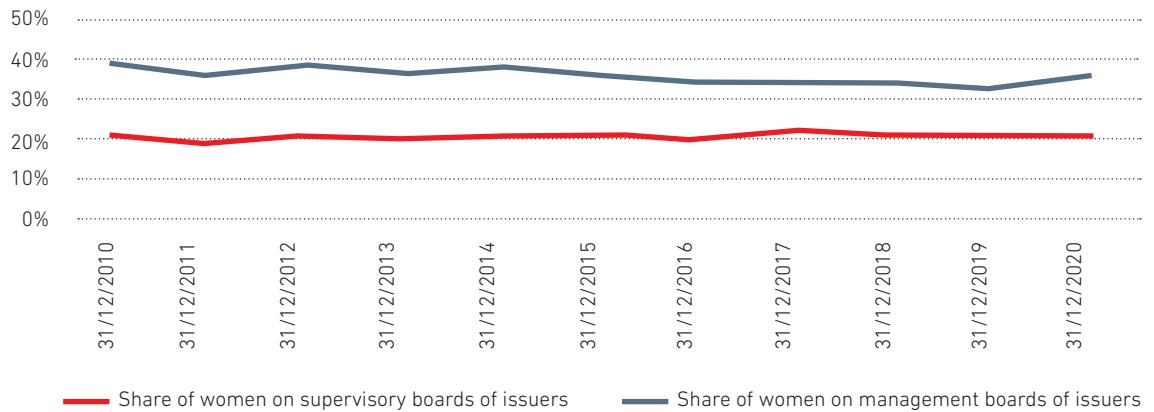
However, the existence of an internal control system and its evaluation by the audit committee do not in themselves ensure the effectiveness and efficiency of the system. It was the conflict of interest management that pointed to the shortcomings of the internal control system. Issuers should therefore make additional efforts in the coming period to establish an effective and efficient internal control system.

Gender structure of management and supervisory boards

The Code prescribes that every five years, the supervisory board should set a target for the percentage of female members on the supervisory and management boards to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been set. Progress under the plan must be disclosed every year.

In order to show how the share of women on management and supervisory boards of issuers in the Republic of Croatia changed from 2010 to 2020, a comparative presentation for the observed period is shown below.

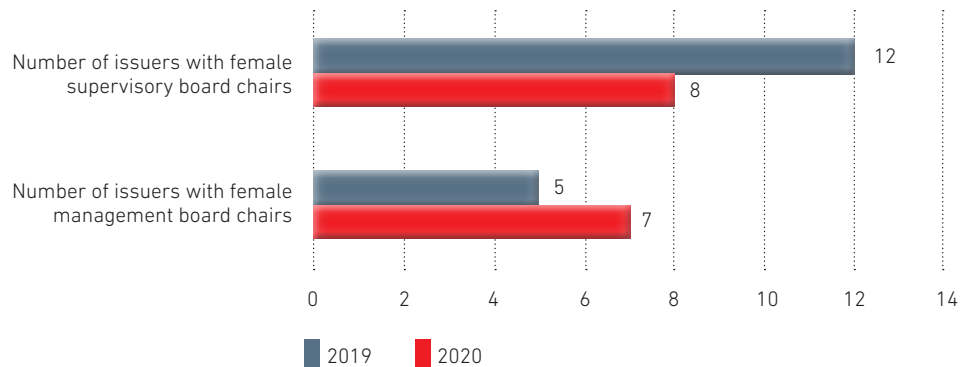
Chart 12 Overview of women's participation in management and supervisory boards of issuers in the Republic of Croatia, 2010 – 2020



Source: Governance practices questionnaire 2019 and 2020

In the period from 2010 to 2019, there is a visible trend of a slight decline in the participation of women on management boards of issuers, with an average share of 15% in the ten-year observed period. In 2020, the proportion of women on management boards of share issuers increased from 13% to 15%, while the proportion of women on supervisory boards did not fluctuate significantly between 2010 and 2020, with the average share of women on supervisory boards of issuers being 21% during the observed period.

Chart 13 Comparison of the number of issuers with female board chairs in 2019 and 2020

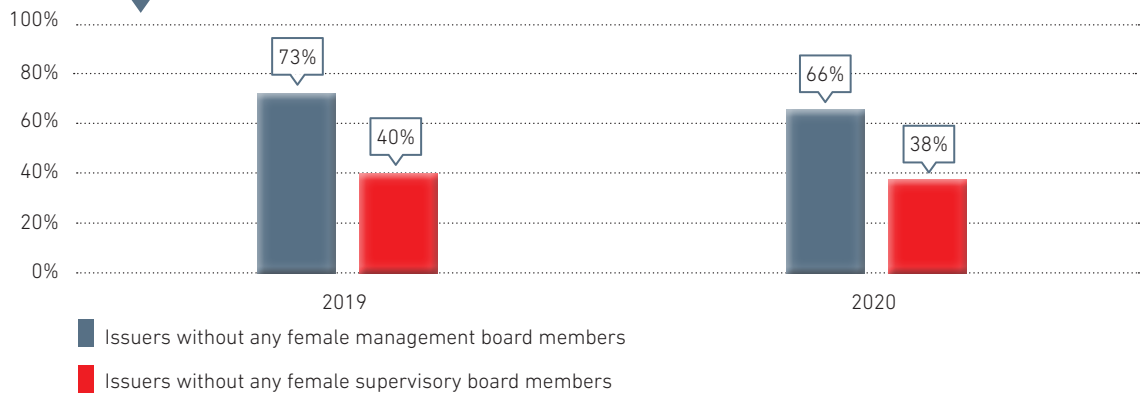


Source: court register

In 2019, there were more issuers with female supervisory board chairs than in 2020. When it comes to female management board chairs, there was a slight increase in 2020 compared to 2019.

However, in the majority of issuers men hold the most significant functions, as confirmed by the data in the chart below.

Chart 14 Number of issuers without any female board members in 2019 and 2020



Source: Governance practices questionnaire 2019 and 2020

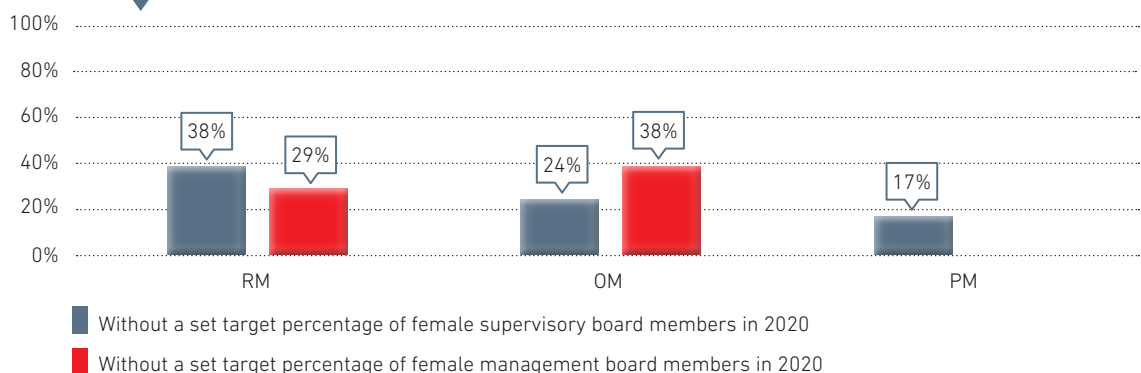
Compared to 2019, in 2020 there was a decrease in the share of issuers without any female management board members and female supervisory board members. However, the share of issuers without female management board members remains very high, indicating slight progress towards achieving gender diversity and leaving significant room for improvement in this segment with the aim of decreasing the share in question.

Target percentage of female board members

The Code prescribes that every five years, the supervisory board of the issuer should set a target for the percentage of female members on the supervisory and management boards to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been set.

According to the data from the government practice questionnaire, a total of 66 share issuers, i.e. supervisory boards of share issuers, set a target for the percentage of female members of supervisory and management boards to be achieved within the next five years, while the remaining issuers that did not set the target percentage of female members of supervisory and management boards to be achieved within the next five years do not comply with the requirements of the Code.

Chart 15 Share of issuers that did not set the target percentage of female management/supervisory board members in 2020, by segments of the regulated market



Source: Governance practices questionnaire 2020

The target percentage of female supervisory board members in 2020 was not set by 38% of issuers on the Regular Market, 24% of issuers on the Official Market and 17% of issuers on the Prime Market. The target percentage of female management board members in 2020 was not set by 29% of issuers on the Regular Market and 38% of issuers on the Official Market. All share issuers on the Prime Market set the target percentage of female management board members in 2020.

By segments of the regulated market, the target percentage of female supervisory board members was achieved by:

- ✓ 5 issuers on the Prime Market
- ✓ 16 issuers on the Official Market
- ✓ 45 issuers on the Regular Market.

Although the achievement of the target percentage of female board members was set for a period of 5 years from the date of defining the target percentage, the comparison of data from the questionnaire on governance practices established that:

- ✓ 25 issuers (28%) achieved the target percentage of female supervisory board members
- ✓ 21 issuers (24%) achieved the target percentage of female management board members (13 issuers in the Regular Market, 8 in the Official Market and 4 in the Prime Market).

The achievement of the target percentage for share issuers that have set that target is subject to monitoring in the following years, as well as to establishing to what extent issuers comply with the Code i.e. the target percentage and deadlines they have set themselves. Data on the achievement of the target percentage in 2020 compared to 2019 indicate slight improvements in the increase in the number of women on management and supervisory boards, with the percentage being slightly higher with respect to the number of women on supervisory boards.

Provision 15 of the Code stipulates that monitoring the progress on achieving the target percentage of female members on the supervisory and management boards is one of the responsibilities of the nomination committee.

Table 5 Share of issuers that reached the target percentage of female supervisory/management board members and have a nomination committee in place

	2019	2020
Issuers that reached the target percentage of female management board members and have a nomination committee in place	33%	24%
Issuers that reached the target percentage of female supervisory board members and have a nomination committee in place	19%	44%

Source: Governance practices questionnaire 2019 and 2020

According to data on governance practices, 24% of issuers who achieved the target percentage of female management board members in 2020 also have a nomination committee (33% in 2019) and 44% of issuers who achieved the target percentage of female supervisory board members in 2020 have a nomination committee in place (19% in 2019).

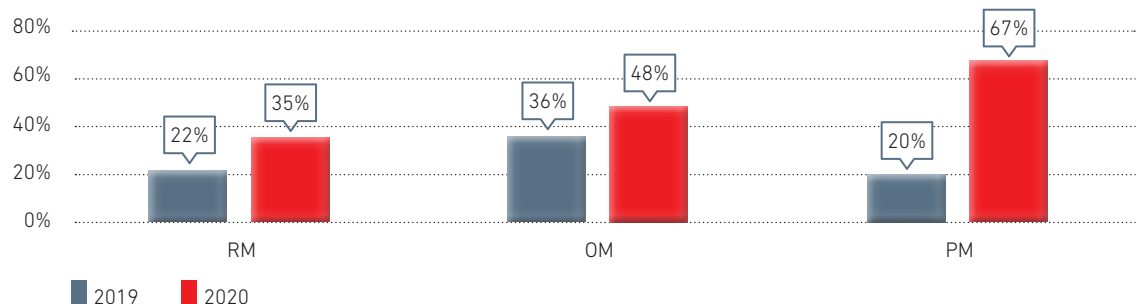
Remuneration policy

The Act Amending the Companies Act prescribes the obligation to decide on the system of remuneration of members of the management board and supervisory board by adopting a remuneration policy.

Article 272r of the Companies Act⁴ requires that the management and supervisory board, i.e. executive directors and the board of directors of a company whose shares are admitted to a regulated market, once a year prepare a clear and comprehensible report on all remuneration paid or committed to be paid by the company, or another company belonging to the same group, to each current and former member of the management board and supervisory board, or to the executive director and a member of the board of directors during the last financial year. The content of the report on remuneration of management and supervisory board members is defined in Article 272r(1) and (2) of the Companies Act.

Provision 51 of the Code stipulates that the supervisory board should determine the annual remuneration of each management board member, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy. The remuneration policy should be prepared in accordance with the relevant legal requirements, and it must include provisions that will specify the circumstances under which part of a management board member's remuneration would be withheld or recovered.

Chart 16 Share of issuers where the supervisory board sets annual remuneration of each member of the management board, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy in 2019 and 2020, by segments of the regulated market



Source: Compliance questionnaire 2019 and 2020

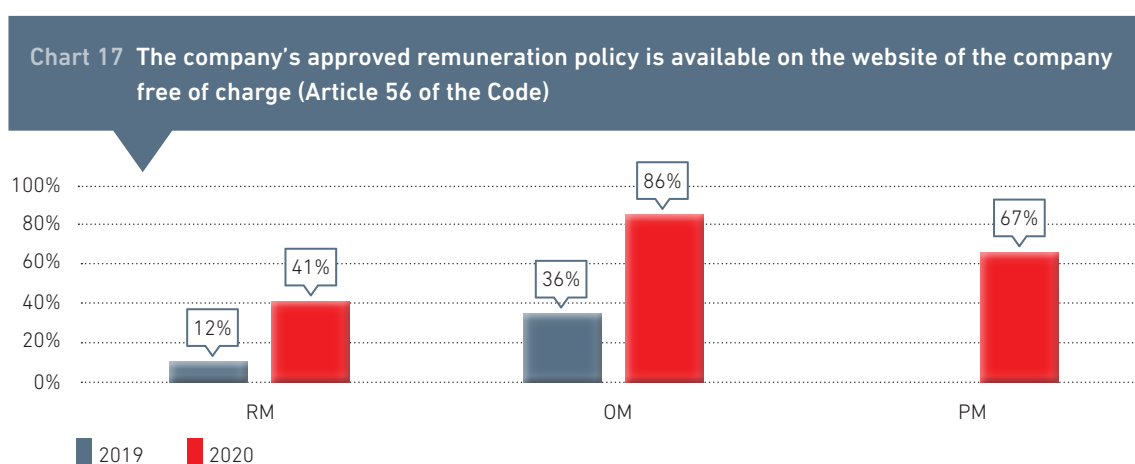
The largest increase in the share of issuers that complied with this provision in 2020 relative to 2019 was recorded by share issuers in the Prime Market (a 47% increase), while the increase in the said share of issuers in the Official Market and Regular Market was significantly smaller than in 2019.

In addition, pursuant to provision 56 of the Code, in the segment regulating the reporting on remuneration, share issuers should make freely available on their website their remuneration policy as approved by the shareholders at the general meeting. The supervisory board of the company decides on the system of remuneration of management board members. Article 247a of the Companies Act defines the minimum content, so a remuneration policy must contain at least the following information:

- the extent to which the remuneration contributes to the business strategy and long-term development of the company
- all fixed and variable parts of remuneration and their percentage (relative) shares in total remuneration

⁴ Companies Act (Official Gazette, No 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107/2007, 146/2008, 137/2009, 111/2012, 125/2011, 68/2013, 110/2015, 40/2019)

- ✓ all financial and non-financial criteria for the payment of the variable part, including:
 - a) an explanation of how these criteria contribute to achieving objectives related to business strategy and long-term development of the company
 - b) methods used to determine whether the criteria have been met
- ✓ periods for which the payment of part of the remuneration is deferred and whether the company has the right to request the recovery of variable parts of remuneration
- ✓ where the company provides part of the remuneration in shares:
 - a) when a member of the management board will acquire shares
 - b) whether a member of the management is obligated to retain the shares for a certain period of time after acquiring them and under what conditions
 - c) clarification how this part of the remuneration contributes to achieving the objectives of strategy and long-term development of the company
- ✓ managerial contract or another relevant contract between the management board member and the company with the following information:
 - a) duration of the contract and under what conditions it ceases, including the agreed time limits for its termination
 - b) obligations of the company towards the management board member with respect to severance package
 - c) whether the company pays voluntary pension and health insurance for the management board member, and whether it is obliged to supplement the years of pensionable service for the management board member if, upon the termination of the managerial contract, he/she retires early
- ✓ explanation how the establishment of remuneration took into account the conditions of workers' remuneration and working conditions, including an explanation which exact circle of workers was involved in the adoption of the remuneration policy for management board members
- ✓ procedure for adopting, implementing and supervising the remuneration policy, as well as the role of the supervisory board's remuneration or nomination committee or other committees, and measures to combat conflicts of interest
- ✓ if the supervisory board presents its revised remuneration policy to the general meeting in accordance with the provisions of Article 276a(3) of the Companies Act:
 - a) an explanation of all important changes, and
 - b) an overview of the extent to which the newly reviewed remuneration policy takes into account the results of the shareholders' vote and views on the earlier remuneration policy and remuneration reports.



Source: Compliance questionnaire 2019 and 2020

The data presented indicate a significant increase in the compliance of issuers with regard to the availability of the company remuneration policy free of charge on the issuer's website in all segments of the regulated market, in particular in the Prime Market where in 2019 no issuer complied with this provision of the

Code. However, the share of issuers in the Prime Market that comply with the Code provision in question remains lower than the share of compliant issuers in the Official Market. In relation to other segments of the regulated market, the Prime Market is the most demanding segment in terms of the requirements it sets before issuers, particularly in terms of transparency. Therefore, issuers admitted to the Prime Market should certainly take measures in the future in order to align with this provision of the Code.

Non-financial reporting (ESG reporting)

In order to realise the European Green Deal, i.e. to fulfil the international commitments under the Paris Agreement relating to meeting the environmental, social and governance sustainability goals, the European Commission is in the process of establishing a sustainable financing framework. Sustainable financing is a process of considering and taking into account ESG factors when making investment decisions, by which financial flows are diverted to the development of low-carbon and climate change-resilient economies, the protection of human rights and children's rights and corporate governance culture.

Therefore, a legislative framework has been adopted for the business operations of participants in the financial sector with the aim of redirecting financial flows to sustainable economic activities and transparent presentation of business operations related to sustainable financing. The obligations to disclose sustainability-related data in the financial services sector are governed primarily by the SFDR⁵ and the Taxonomy Regulation⁶.

SFDR prescribes the obligation to disclose sustainability-related information for all financial market participants and financial advisers, i.e. regulates the prerequisites for the inclusion of ESG factors in the analyses prepared when deciding on investment in certain companies. Therefore, SFDR indirectly refers to issuers as only those issuers that will publish the ESG-relevant information will be considered for potential investments. Article 8 of Taxonomy Regulation stipulates that issuers are obliged to publish indicators of the proportion of their turnover, capital expenditure and operating expenditure associated with economic activities that qualify as environmentally sustainable. In order to ensure a consistent approach to information disclosure in the European Union, the development and adoption of regulatory technical standards elaborating the calculation methodology and the manner of disclosing the key performance indicators for assessing environmentally sustainable economic activities pursuant to Article 8 of the Taxonomy Regulation is currently under way.

In addition, work is ongoing on the content of the Corporate Sustainability Reporting Directive (CSRD), which would replace the currently applicable Non-Financial Reporting Directive⁷. The plan is to extend the obligation to prepare and disclose non-financial statements to all large entities, whether or not their securities are admitted to the regulated market, and to all SMEs whose securities are admitted to the regulated market. The obligation to publish corporate sustainability reports will enter into force in 2023 for large entities and in 2026 for small and medium-sized reporting entities. According to the proposed draft regulations, such reports will be prepared in accordance with EU sustainability reporting standards, and the auditor will issue an opinion on their application. Same as for financial statements, there will be an obligation to publish ESG factors in a digital, machine-readable format, and they will be included in the European single access point (ESAP) provided for in the Action Plan. The European Financial Reporting Advisory Group (EFRAG) is tasked with drafting the EU sustainability reporting standards.

For the purpose of assessing the impact of regulations that will govern sustainable financing, the European Commission commissioned a study on the Development of tools and mechanisms for the integration of environmental, social and governance (ESG) factors into the EU banking prudential framework and into

⁵ 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

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 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

banks' business strategies and investment policies⁸. 29 banks from the EU and 13 banks from third countries participated in the study. According to the received questionnaire replies, banks ranked ESG factors according to relevance as shown in the table below.

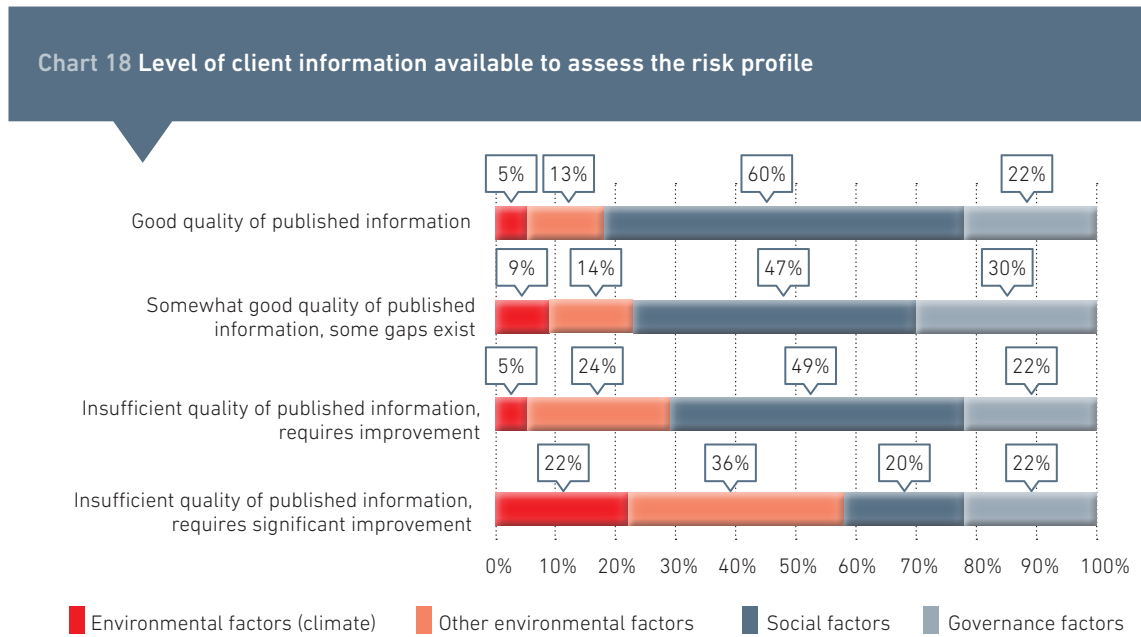
Table 6 ESG themes and rankings based on relevance

Macro-themes	Rank	Illustrative themes	Details on key themes
Climate Change (E)	1	Physical Weather Events	Climate change driven weather conditions of acute (e.g. firestorms) and chronic (e.g. temperature rise) nature
		Transition to Low-Carbon Economy	Process of adjustment to a low-carbon economy (driven by policy, technology, consumer sentiment and other)
		Carbon Emissions / Footprint	Impact of business activity on environment in terms of carbon emissions and environmental footprint
Corporate Behaviour (G)	2	Business Ethics	Promotion of a culture for sustainable business practices and misconduct prevention
		Ownership & Control	Guarantee alignment of interests through low concentration of power and understanding of anti-takeover devices
		Audit and Tax	Adherence to best practice and monitoring mechanisms to lower the frequency & scale of scandals, fraud, tax evasion, etc.
External Stakeholder Management (S)	3	Community Relations	Operating as a good corporate citizen that protects human rights, is accountable to local community, and offers access to basic needs
		Customer Relations	Focusing on customer welfare and satisfaction, through product quality, data privacy, and fair disclosure/marketing
Natural Resources & Pollution (E)	4	Waste Management / Toxic Emissions	Management of waste and mitigation of toxic emissions generated by activity
		Water Management / Stress	Management of scarce resources such as water
		Biodiversity & Land Use	Utilisation of natural land and protection of eco-system biodiversity
		Raw Material Sourcing	Sustainable supply chain and procurement practices
Board Quality (G)	5	Board Independence	Alignment of interest of management and shareholders for objective decision making and less possibility for entrenchment
		Board effectiveness	Structures and diverse backgrounds of members leading to better decision making
Internal Stakeholder Management (S)	6	Worker's rights	Ensuring employees' basic rights through positive labour relations, safe working conditions, and fair wages
		Diversity and Culture	Creating a work environment that promotes employee satisfaction/morale, inclusion and diversity
		Talent Management	Offering career development and skills trainings for employees, and managing hiring and retention

Source: BlackRock FMA study

⁸ BlackRock FMA study, available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/201214-interim-study-esg-factors-banking_en.pdf

Data from the table show that banks currently place a stronger focus on the data on environmental factors, in particular climate change, compared to data on social and governance activities of reporting entities. In this study banks also made an assessment of the level of availability of information on the ESG factors of their clients, including issuers, for the purpose of assessing the risk profile.



Source: BlackRock FMA study

According to the responses received, it can be noticed that when assessing client risk, banks have the most information regarding governance factors, while they assessed the information on environmental factors as insufficient and consider that the area of reporting on environmental factors requires significant improvements.

Similarly, the practice has revealed challenges of determining which investments and to what extent can be considered sustainable development investments, as well as challenges of preventing investments in entities that use greenwashing. In addition, there is an essential problem in the fact that reporting entities apply various ESG reporting standards when compiling non-financial statements.

Having in mind that disclosures of a certain part of sustainability-related information under SFDR are not obligatory for issuers at the moment, and that the Taxonomy Regulation will start to apply prior to the compliance with the Corporate Sustainability Reporting Directive and the entry into force of delegated acts, in March 2021 Hanfa adopted and published Guidelines on the preparation and disclosure of ESG-relevant issuer information 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.

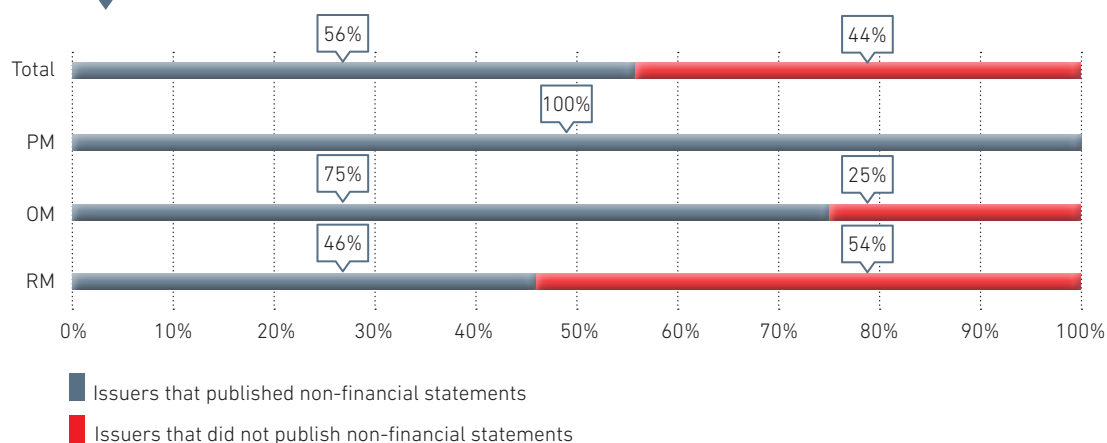
The provisions of the currently applicable Non-Financial Reporting Directive have been transposed into the legal system of the Republic of Croatia through the Accounting Act⁹.

The Accounting Act obliges all issuers that, at the date of the statement of financial position, exceed the average number of 500 workers during the previous financial year to include in their management report a non-financial statement containing information on the development, business results and position of the issuer and the impact of activities relating to environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery issues.

An overview of the disclosures of all issuers whose securities are listed on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE) revealed that out of 104 issuers (99 share issuers and 5 bond issuers), 59 issuers, or 56%, disclosed a non-financial statement for 2020.

⁹ Accounting Act (Official Gazette, No 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20)

Chart 19 Overview of disclosed non-financial statements for 2020 by segments of the regulated market



Source: Non-financial statements of issuers for 2020

According to data on the average number of employees of issuers during 2020, received by Hanfa from the questionnaire on corporate governance practices and published annual reports for 2020, out of 104 issuers, pursuant to the provisions of Article 19a of the Accounting Act, 45 of them were obliged to publish a non-financial statement, representing 43% of the total number of issuers, while 14 issuers, or 13%, published a non-financial statement for 2020, although they were not subject to non-financial reporting requirements.

Table 7 Overview of issuers subject to non-financial reporting requirements by segments of the regulated market and published non-financial statements for 2020

	Number of issuers	Issuers subject to non-financial reporting requirements	Issuers that published non-financial statements	Issuers whose information is disclosed within a consolidated non-financial statement published by the parent	Total number of issuers that fulfilled the non-financial reporting obligation	Share of issuers that published non-financial statements
PM	6	6	6	0	6	100%
OM	24	17	15	1	16	67%
RM	74	22	18	4	22	30%
Total	104	45	39	5	44	42%

Source: Non-financial statements of issuers for 2020

Out of the 45 entities subject to non-financial reporting obligation, 5 issuers disclosed their non-financial information within the consolidated non-financial statements of the group, published by the parent company. Pursuant to the provisions of Article 24a of the Accounting Act, where a parent company publishes a consolidated non-financial statement for itself and its subsidiaries, the subsidiaries are not required to publish an individual non-financial statement. Furthermore, the review found that 1 issuer, whose shares were admitted to the Official Market, did not publish a non-financial statement for 2020 even though it was required under the provisions of the Accounting Act.

Table 8 Overview of issuers that published non-financial statements for 2020, without being subject to non-financial reporting requirements, per segments of the regulated market

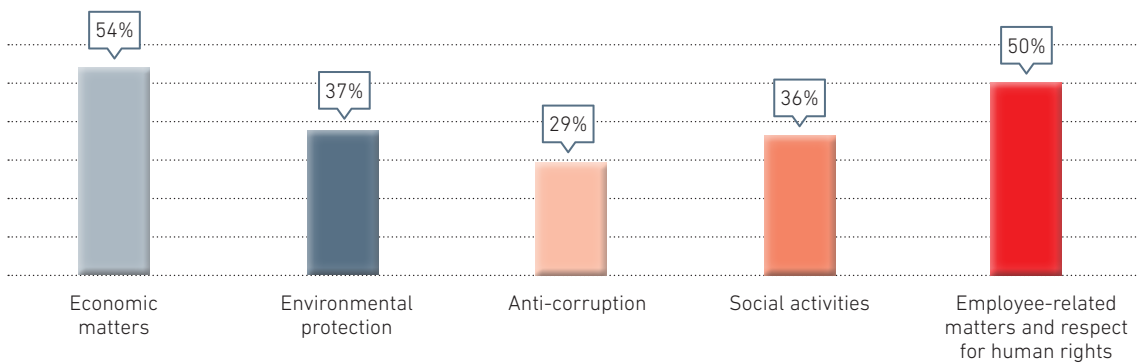
	Number of issuers	Issuers not subject to non-financial reporting requirements	Issuers that published non-financial statements	Issuers whose information is disclosed within a consolidated non-financial statement published by the parent	Share of issuers whose non-financial information is disclosed, but they are not subject to non-financial reporting requirements
PM	6	0	0	0	0%
OM	24	7	2	1	13%
RM	74	52	12	0	16%
Total	104	59	14	1	14%

Source: Non-financial statements of issuers for 2020

15 issuers, or 14% of the total number of issuers (20% of issuers that are not subject to non-financial reporting obligation according to the provisions of the Accounting Act), published data on ESG factors on a voluntary basis.

Of the total published 53 non-financial statements, in 12 of them (23%) issuers stated that they were compiled in accordance with GRI (Global Reporting Initiative) standards, and one issuer stated that external verification was carried out for the non-financial statement.

Chart 20 Number of non-financial statements containing information by segments

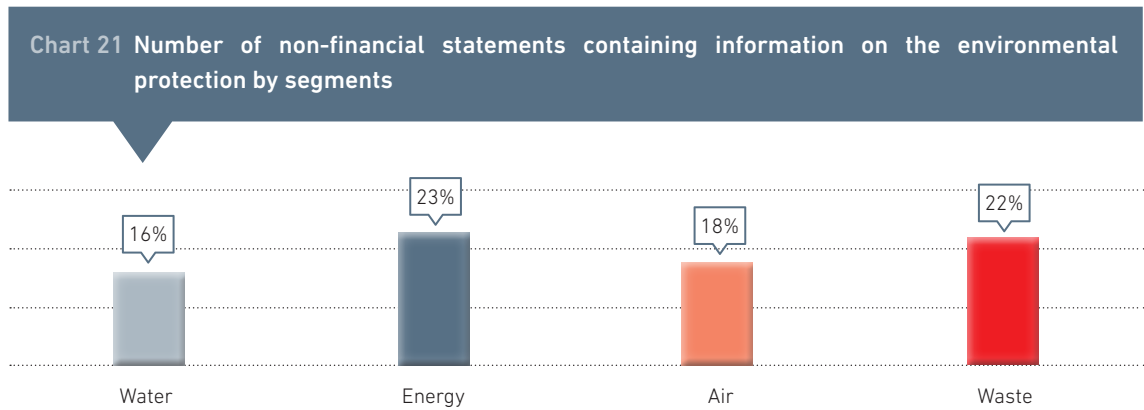


Source: Non-financial statements of issuers for 2020

In the non-financial statements for 2020, all issuers disclosed information on their business performance and financial position, planned development and investments.

Environmental factors

Within the framework of information on environmental activities, 35 issuers, or 67% of them, revealed that they direct part of their resources towards environmental protection, such as efficient energy management, energy saving, recycling and reduction of waste, waste water analysis, greenhouse gas emissions. Of the 34 issuers that disclosed their environmental activities, 15 issuers stressed that they have ISO certificates for energy and environmental management.



Source: Non-financial statements of issuers for 2020

a) Water

- With respect to water protection, 11 issuers published data on water consumption for the performance of activities.
- Normally, information on water consumption is published for the reporting year and the previous period from which the trend in reducing water consumption can be seen.
- Two issuers disclosed information on the amount of waste water produced during a technological process.
- One issuer disclosed the percentage of reduction in the amount of waste water.
- As regards information on water protection, one issuer reported investing in technology to reduce water consumption.
- One issuer reported being in the process of investing in a ballast water purification system.
- One issuer reported undertaking activities to preserve the quality of seawater and to treat waste water.

b) Energy

- 24 issuers published information on the annual consumption of energy, such as electricity, fuel, fuel oil, gas, etc.
- Two issuers stated that they use electricity produced from renewable sources in full in certain facilities.
- Three issuers stated that they invest in the reduction of energy consumption, i.e. the improvement of the company's energy efficiency, as well as renewable energy sources.

c) Air

- ✓ Data on carbon dioxide (CO₂) emissions was published by 19 issuers, and according to it there is a visible trend of reducing or increasing direct or indirect greenhouse gas emissions, depending on an issuer.
- ✓ One issuer reported on its participation in an emissions trading scheme.

d) Waste

- ✓ Information on waste management and disposal was published by 24 issuers.
- ✓ The information referred to procedures on effective waste sorting and disposal, i.e., issuers published descriptive or quantitative information on reducing the amount of waste such as paper, IT waste, chemicals, etc.
- ✓ One issuer stated that it carried out a process of digitising documentation, reducing the amount of paper used.
- ✓ One issuer reported partly using recycled print paper.
- ✓ One issuer reported investing in technology to reduce the use of cleaning products and encouraging guests to reuse towels and bedding.

e) Climate change

- ✓ In their non-financial statements 11 issuers highlighted that climate changes caused by CO₂ emissions have a negative impact on their business operations, such as the quality of raw material or increased risk of workers being injured.

Governance factors

a) Anti-corruption

- ✓ Disclosures on anti-corruption mainly contain information about the implementation of the highest ethical standards of corporate governance and the individual behaviour of employees, as well as about adopted policies for preventing and sanctioning bribery and corruption, or the adopted code of conduct.
- ✓ 29 issuers published information about anti-corruption.
- ✓ 1 issuer stressed that it did not participate in the funding of political parties.

Social factors

a) Employee-related matters and respect for human rights

- ✓ Most information published by the issuers concerned employee-related matters (48 issuers).
- ✓ The disclosures mainly referred to the number of employees, age structure, qualifications, gender, training and education, and remuneration of employees.
- ✓ The disclosures often emphasised how important workplace health and safety were.
- ✓ 5 issuers published data on the number and type of injuries of their employees, occupational diseases and fatalities.

- ✓ 37 issuers stated that they implemented the policy of protecting human rights, diversity and equal opportunities, i.e. anti-discrimination during hiring process.
- ✓ One issuer reported receiving the INDEKS DOP award for the policy of diversity and human rights protection, while one issuer received a special award for socially responsible policy of children's rights protection¹⁰.

b) Suppliers

- ✓ 15 issuers reported that they are verifying the compliance of (key) suppliers with the environmental and work safety requirements, as well as compliance with the anti-corruption requirements, by conducting due diligence, i.e. the integrity of suppliers.

c) Social activities

- ✓ 36 issuers published information on their participation in local community projects, such as sporting competitions, volunteering and charity actions, whether in the form of financial and material aid, participation in conferences or cooperation with schools.
- ✓ 3 issuers stated that they helped people affected by devastating earthquakes in Banovina, by volunteering work of their fire-fighters or donating food.
- ✓ One issuer stated that at the time of lockdown due to the spread of COVID-19 they prepared warm meals for medical staff.

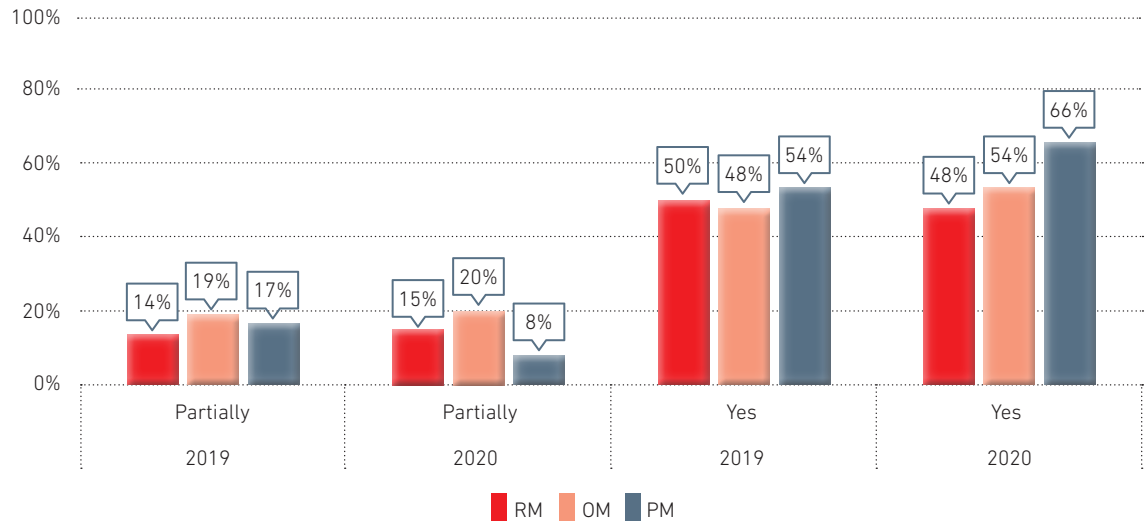
Compliance of issuers whose shares are admitted to the ZSE with the section "Corporate social responsibility"

Pursuant to the Code, supervisory and management boards should agree and adopt policies on:

- ✓ how environmental and social impacts of the company's activities are assessed, and how the associated risks are managed
- ✓ how human rights and the rights of employees are safeguarded; and
- ✓ how corruption and bribery will be prevented and sanctioned.

¹⁰ The awards are jointly awarded by the Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development.

Chart 22 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020, by segments of the regulated market



Source: Compliance questionnaire 2020 and 2019, internal calculation

Comparing the responses received for 2020 with those received for 2019, there is a visible growth in the compliance with the section "Stakeholders and corporate social responsibility" in all segments of the regulated market. As the main reason, issuers stated procedural issues in their explanations, i.e. the fact that the management board has adopted policies but the supervisory board still has not. Similarly, a significant number of issuers stated in their explanations that they plan to adopt these policies in the next reporting period.

In 2020, the compliance of issuers in the Prime Market stood at 66%, in the Official Market 54% and 48% in the Regular Market.

Share issuers' compliance with the Corporate Governance Code

This annual corporate governance report provides for the second time Hanfa's information on the compliance of companies whose shares are admitted to trading on the regulated market of the ZSE (hereinafter: the issuers) with the new Corporate Governance Code. The Code is applicable to the period starting from 1 January 2020; however, last year's annual corporate governance report provided an overview of the issuers' compliance with the Code for 2019 as well, in order to determine the initial level of their compliance with the Code and for the purpose of monitoring further improvement of actions taken regarding the Code in the forthcoming period.

The issuers' compliance with the Code has been calculated on the basis of data from compliance questionnaires, whose accuracy, completeness and quality fall within the responsibility of management boards and supervisory boards of the issuers. The Code is applicable to all companies whose shares are admitted to trading on the regulated market of the ZSE, except for issuers of closed-ended investments fund shares; they are therefore not obliged to submit the compliance questionnaire. As at 31 December 2020, there were 99 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which three were closed-ended investment funds. A total of 96 share issuers were therefore obliged to submit the compliance questionnaire for 2020 (114 share issuers in 2019).

The compliance questionnaire was submitted to Hanfa by all 96 share issuers (100%). For the purpose of presenting the actual state of play regarding the compliance with the Code and its individual sections, the total number of share issuers who had submitted their compliance questionnaires did not cover issuers whose shares were removed from trading on the regulated market in 2021 (6 share issuers) and issuers whose answers provided to the same questions in the compliance questionnaire and in the governance practices questionnaire contained substantive differences (12 issuers whose shares are admitted on the Regular Market and one issuer whose shares are admitted on the Official Market). The sample serving as the basis for calculating compliance covered therefore 77 issuers.

The calculation of the issuers' compliance with the new Corporate Governance Code is based on the structure of the compliance questionnaire.

The compliance questionnaire follows the structure of the code:

- ✓ Section 1: Leadership**
- ✓ Section 2: Duties of board members**
- ✓ Section 3: Appointment of board members**
- ✓ Section 4: Supervisory board and its committees**
- ✓ Section 5: Management board**
- ✓ Section 6: Remuneration of board members**
- ✓ Section 7: Risks, internal control and audit**
- ✓ Section 8: Disclosure and transparency**
- ✓ Section 9: Shareholders and the general meeting**
- ✓ Section 10: Stakeholders and corporate social responsibility.**

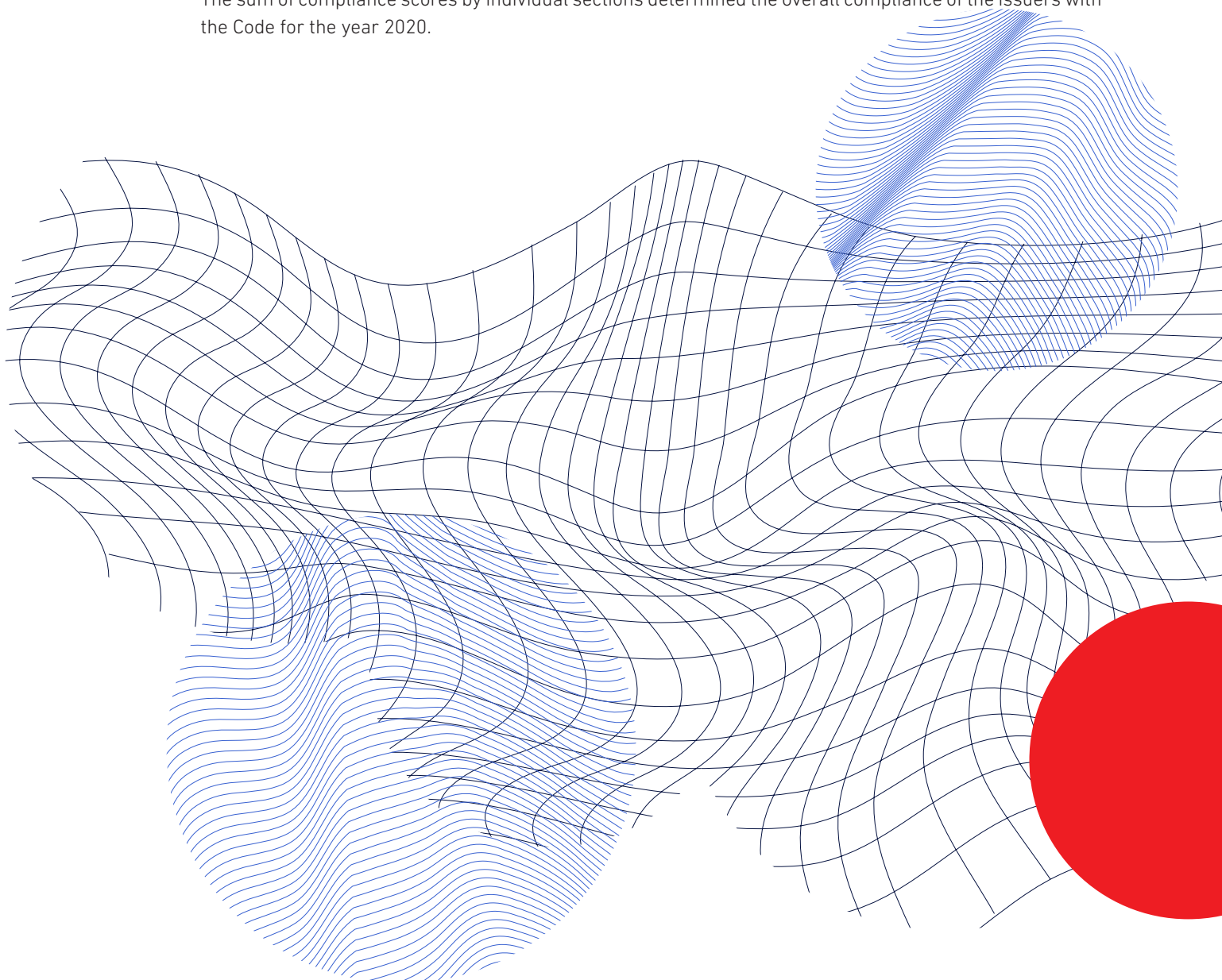
The compliance questionnaire requires the issuers to explain whether they comply (fully or partially) or fail to comply with each of the recommendations of the Code. If the issuers fail to comply with a recommendation of the Code, or comply with it only partially, they should provide details in the questionnaire regarding their failure to comply and the reasons for non-compliance, including specific circumstances relating to these issuers; they should describe the actions they have taken instead of complying with the recommendation from the Code to make sure they meet the objective set out in the relevant Code principle; and, if the issuers intend to comply with the Code provision in the future, they should specify when they will start doing so.

The issuers' compliance with the Code has been calculated for each section of the Code separately and as overall compliance with the Code. It has been determined based on the number of answers of "YES", "NO", and "Partially", not taking account of explanations provided for answers of "NO" and "Partially". The compliance with individual sections of the Code by segments of the regulated market has been calculated as the average number of questions responded to with "YES", "NO" and "Partially" for each section of the Code.

For the purpose of determining the overall compliance with the Code, a valuation model consisting of four scores has been used:

- ✓ where the number of "YES" answers is lower than the average number of "YES" answers for a specific section of the Code, a score of 0 has been awarded (orange)
- ✓ where the number of "YES" answers is higher than the average number of "YES" answers for a specific section of the Code, a score of 1 has been awarded (yellow)
- ✓ where the number of "YES" answers is lower than the average number of "YES" answers for a specific section of the Code and where the number of "NO" answers is higher than the number of "Partially" and "YES" answers for that issuer, a score of -1 has been awarded (red)
- ✓ where the number of "YES" answers is higher than the average number of "YES" answers for a specific section of the Code and where the number of "YES" answers is higher than the number of "Partially" and "NO" answers for that issuer, a score of 2 has been awarded (green).

The sum of compliance scores by individual sections determined the overall compliance of the issuers with the Code for the year 2020.



List of issuers according to their compliance with the Corporate Governance Code

Tables 9, 10 and 11 show the issuers' compliance with individual sections of the Code by segments of the regulated market in 2020. The order of the issuers according to their compliance with individual sections has been determined on the basis of the sum of scores relating to each section.

Last year, none of the issuers on the Official Market and Prime Market complied fully with the Code, while only 2 issuers on the Regular Market showed full compliance.

Pursuant to answers provided in questionnaires related to corporate governance, in 2020, as many as 8 issuers complied fully with the Code (2 issuers whose shares are admitted on the Prime Market, 2 issuers whose shares are admitted on the Official Market and 4 issuers whose shares are admitted on the Regular Market).

This points to a significant improvement as regards the compliance of the issuers with the Code in 2020.

Table 9 Prime Market issuers' compliance scores by individual sections of the Code for the year 2020

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Atlantic Grupa d.d.	2	2	2	2	2	2	2	2	2	2
VALAMAR RIVIERA d.d.	2	2	2	2	2	2	2	2	2	2
Hrvatski Telekom d.d.	2	2	1	2	2	2	2	2	2	2
Arena Hospitality Group d.d.	0	1	2	2	2	2	1	2	2	2
Podravka d.d.	2	2	1	2	2	-1	2	2	2	-1
AD Plastik d.d.	2	0	0	2	0	-1	2	0	1	2

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2020

Table 10 Official Market issuers' compliance scores by individual sections of the Code for the year 2020

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Hrvatska poštanska banka d.d.	2	2	2	2	2	2	2	2	2	2
Meritus ulaganja d.d.	2	2	2	2	2	2	2	2	2	2
Končar - Elektroindustrija d.d.	2	2	2	2	2	2	2	2	1	2
Zagrebačka burza d.d.	1	2	2	2	2	2	2	2	1	2
Luka Ploče d.d.	2	2	2	2	1	2	2	2	1	2
CROATIA osiguranje d.d.	2	2	0	2	2	2	2	2	2	0
INA - Industrija nafte d.d.	2	1	-1	2	2	2	2	2	2	2
JADRAN d.d.	2	2	-1	2	2	2	2	2	2	0
CIAK Grupa d.d. za upravljanje društvima	1	0	1	2	2	2	1	2	2	2

Ilirija d.d.	2	2	-1	2	2	2	1	0	2	2
SUNCE HOTELI d.d. za turizam i ugostiteljstvo	1	1	2	1	2	-1	1	2	2	2
Stanovi Jadran d.d. za poslovanje nekretninama	1	-1	2	1	1	2	1	2	2	2
Petrokemija d.d.	1	0	0	2	1	2	2	2	2	0
TANKERSKA NEXT GENERATION d.d.	2	2	2	2	-1	2	-1	2	2	0
Dalekovod d.d.	2	2	-1	2	0	-1	2	2	1	2
OT - Optima telekom d.d.	2	0	-1	1	0	2	1	2	2	2
GRANOLIO D.D.	2	2	-1	0	2	-1	1	2	0	2
Varteks d.d.	1	1	0	0	2	2	0	2	1	0
Medika d.d.	1	2	-1	1	1	0	1	2	0	-1
Luka Rijeka d.d.	2	-1	-1	1	2	-1	-1	2	1	-1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2020

Table 11 Regular Market issuers' compliance scores by individual sections of the Code for the year 2020

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
MODRA ŠPILJA d.d.	2	2	2	2	2	2	2	2	2	2
AGRAM BANKA d.d.	2	2	2	2	2	2	2	2	2	2
ADRIATIC OSIGURANJE d.d.	2	2	2	2	2	2	2	2	2	2
Vis d.d.	2	2	2	2	2	2	2	2	2	2
Končar - Distributivni i specijalni transformatori d.d.	2	2	2	2	2	2	2	2	1	2
Istarska kreditna banka Umag d.d.	2	2	2	2	2	2	2	2	2	0
Slatinska banka d.d.	2	2	2	2	2	2	2	0	2	2
Ericsson Nikola Tesla d.d.	2	2	2	2	2	0	2	2	2	2
Croatia Airlines d.d.	2	2	-1	2	2	-1	2	2	2	2
Kraš d.d.	2	2	-1	2	2	-1	2	2	2	2
Jadroagent d.d.	1	2	2	2	0	2	2	2	2	-1
ZAGREBAČKA BANKA d.d.	2	1	0	2	2	2	2	2	1	0
Koteks d.d.	2	2	2	1	1	-1	2	2	1	2
FTB TURIZAM d.d.	1	1	-1	1	2	2	2	2	1	2
Čateks d.d.	2	2	2	1	-1	-1	2	2	1	2
Adris Grupa d.d.	1	2	-1	1	2	0	2	0	2	2
Imperial Riviera d.d.	1	1	-1	2	2	2	2	0	1	0
PROFESSIO ENERGIA d.d.	1	1	0	2	2	0	1	2	2	-1
3. MAJ brodogradilište d.d.	2	2	2	2	2	-1	-1	0	0	2
HELIOS FAROS d.d.	2	2	-1	2	2	-1	0	0	2	2
Brodomerkur d.d.	2	2	-1	0	2	-1	1	2	1	2
Tekstilpromet d.d.	1	1	-1	2	2	0	2	0	1	2
Jadranski naftovod d.d.	2	2	-1	1	0	-1	2	2	2	0

THE GARDEN BREWERY d.d.	2	1	-1	1	2	-1	1	0	2	2
HTP Korčula d.d.	1	2	0	1	2	-1	1	0	1	0
Plava laguna d.d.	0	-1	-1	1	2	2	1	2	1	0
Solaris d.d.	1	2	-1	1	2	0	-1	0	1	2
Atlantska plovidba d.d.	2	-1	1	-1	2	-1	1	2	2	-1
Bilokalnik - IPA d.d.	1	0	0	1	2	-1	0	2	1	0
Maistra d.d.	0	2	-1	1	0	-1	2	0	1	2
Drvena industrija Spačva d.d.	1	0	-1	1	-1	2	2	2	1	-1
Turisthotel d.d.	1	0	-1	1	0	2	0	0	1	0
Čakovečki mlinovi d.d.	0	0	0	1	0	2	0	0	1	0
AUTO HRVATSKA d.d.	1	2	-1	-1	2	-1	1	0	1	-1
Koka d.d.	1	-1	-1	0	2	0	1	0	0	0
HTP Orebić d.d.	0	-1	0	1	2	-1	1	0	1	-1
ĐURO ĐAKOVIĆ GRUPA d.d.	0	0	-1	0	0	-1	1	2	1	-1
ALPHA ADRIATIC pomorski promet dioničko društvo	0	1	-1	1	0	-1	1	0	0	0
Maraska d.d.	1	-1	-1	-1	-1	-1	2	2	2	-1
Saponia d.d.	1	1	-1	-1	-1	-1	-1	2	2	0
Adriatic Croatia International Club d.d.	0	-1	-1	1	-1	2	-1	0	2	-1
Liburnia riviera hoteli d.d.	1	-1	-1	1	-1	-1	1	0	1	-1
Vodoprivreda Zagreb d.d.	1	1	-1	1	-1	-1	0	0	0	-1
Lošinjska plovidba - Holding d.d.	2	-1	-1	-1	0	-1	-1	2	1	-1
Jadran tvornica čarapa d.d.	1	-1	-1	1	-1	-1	-1	-1	0	2
Brionka d.d.	0	-1	-1	1	0	-1	-1	0	2	-1
Viro tvornica šećera d.d.	-1	1	-1	-1	-1	2	-1	0	0	-1
Zagrebačke pekarnice Klara d.d.	0	0	-1	-1	-1	-1	-1	2	0	-1
Žitnjak d.d.	0	-1	-1	-1	-1	-1	-1	2	1	-1
Zvečevo d.d.	-1	1	-1	-1	-1	-1	-1	0	0	-1
Jelsa d.d.	-1	-1	-1	-1	-1	-1	-1	0	0	-1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2020

Taking account of the issuers' compliance by individual sections, their full compliance with the Code and the number of their employees, the following issuers showed the highest level of compliance by segments of the regulated market:

Table 12 List of issuers according to their compliance scores for 2020

Issuer	Regulated market segment	Total compliance score	Number of provisions the issuer fully complies with	Number of employees
Atlantic Grupa d.d.	PM	20	137	170
Hrvatska poštanska banka d.d.	OM	20	113	1,301
MODRA ŠPILJA d.d.	RM	20	127	27

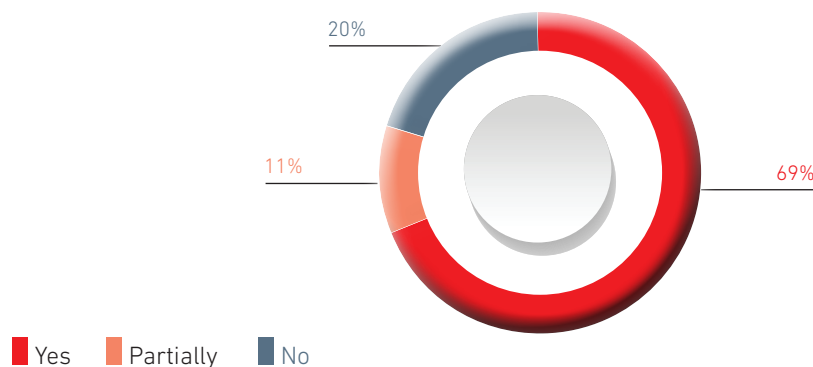
Source: Internal calculation by Hanfa based on the compliance questionnaire for 2020

The highest level of compliance with the Code in 2020 was reached by Atlantic Grupa d.d. on the Prime Market, by Hrvatska poštanska banka d.d. on the Official Market, and by MODRA ŠPILJA d.d. on the Regular Market.

Charts 23 - 43 show the percentage of the issuers' compliance by individual sections and the overall compliance of the issuers with the Code for the year 2020.

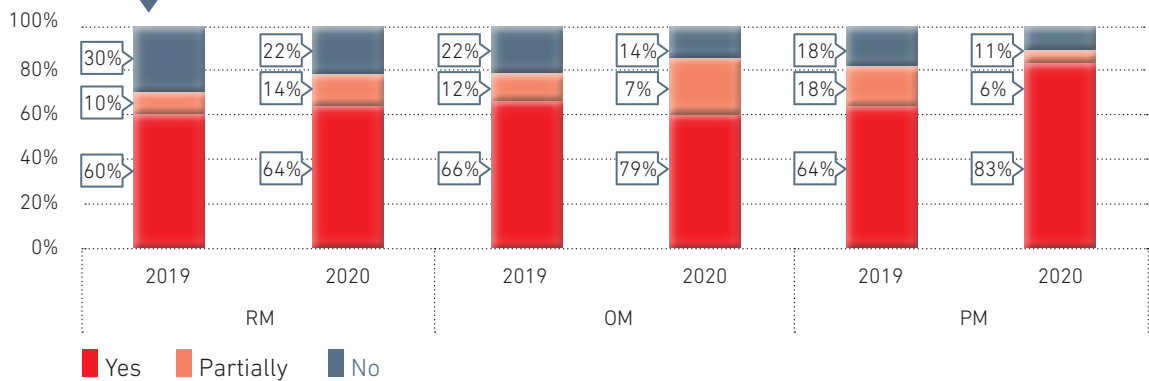
Issuers' compliance by sections of the Code

Chart 23 Share issuers' compliance with the section "Leadership" for the year 2020



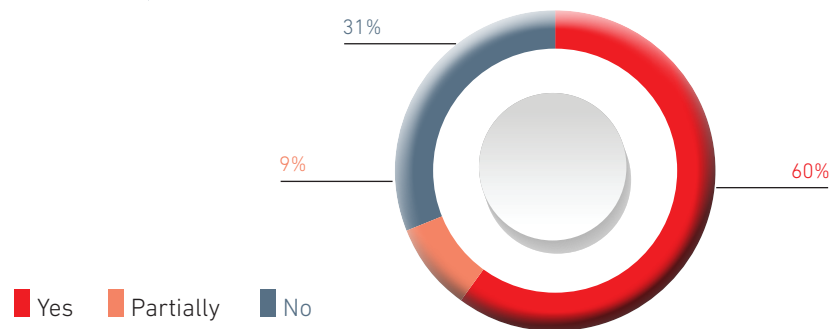
Source: Compliance questionnaire 2020, internal calculation

Chart 24 Share issuers' compliance with the section "Leadership" in 2019 and 2020 by segments of the regulated market



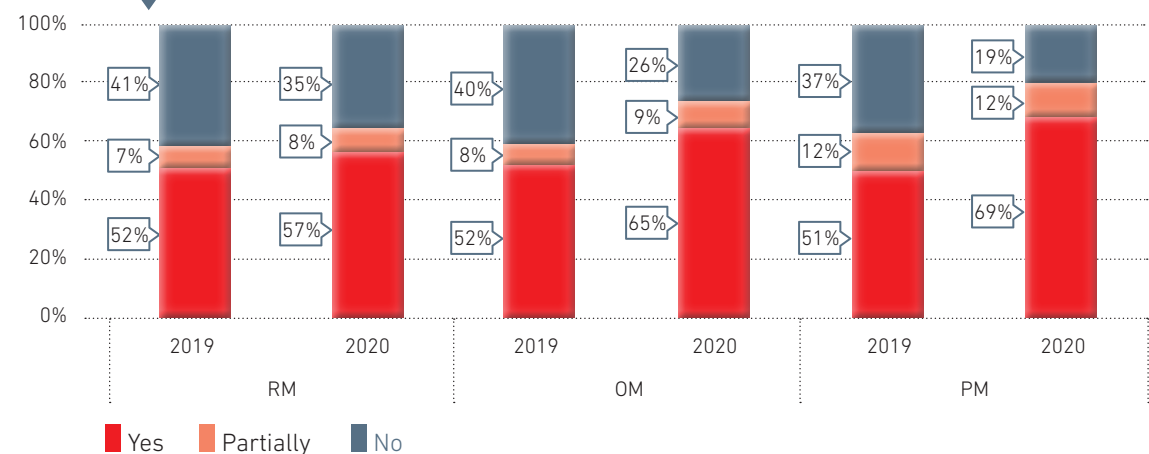
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 25 Share issuers' compliance with the section "Duties of board members" for the year 2020



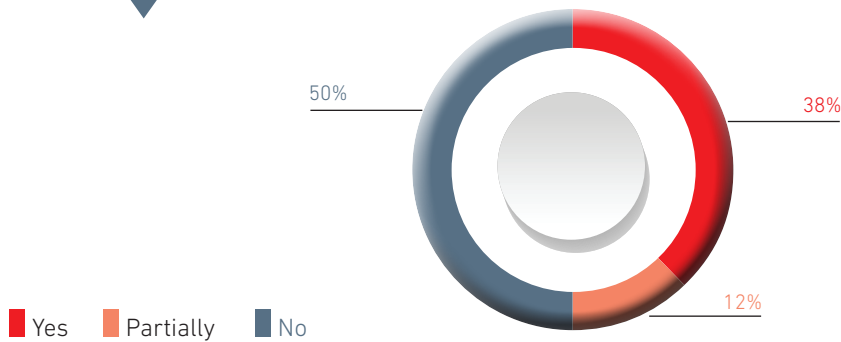
Source: Compliance questionnaire 2020, internal calculation

Chart 26 Share issuers' compliance with the section "Duties of board members" in 2019 and 2020 by segments of the regulated market



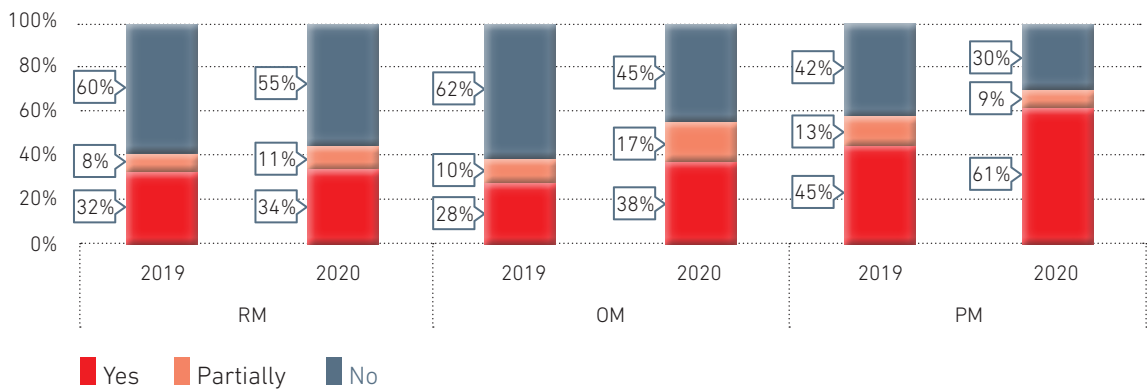
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 27 Share issuers' compliance with the section "Appointment of board members" for the year 2020



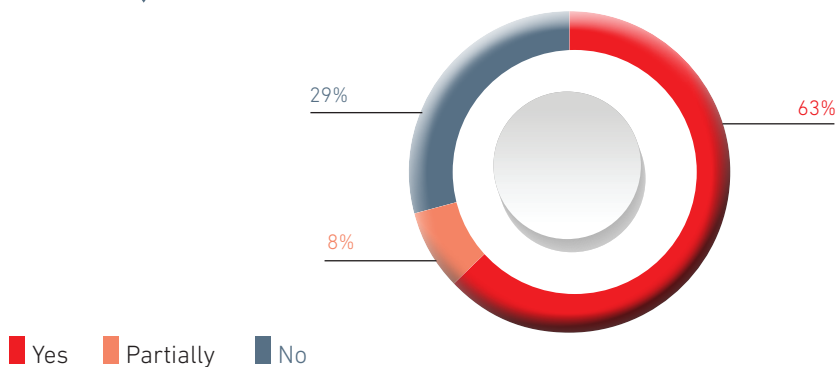
Source: Compliance questionnaire 2020, internal calculation

Chart 28 Share issuers' compliance with the section "Appointment of board members" in 2019 and 2020 by segments of the regulated market



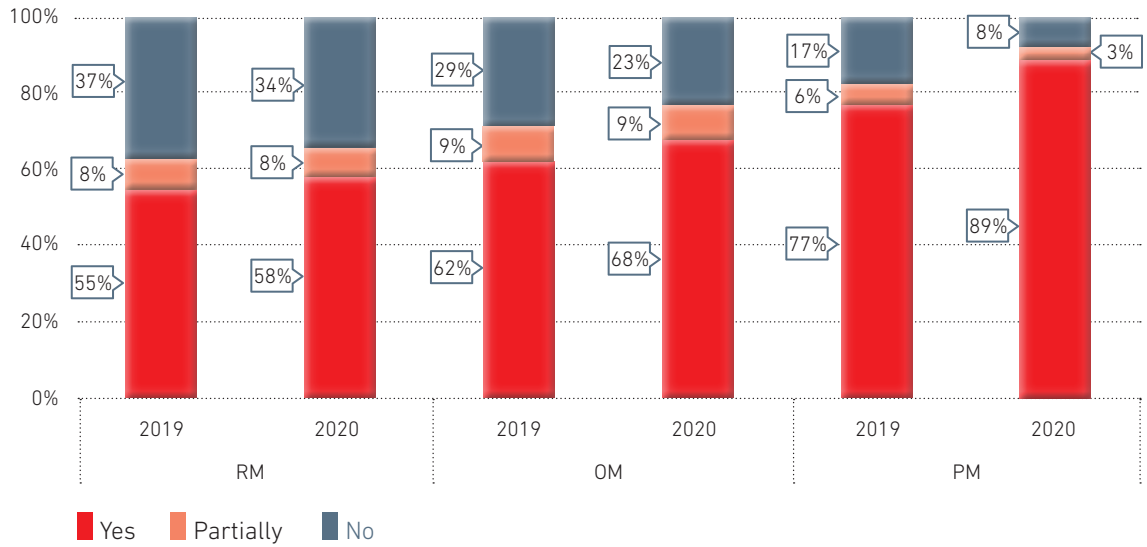
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 29 Share issuers' compliance with the section "Supervisory board and its committees" for the year 2020



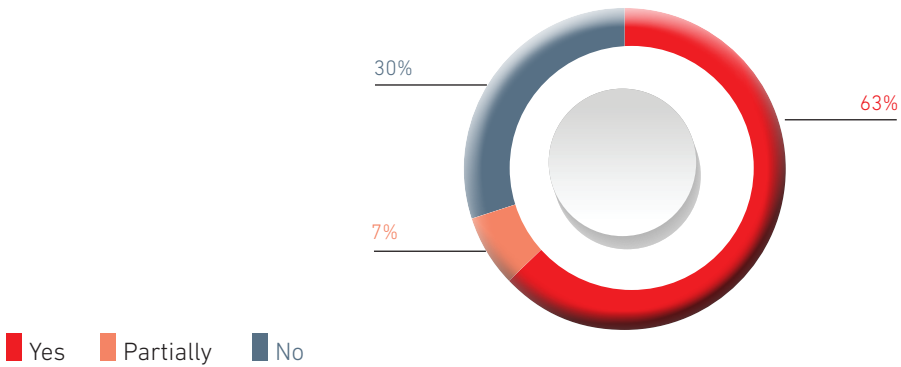
Source: Compliance questionnaire for share issuers 2020, internal calculation

Chart 30 Share issuers' compliance with the section "Supervisory board and its committees" in 2019 and 2020 by segments of the regulated market



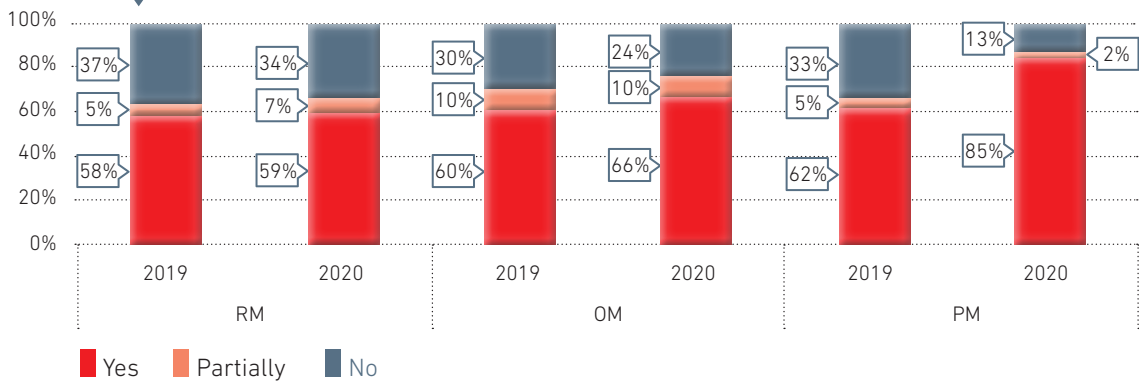
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 31 Share issuers' compliance with the section "Management board" for the year 2020



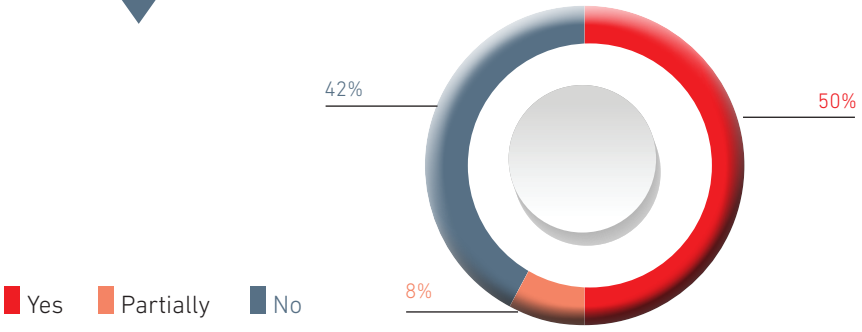
Source: Compliance questionnaire 2020, internal calculation

Chart 32 Share issuers' compliance with the section "Management board" in 2019 and 2020 by segments of the regulated market



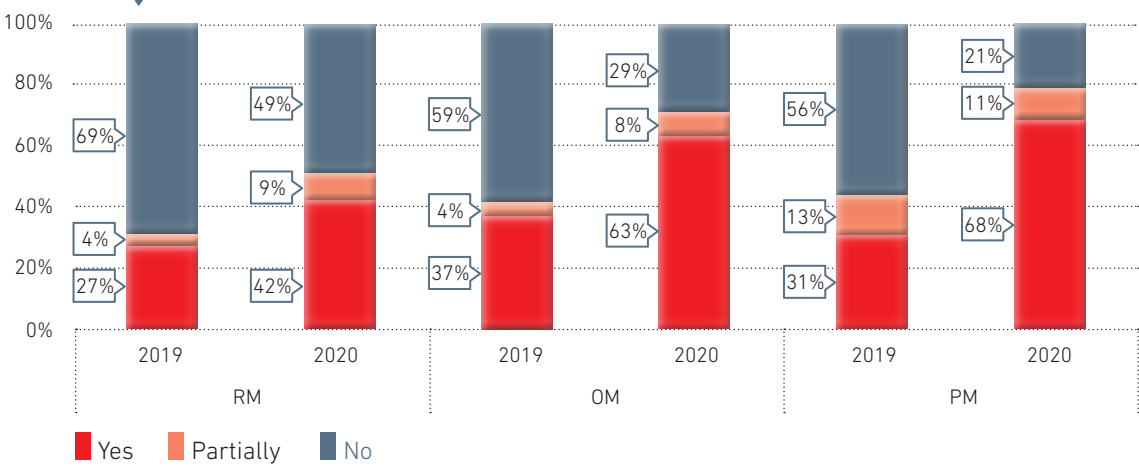
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 33 Share issuers' compliance with the section "Remuneration of board members" for the year 2020



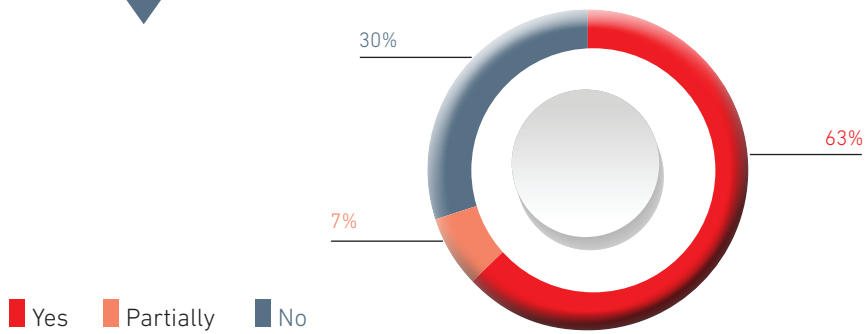
Source: Compliance questionnaire 2020, internal calculation

Chart 34 Share issuers' compliance with the section "Remuneration of board members" in 2019 and 2020 by segments of the regulated market



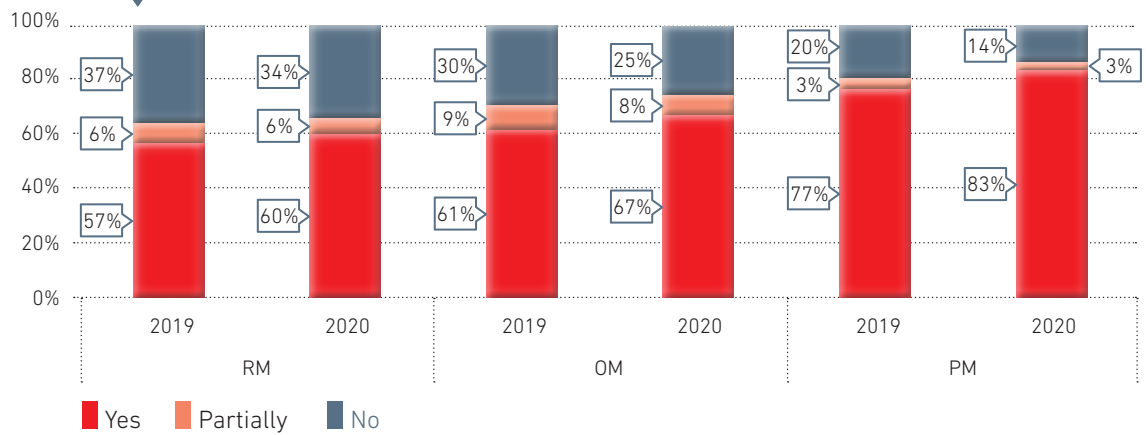
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 35 Share issuers' compliance with the section "Risks, internal control and audit" for the year 2020



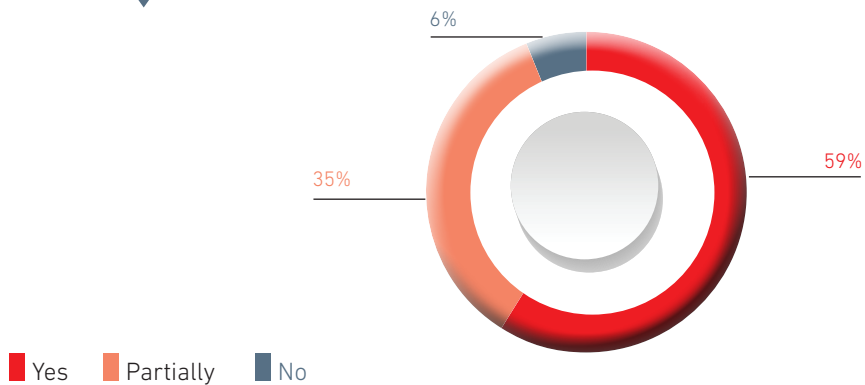
Source: Compliance questionnaire 2020, internal calculation

Chart 36 Share issuers' compliance with the section "Risks, internal control and audit" in 2019 and 2020 by segments of the regulated market



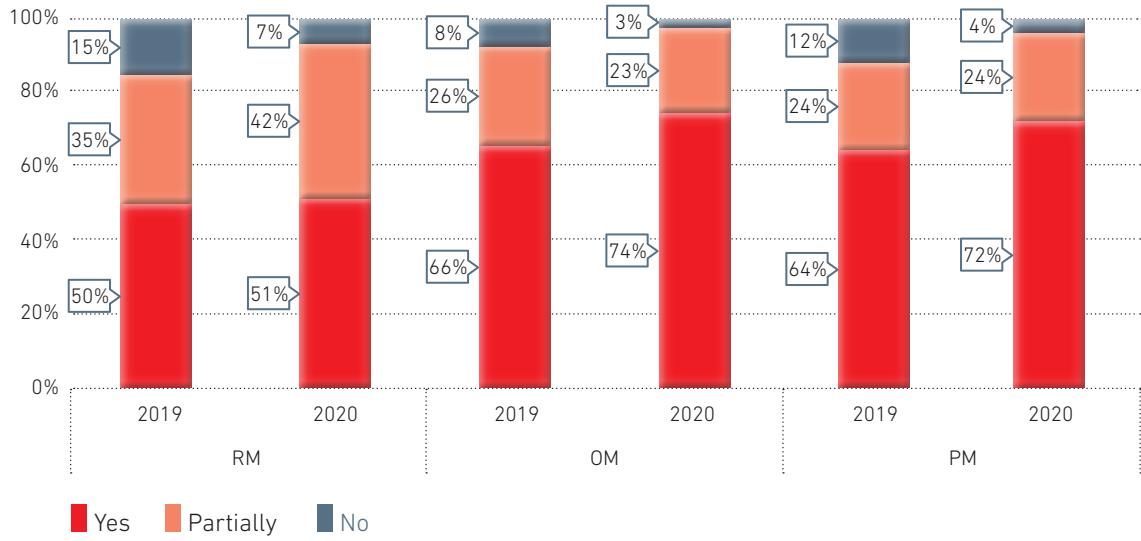
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 37 Share issuers' compliance with the section "Disclosure and transparency" for the year 2020



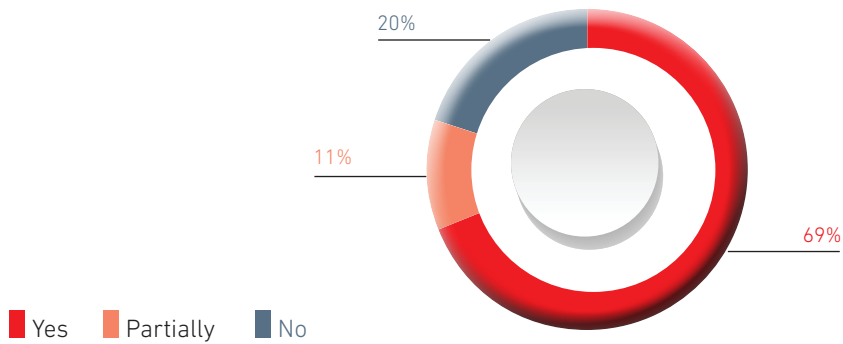
Source: Compliance questionnaire 2020, internal calculation

Chart 38 Share issuers' compliance with the section "Disclosure and transparency" in 2019 and 2020 by segments of the regulated market



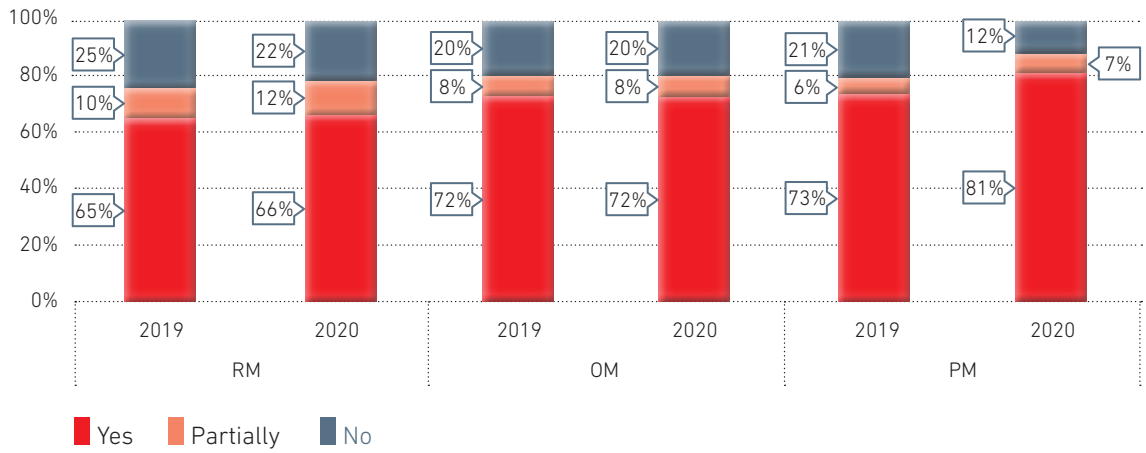
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 39 Share issuers' compliance with the section "Shareholders and the general meeting" for the year 2020



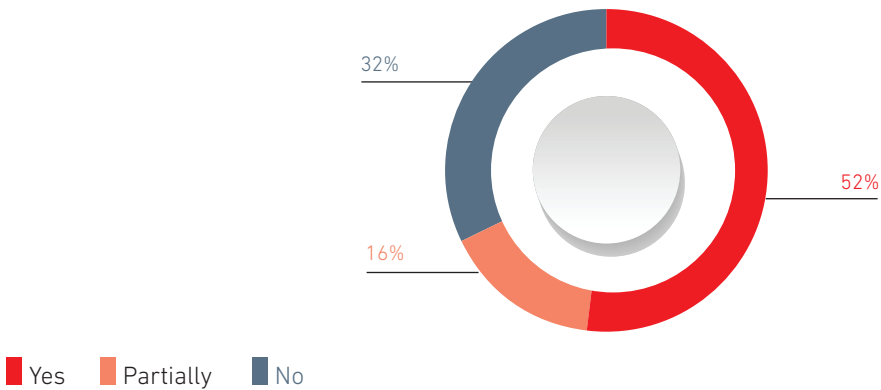
Source: Compliance questionnaire 2020, internal calculation

Chart 40 Share issuers' compliance with the section "Shareholders and the general meeting" in 2020 and 2019 by segments of the regulated market



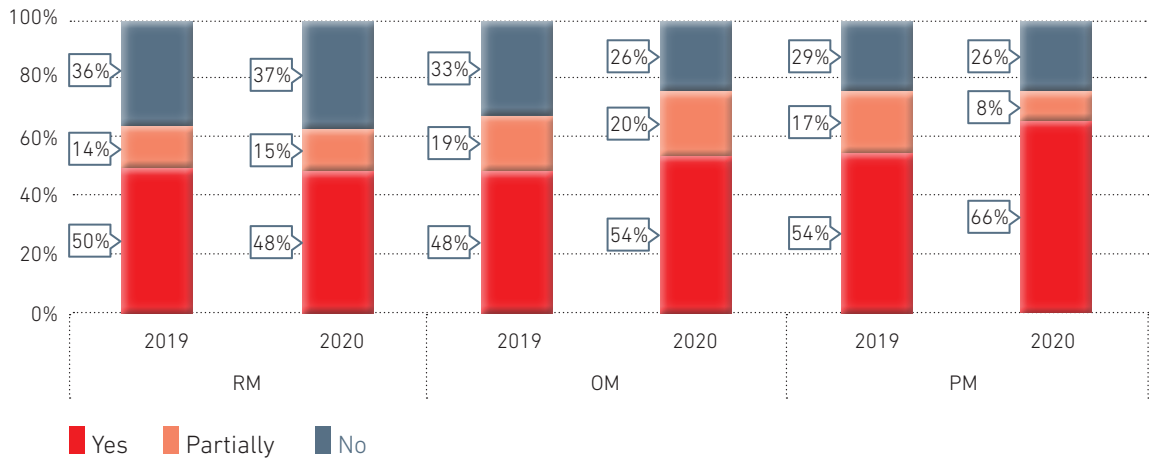
Source: Compliance questionnaire 2020 and 2019, internal calculation

Chart 41 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" for the year 2020



Source: Compliance questionnaire 2020, internal calculation

Chart 42 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020 by segments of the regulated market

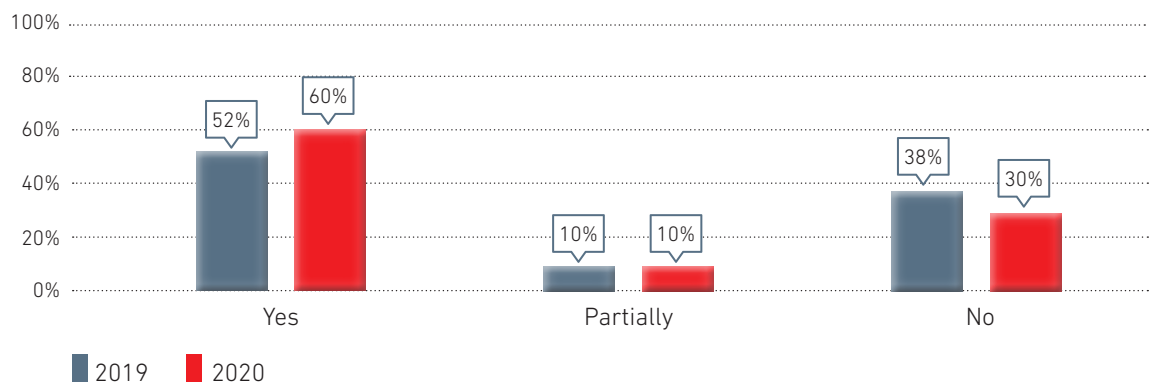


Source: Compliance questionnaire 2020 and 2019, internal calculation

Overall compliance of share issuers with the Code for the year 2020

The following chart provides a comparative overview of the issuers' compliance with the Code in 2020 compared to 2019.

Chart 43 Overall compliance of the issuers with the Code for the year 2020



Source: Compliance questionnaire 2020 and 2019, internal calculation

A total of 60% of all the questions in the 2020 compliance questionnaire were answered "YES" by the issuers and 30% of the questions were answered "NO" (in 2019, 52% of all the questions in the compliance questionnaire were answered "YES" by the issuers and 38% of the questions were answered "NO").

- ✓ According to data submitted in the compliance questionnaire for the year 2020, the issuers comply most with the sections "Shareholders and the general meeting" and "Leadership".
- ✓ According to data submitted in the compliance questionnaire for the year 2020, the issuers comply least with the sections "Remuneration of board members" and "Appointment of board members".
- ✓ Even though the issuers complied least with the section "Remuneration of board members" in 2020, the largest increase in the compliance compared with the previous year was recorded exactly in respect of this section. A significant rise in the level of the issuers' compliance in 2020 relative to 2019 was also recorded with respect to the section "Supervisory board and its committees".
- ✓ The compliance analysis showed improvement as regards all the sections, except for the section "Appointment of board members", as the level of compliance as regards this area dropped in comparison with 2019.
- ✓ Greater compliance was recorded with the following provisions of the Code relating to the company's remuneration policy:
 - The company's remuneration policy was approved by shareholders at the general meeting.
 - The company's approved remuneration policy is available on the website of the company free of charge.
 - The annual remuneration report includes data on the remuneration of individual supervisory board members and other information referred to in Article 57 of the Code.
- ✓ As regards the section "Supervisory board and its committees", a higher level of compliance with the following provisions was recorded:
 - Supervisory board meeting minutes contain information on voting results, including details on how individual members voted.
 - Supervisory board members receive regular updates and briefings from the management board and experts on matters relevant to the company and to their duties as supervisory board members.
- ✓ Most issuers (77 or 100%) showed the highest level of compliance with the provisions of the Code relating to:
 - the holding of supervisory board meetings (supervisory board meetings may be held without the presence of management board members when the supervisory board finds it appropriate)
 - relations with shareholders (the company has ensured that all shareholders, irrespective of the number or class of shares they hold, have equal access to information on the company and on how they can exercise and protect their rights)
 - voting at the general meeting (the statute and/or other internal regulations provide shareholders with the opportunity to exercise their voting rights by proxy without any restrictions).
- ✓ The smallest share of the issuers (3 or 4%) complied with the provision of the Code relating to:
 - annual report (a progress report was published in the annual report).

Recommendations for improving the quality of corporate governance reporting

Hanfa received compliance questionnaires from the issuers for the year 2019 for the first time. Questions from the compliance questionnaire were answered by the issuers "YES", "NO" or "Partially", which was the case in 2020 as well.

In accordance with the Code, the issuers should provide explanations for questions answered to with "NO" or "Partially", i.e., they should:

- provide details on the part of the provision of the Code they fail to comply with and the reasons for non-compliance

- describe actions they have taken or intend to take instead of complying with the provision of the Code to make sure they meet the objective set out in the relevant Code principle
- if they intend to comply with the Code provision in the future, specify when they will start doing so.

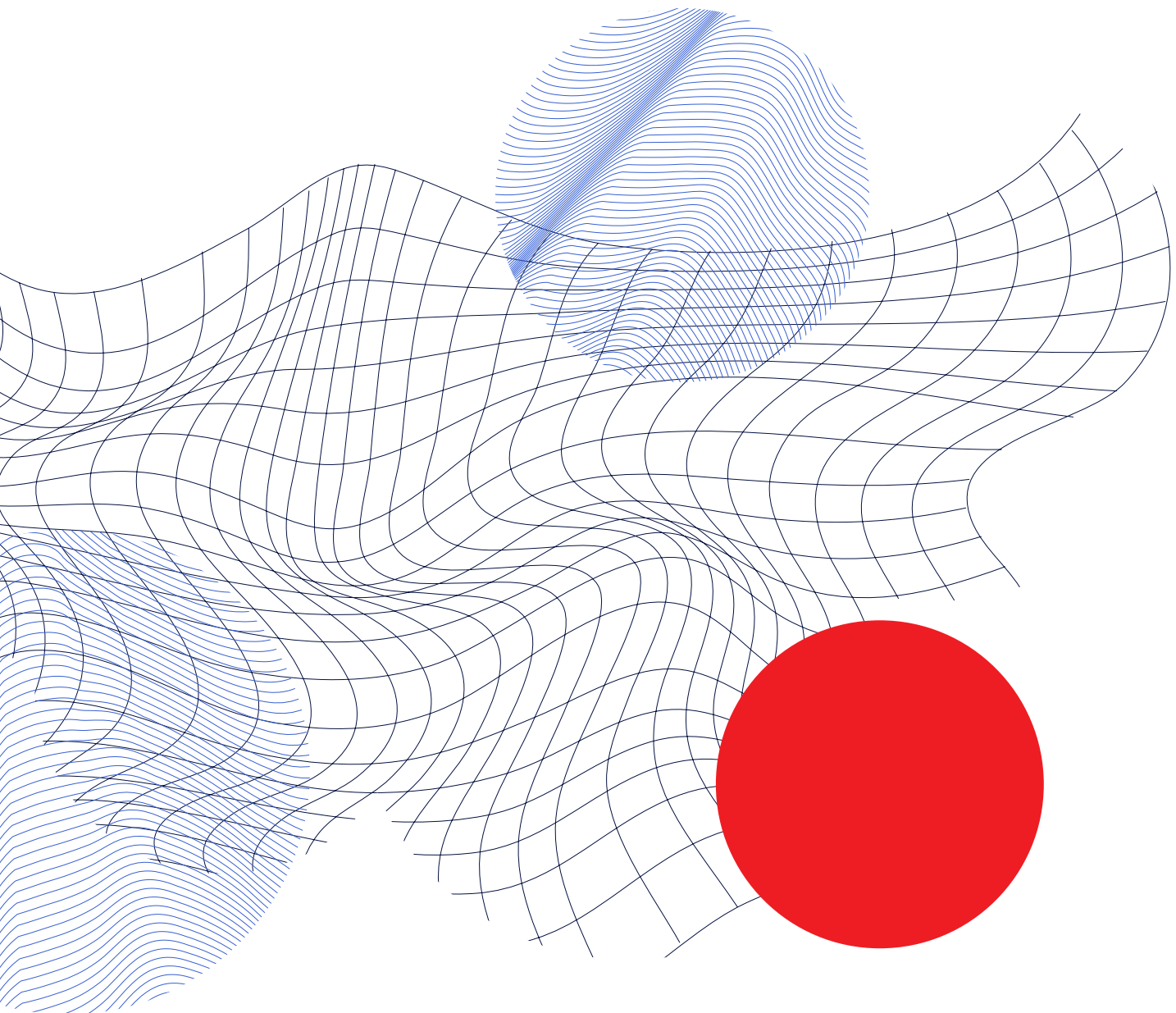
The following table provides examples of adequate and inadequate explanations for those questions from the compliance questionnaire answered to with "NO" or "Partially".

Table 13 Examples of explanations from the compliance questionnaire for share issuers for the year 2020

Provision of the Code	Examples of adequate explanations	Examples of inadequate explanations
The code of conduct (or another internal regulation) is available on the website of the company free of charge.	The internal regulation is being drawn up and is planned to be implemented during 2021. The company plans to start the adjustment process after its business operations are restored to normal, and to finish it in the next two years.	The disclosure was not a requirement in 2020. The provision is being considered. The company will consider the adoption of this regulation.
The management board evaluated its own effectiveness and the effectiveness of its individual member in the last 12 months.	The provision is planned to be implemented in 2021.	There is no such obligation. Not applicable. There is no internal regulation laying down the obligation to evaluate effectiveness.
The supervisory board gave its prior approval for the conflicts of interest management policy.	The conflicts of interest management policy was developed in December 2020. The approval of the Supervisory Board will follow in 2021. A new policy is being adopted for the purpose of ensuring compliance with the Group's rules and with positive regulations of the Republic of Croatia. The policy will be submitted to the Supervisory Board for prior approval.	The policy has not been adopted, conflicts of interest are regulated by the Code. Not laid down.
No transactions between members of the management board or supervisory board and the company (or persons related to any of the parties) may be concluded without prior approval of the supervisory board.	The internal regulation governing approval and disclosure of transactions between members of the Management Board or Supervisory Board and the company stipulates that no such transaction may be concluded without prior approval of the Supervisory Board, except for transactions resulting from tasks carried out by members of the Management Board or Supervisory Board, which are subject to special decisions of the competent bodies of the company, and for legal transactions resulting from business activities of the company, which do not deviate from market conditions.	There were no such transactions. Not laid down. Such transactions, if any, are defined by commercial contracts.
When requesting prior approval of the supervisory board, the management board specifies how recommended measures comply with the policies relating to the environment and community, protection of human and workers' rights, and prevention of bribery and corruption.	All necessary explanations are provided at the Supervisory Board's meeting at which the decision is adopted. If a decision is related to or has an impact on the policies in question, appropriate explanations are contained in accompanying documents.	There is no internal regulation laying down such obligation. Not our practice. Not considered necessary.

Source: Compliance questionnaire 2020

The explanation provided for "NO" or "Partially" answers is extremely important as the issuers have an opportunity to provide their own reasons that led to non-compliance or partial compliance. It is therefore important to provide reasons for non-compliance in the explanation given for "NO" or "Partially" answers and to specify when and how the issuers intend to comply with the relevant provision in future, in order to check the progress as regards compliance in future reporting periods. The issuers need to make sure they obey the deadlines and manner of compliance they specified as regards the compliance with the relevant provision of the Code. Actions taken in accordance with the manner and deadlines defined and specified by the issuers in the questionnaire may be subject to verification by Hanfa. In the case of non-compliance with the manner and deadlines specified, Hanfa is authorised to request the issuers to submit information, data, statements, reports and documentation relating to corporate governance and the application of the corporate governance code.



Annual report on corporate governance for share issuers

Introduction

Data shown in this annual report on corporate governance for issuers whose shares are admitted to trading on the regulated market of the ZSE are presented in line with the sections of the Corporate Governance Code, the compliance questionnaire and governance practices questionnaire, and relate to the supervisory board and its committees (Sections 3 and 4 of the Code), management board (Section 5 of the Code), duties of board members (Sections 1 and 2 of the Code), remuneration of board members (Section 6 of the Code), risk, internal control and audit (Section 7 of the Code), general meeting (Section 9 of the Code) and transparency and corporate social responsibility (Sections 8 and 10 of the Code).

The issuers submit two questionnaires to Hanfa: governance practices questionnaire and compliance questionnaire. The compliance questionnaire is publicly disclosed. Since the Code does not apply to issuers of shares of closed-ended investment funds, these issuers submit to Hanfa only their governance practices questionnaire.

Out of 99 issuers whose shares were admitted to trading on the regulated market on 31 December 2020, 96 were obliged to submit to Hanfa their governance practices questionnaire and compliance questionnaire for 2020, while 3 were obliged to submit only their governance practices questionnaire.

Out of 96 issuers obliged to submit their governance practices questionnaire and compliance questionnaire, all 96 issuers (100% of the submitters) met the obligation to submit their governance practices questionnaire, and 96 issuers (100% of the submitters) submitted their compliance questionnaire.

Out of 3 share issuers obliged to submit to Hanfa their governance practices questionnaire, 3 share issuers (100% of the submitters) submitted the 2020 questionnaire.

Data shown in this Chapter cover the data from the 2020 governance practices questionnaire and compliance questionnaire for all share issuers who submitted their questionnaires to Hanfa (data from the governance practices questionnaire for 99 issuers and data from the compliance questionnaire for 96 issuers who submitted their 2020 compliance questionnaire).

A total of 85 issuers (89% of the submitters) published their 2020 compliance questionnaire on the website of the ZSE within the prescribed deadline.

The regulated market of the ZSE is divided into three segments: Prime Market (PM), Official Market (OM) and Regular Market (RM), which differ in the level of requirements to be met by the issuers. The Prime Market is the most demanding market segment as regards transparency requirements, while the Regular Market sets only minimum transparency requirements. The Prime Market segment was established by the ZSE at the end of 2018.

In 2020, the ZSE turnover amounted to HRK 3.1bn, rising by 4.3% compared with the previous year. The share turnover reached HRK 2.3bn, 17% less in comparison with 2019. At end-2020, there were 99 shares admitted to trading on the regulated market of the ZSE (15 share issuers fewer compared with 31 December 2019), while the number of issuers has been decreasing continuously since 2015. In 2020, shares of 20 issuers were removed from the regulated market (all from the Regular Market), and shares of 5 issuers were admitted to trading (1 on the Official Market, 4 on the Regular Market).

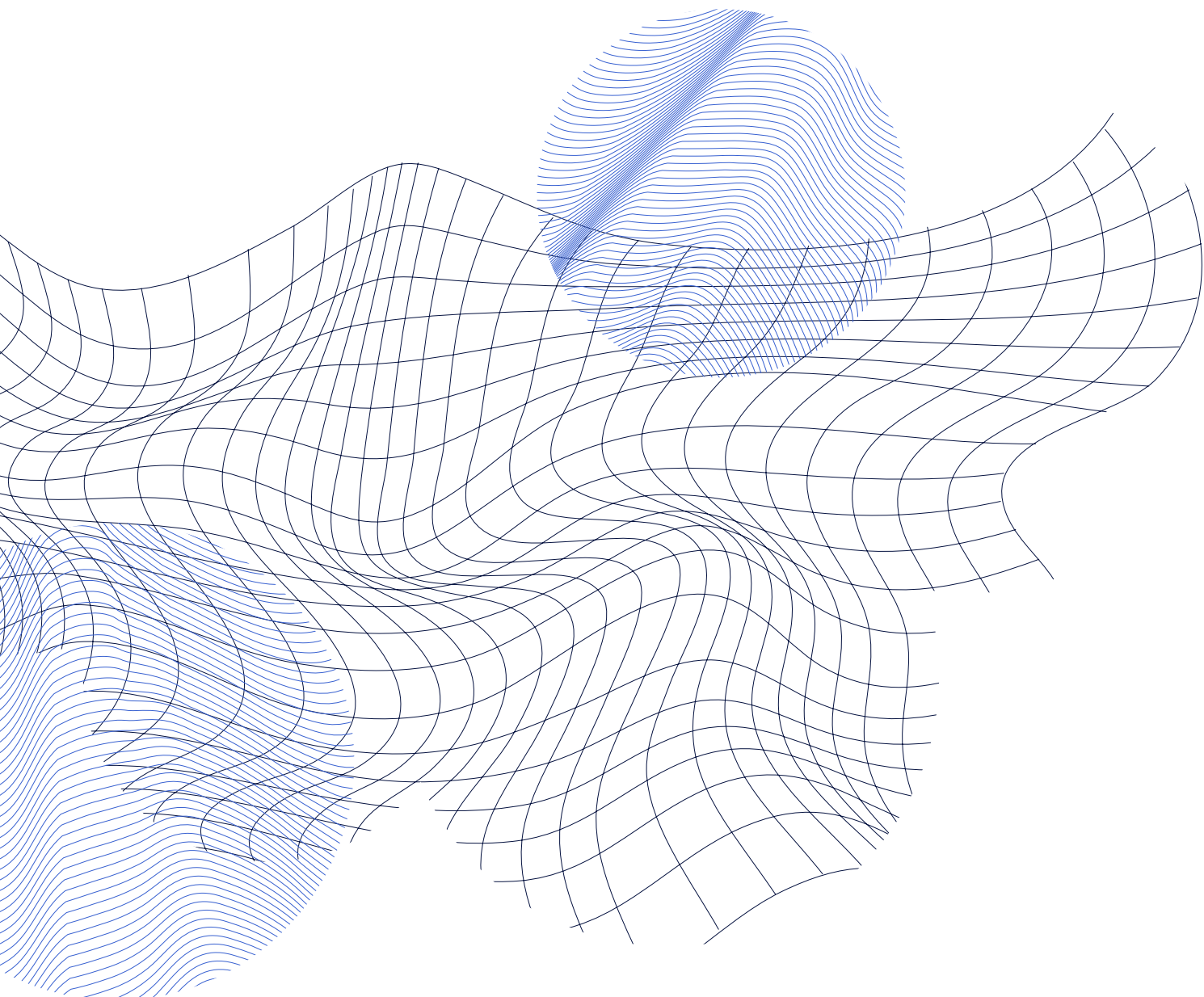
In 2019, more than half of the share turnover (74%) was recorded on the Regular Market, as the largest part of the shares (90) was admitted to trading in this segment of the regulated market. In 2020, the largest share turnover was also recorded on the Regular Market (38% of the total share turnover), but it decreased relative to the previous year. Trading in shares admitted to the Prime Market accounted for 34% of the total share turnover in 2020, while trading in shares admitted to the Official Market accounted for 28%.

Market capitalisation of shares decreased by about 7% compared to the end of 2019, and at the end of 2020 amounted to HRK 137.2bn, due to a decrease in the market capitalisation of shares admitted to the Official Market (a decrease of around 30%). On the other hand, market capitalisation of shares admitted to the Prime Market increased (by 87%). This was caused by the transfer of shares of HT d.d. from the Official Market to the Prime Market. In addition, two issuers listed their shares on the Official Market (Sunce Hoteli d.d.) and the Regular Market (Imperial Riviera d.d.).

In 2020, the share turnover in the Prime Market amounted to HRK 1.1bn, a significant increase (of about 101%) relative to the previous year. In 2020, 5 new issuers listed their shares on the regulated market of the ZSE (Helios Faros d.d., The Garden Brewery d.d., Modra Špilja d.d. and Vis d.d. on the Regular Market, and CIAK Grupa d.d. on the Official Market), while 20 shares were removed from trading on the regulated market.

The CROBEX stock index concluded the year 2020 at a level of 1,739.29 points, which was by 14% lower relative to the previous year. All stock indices fell in 2020 relative to 2019, except for CROBEXindustrija (it grew by 8%) and CROBEXkonstrukt (it grew by 38%).

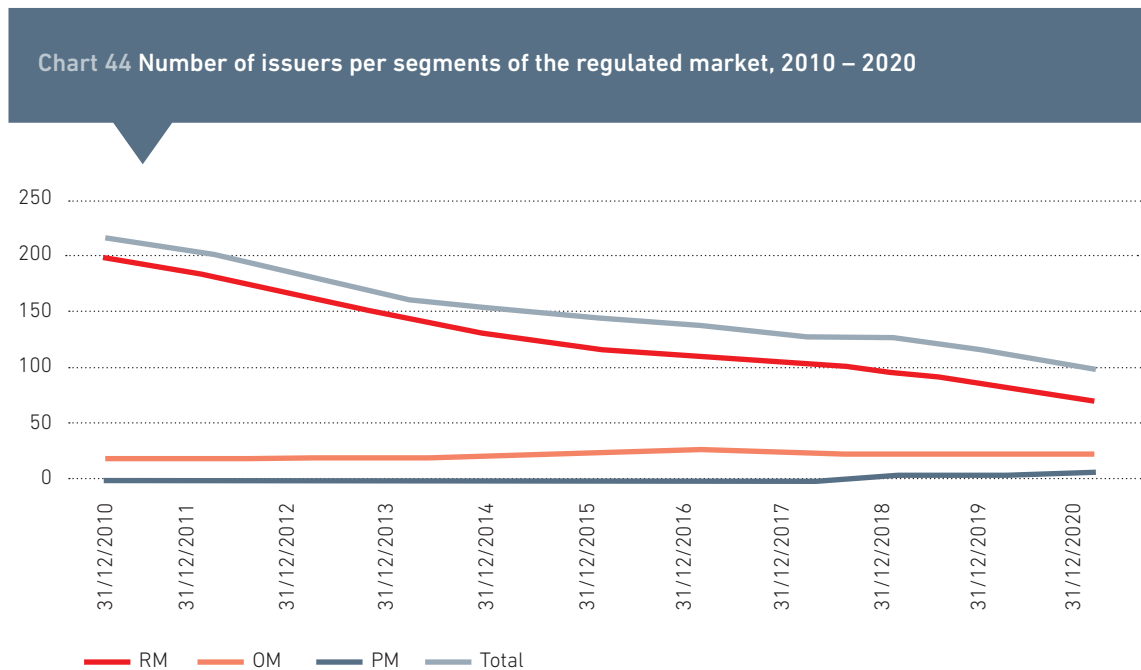
Most traded shares were those of Hrvatski Telekom d.d., Valamar Riviera d.d., Adris Grupa d.d. and Podravka d.d.; their total turnover reached HRK 1,029,113,491, accounting for 45% of the total share turnover in 2020.



Short overview on share issuers

Number of share issuers

The 2010 - 2020 period is marked by a visible trend in the decrease in the number of issuers on the regulated market of the ZSE. A total of 20 companies removed their shares from trading on the regulated market (all of them from the Regular Market). The following chart provides an illustrative overview of the number of issuers by segments on the regulated market of the ZSE.



Source: ZSE, internal calculation

There is a significant decrease in the total number of issuers whose shares are admitted to the regulated market of the ZSE, which has been further contributed over the years by the decrease in the number of issuers whose shares are admitted to the Regular Market of the ZSE. In addition, there is a slight decrease in the number of issuers whose shares are admitted to the Official Market of the ZSE, and a slight increase in the number of issuers whose shares are admitted to the Prime Market of the ZSE. The Prime Market has existed since 2018 and in each of the previous two years of its existence one issuer was admitted to it (transfer of the shares of the issuers Valamar Riviera d.d. and HT d.d. From the Official Market to the Prime Market of the ZSE).

The table below gives a detailed overview of the number of issuers, as well as percentage changes in the number of issuers relative to the previous year.

Table 14 Number of share issuers on the regulated market of the ZSE from 2015 to 2020, as at 31 December

RM	2015	2016		2017		2018		2019		2020	
	Number	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)
PM	-	-	-	-	-	4	-	5	25	6	20
OM	26	27	3.8	26	-3.7	24	-7.7	23	-4.2	22	-4.3
RM	118	112	-5.1	105	-6.3	98	-6.7	86	-12.2	71	-17.4
Total	144	139	-3.5	131	-5.8	126	-3.8	114	-9.5	99	-13.2

Source: ZSE, internal calculation

At the end of 2020, there were 99 share issuers, 13.2% fewer compared to 31 December 2019, when there were 15 issuers more having their shares admitted to the regulated market. Broken down by regulated market segments, the largest decrease in the number of issuers was recorded on the Regular Market (15 issuers fewer than at the end of 2019). In 2020, one issuer transferred from the Official Market to the Prime Market, and one transferred from the Official Market to the Regular Market.

Shares not traded at all

- ✓ The following shares were not traded at all from the moment of their admission to trading on the regulated market of the ZSE until 31 December 2020:
 - ordinary share of the issuer Professio Energia d.d., bearing the symbol DLPR-R-A
 - preferential share of the issuer Plava laguna d.d., bearing the symbol PLAG-P-A
 - ordinary share of the issuer Stanovi Jadran d.d., bearing the symbol STJD-R-A
 - ordinary share of the issuer The Garden Brewery d.d, bearing the symbol GARB-R-A
 - ordinary share of the issuer Modra Špilja d.d., bearing the symbol MDSP-R-A (traded for the first time in 2021)
 - ordinary share of the issuer Helios Faros d.d., bearing the symbol HEFA-R-A (traded for the first time in 2021)
 - ordinary share of the issuer CIAK Grupa d.d., bearing the symbol CIAK-R-A (traded for the first time in 2021).

Admissions to trading and removals from trading on the regulated market of the ZSE

- ✓ In 2020, shares of 5 issuers were admitted to trading on the regulated market of the ZSE:
 - ordinary shares of the company Helios Faros d.d. were admitted to trading on the Regular Market on 30 April 2020
 - ordinary shares of the company The Garden Brewery d.d. were admitted to trading on the Regular Market on 9 June 2020
 - ordinary shares of the company Modra Špilja d.d. were admitted to trading on the Regular Market on 1 October 2020
 - ordinary shares of the company Vis d.d. were admitted to trading on the Regular Market on 1 October 2020
 - ordinary shares of the company CIAK Grupa d.d. were admitted to trading on the Official Market on 29 December 2020

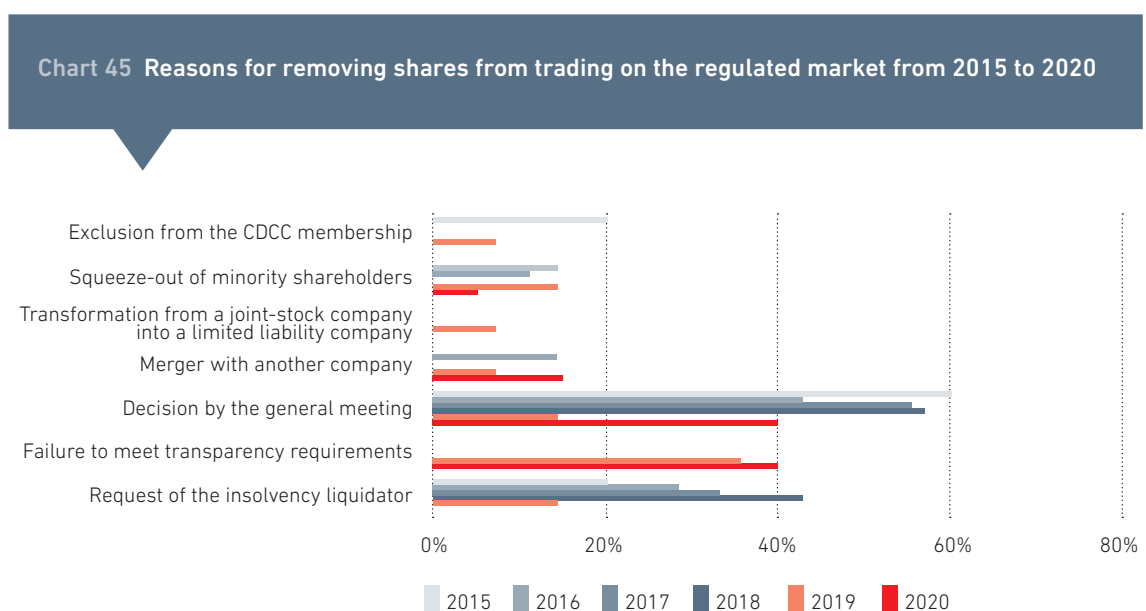
✓ In 2019, two issuers listed their shares on the regulated market of the ZSE for the first time (ordinary shares of Meritus ulaganja d.d. were admitted to trading on the Official Market on 6 August 2019, and ordinary shares of Professio Energia d.d. were admitted to trading on the Regular Market on 4 October 2019).

In 2018, shares of 2 issuers were admitted to trading on the regulated market of the ZSE for the first time (ordinary shares of Jadran d.d. were admitted to trading on the Official Market on 8 January 2018, and shares of Stanovi Jadran d.d. were admitted to trading on the Official Market on 29 June 2018).

In 2020, 20 issuers removed their shares from trading on the Regular Market, and no issuers did so from the Official Market or Prime Market (in 2019, 14 issuers removed their shares from trading on the Regular Market in 2019, while 7 issuers did so in 2018).

The most common reasons for removing shares from trading on the Regular Market in 2020 were the decision of the general meeting (8 issuers) and failure to meet transparency requirements laid down by ZSE Rules (8 issuers). Furthermore, three issuers underwent the procedure of merging with another joint-stock company whose shares had already been admitted to trading on the regulated market, and one issuer underwent the procedure of the squeeze-out of minority shareholders.

The above-mentioned reasons for removing shares from trading on the regulated market from 2015 to 2020 are shown in the chart below.



Source: ZSE

In the period between 2015 and 2020, the largest number of shares (28) were removed from trading on the regulated market on the basis of a decision by the general meeting. Eight shares were removed from trading on the regulated market in 2020 (5 shares in 2019) due to failure to meet transparency requirements, while in the preceding period, from 2015 to 2018, no shares were removed from trading on the regulated market due to this reason.

In the period observed, out of 67 shares that were removed from trading on the regulated market, 1 was removed from the Official Market, and the remaining 66 shares were removed from the Regular Market. Since 2018, when the Prime Market was established, no shares have been removed from trading from this segment of the regulated market.

Classification of issuers by sectors

With respect to activities they carry out, the issuers are classified into the financial and non-financial sector. The financial sector is comprised of financial institutions and closed-ended alternative investment funds, while the non-financial sector covers other activities. The classification of issuers by sectors in the period from 2015 to 2020 is shown in Table 15.

Table 15 Classification of issuers by sectors in the period from 2015 to 2020, as at 31 December

Sectors	2015		2016		2017		2018		2019		2020	
	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)
Financial sector	17	11.8	15	10.8	14	10.7	12	9.5	12	10.5	12	12.1
Non-financial sector	127	88.2	124	89.2	117	89.3	114	90.5	102	89.5	87	87.9
Total	144	100	139	100	131	100	126	100	114	100	99	100

Source: ZSE

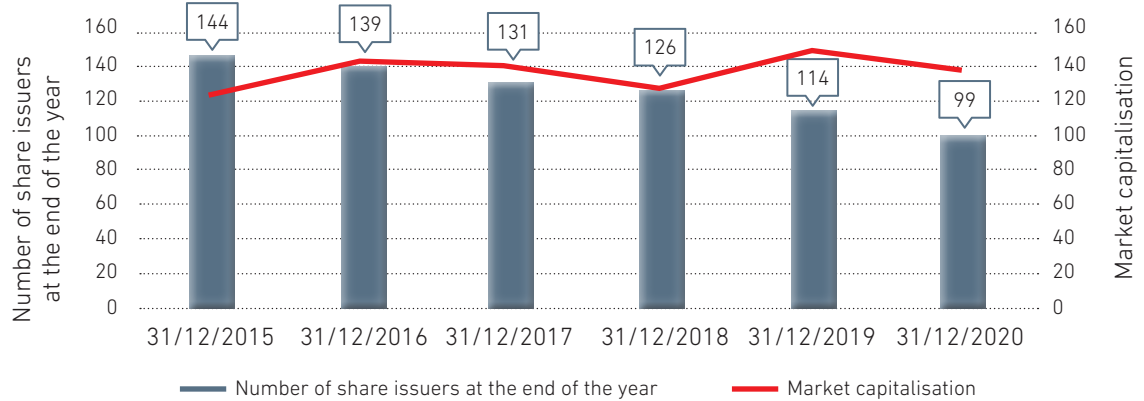
According to the publicly available data of the ZSE, as at 31 December 2020, the largest number of share issuers came from the tourism industry (23 of them, while at the end of 2019, this number was 26). They are followed by share issuers from financial and insurance activities (18 of them; 18 in 2019, as well), from food industry and beverages and tobacco product manufacturing industry (12 of them; 17 in 2019) and from transportation and storage activities (10 of them; 10 in 2019). Other industries/activities counted less than 10 issuers per industry/activity, as at 31 December 2020.

Market capitalisation

- / At the end of 2020, market capitalisation of shares admitted to trading on the Prime Market amounted to HRK 28,716,090,399, increasing by 86.5% compared to 31 December 2019 (when it reached HRK 15,395,492,904), partly due to the transfer of shares of HT d.d. from the Official Market to the Prime Market at the end of April 2020, and to a rise in share prices.
- / Market capitalisation of shares admitted to trading on the Official Market reached HRK 41,567,941,43, decreasing by 29.7% relative to 31 December 2019, when it stood at HRK 59,131,758,922. This decrease primarily resulted from the fact that the shares of HT d.d. were admitted to the Prime Market of the ZSE at the end of 2020.
- / As at 31 December 2020, total market capitalisation of shares admitted to trading on the Regular Market (not including closed-ended alternative investment funds) amounted to HRK 67,042,573,881, decreasing by 9% relative to the end of the previous year when it amounted HRK 73,456,186,221, which is partly the consequence of a large number of issuers removing their shares from trading.
- / Market capitalisation of shares of all 99 issuers that submitted their 2020 governance practices questionnaire amounted to HRK 137,326,605,717 (100% of total market capitalisation of all the shares admitted to trading as at 31 December 2019).

The total market capitalisation of shares admitted to trading on the regulated market is shown in the chart below, together with the number of share issuers at the end of each year.

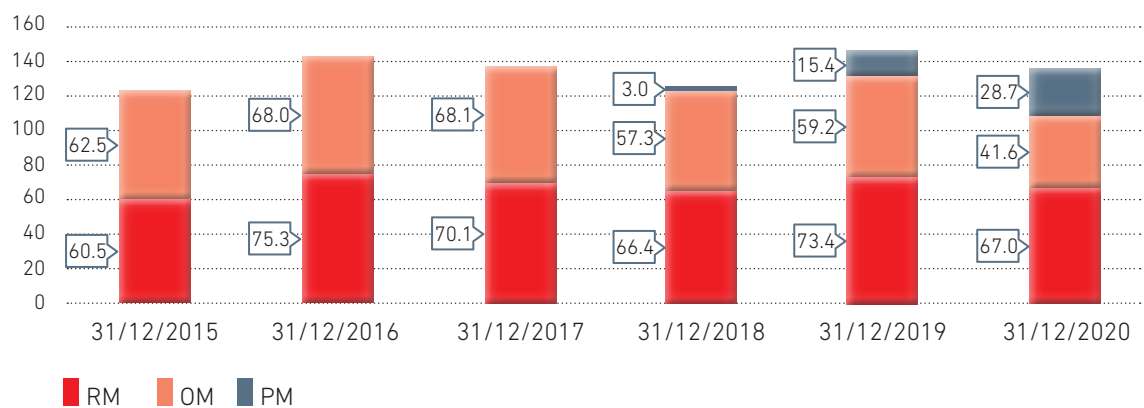
Chart 46 Market capitalisation of shares (in HRK billion) admitted to trading on the regulated market and the number of issuers at the end of each year, from 2015 to 2020



Source: ZSE

Market capitalisation of shares in the period from 31 December 2015 to 31 December 2020 by segments of the regulated market to which they are admitted is shown in the chart below.

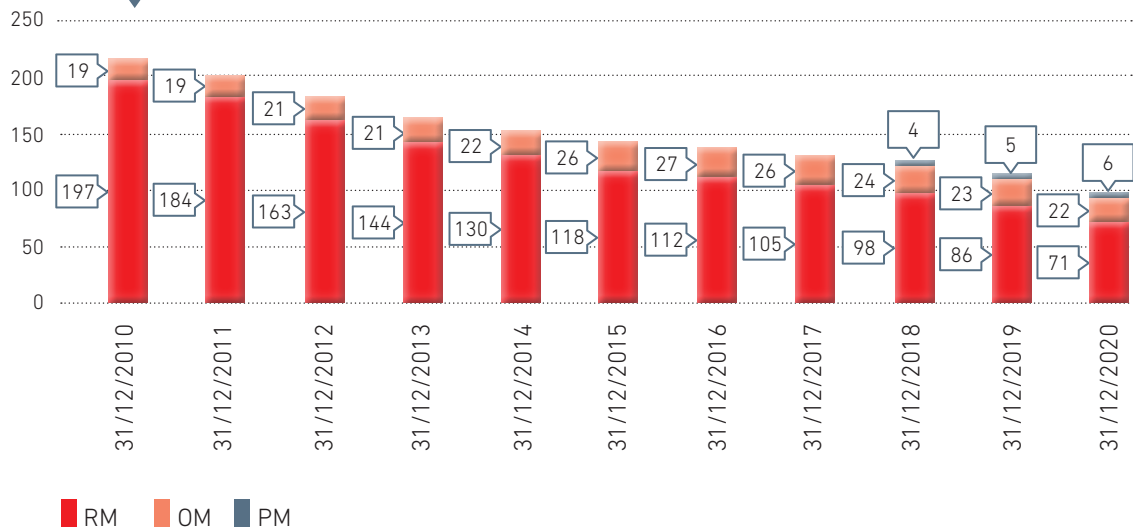
Chart 47 Market capitalisation of shares (in HRK billion) by segments of the regulated market from 2015 to 2020



Source: ZSE

The market capitalisation of shares admitted to the Regular Market and Official Market decreased compared to 2019, primarily due to the transfer of one issuer with a significant amount of market capitalisation (HRK 14.7bn) from the Official Market to the Prime Market. The decrease in the market capitalisation of shares admitted to trading on the Regular Market was primarily contributed to by 20 issuers removing their shares from trading in 2020.

Chart 48 Number of share issuers by segments of the regulated market from 2010 to 2020



Source: ZSE

The number of issuers on the regulated market of the ZSE has been declining continuously for the last 10 years, more specifically, the number of issuers whose shares are admitted to trading on the Regular Market and Official Market, whereas the segment of the Prime Market, that has existed since 2018, recorded a rise in the number of issuers at the end of 2020 relative to previous years. At the end of 2020, there were 71 issuers on the Regular Market, 22 issuers on the Official Market and 6 issuers on the Prime Market.

Capital and its origin

The following text provides an overview of the initial capital of share issuers, ownership structure of share issuers and the origin of share issuers' capital from 2015 to 2020.

Initial capital

The initial capital of 99 share issuers at end-2020 reached HRK 55,874,101,199, ranging between HRK 3.6m and HRK 10.24bn (the initial capital of 114 share issuers at end-2019 amounted to HRK 64.9bn, ranging from HRK 3.6m to HRK 10.24bn).

According to data from the court register, 3 issuers increased their initial capital during 2020 (6 issuers did so in 2019), while 1 issuer reduced its initial capital (2 issuers did so in 2019).

Net change in the capital of share issuers amounted to HRK 61,009,960 in 2020.

Table 16 Number of issuers whose shares are admitted to trading on the regulated market of the ZSE, initial capital and market capitalisation (in HRK billion) from 2015 to 2020

Number of issuers						Initial capital and market capitalisation	2015	2016	2017	2018	2019	2020
2015	2016	2017	2018	2019	2020							
144	139	131	126	114	99	Initial capital (HRK bn)	61.4	60.5	60.0	60.7	64.9	55.8
						Market capitalisation (HRK bn)	122.9	143.2	138.3	137.2	148.0	137.3

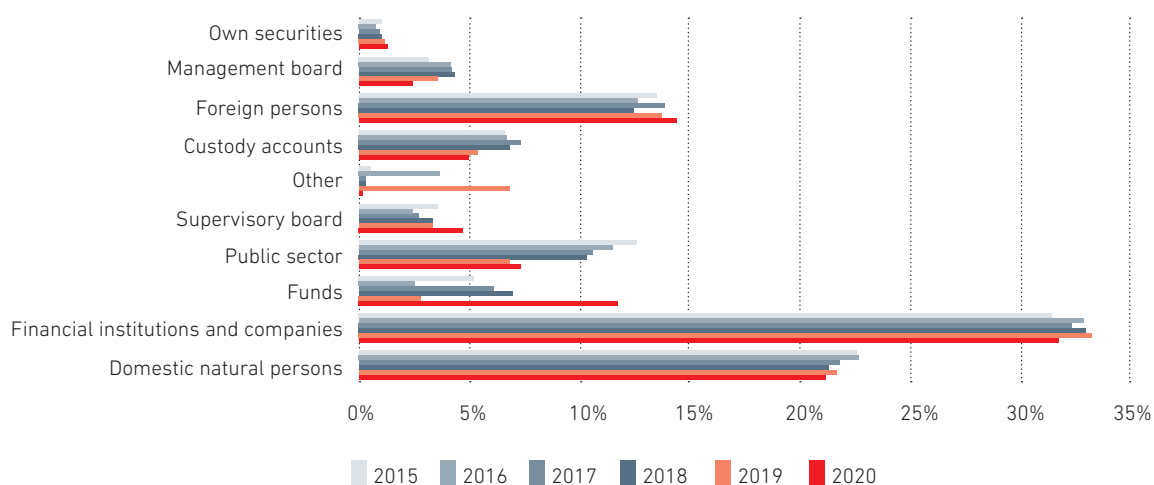
Source: court register, CDCC

Ownership structure

The ownership structure of the share issuers has been developed on the basis of information received from the CDCC. The ownership structure has been analysed by groups of shareholders, with the sum of all groups making up 100.0% of the issuers' ownership structure (one shareholder may be allocated to only one group). The issuers' ownership structure is divided into the following categories: own shares, financial institutions and companies, funds (investment and pension funds with their registered offices in the Republic of Croatia), public sector (Republic of Croatia), management board members, supervisory board members, domestic natural persons (except for members of the management and supervisory board), foreign persons (except for members of the management and supervisory board), custody accounts and other.

Chart 49 shows the ownership structure of the share issuers in the period from 2015 to 2020 by the above-mentioned categories.

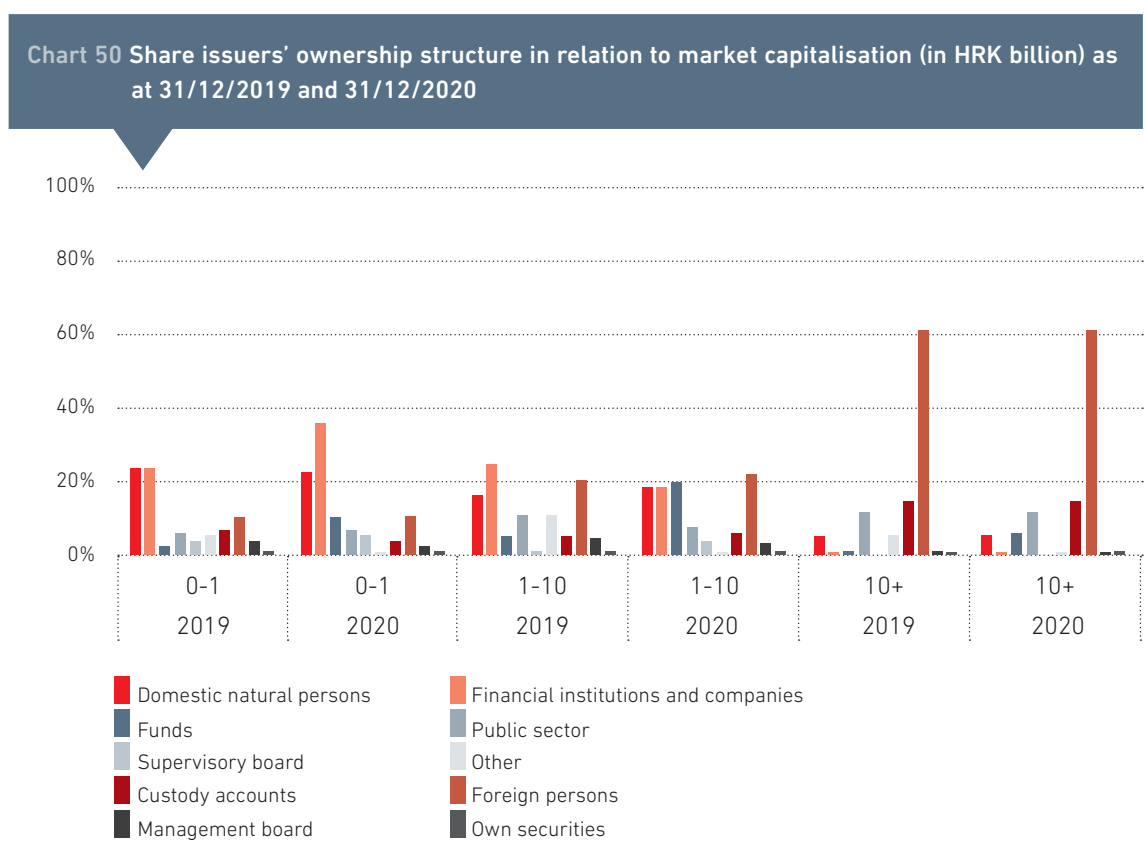
Chart 49 Share issuers' ownership structure from 2015 to 2020



Source: CDCC

- As at 31 December 2019, the share issuers' ownership structure was dominated by financial institutions and companies with a 32% share (33% in 2019), followed by domestic natural persons with a 21.2% share (22% in 2019) and foreign persons with a 14% share (14% in 2019).
- The share of funds in the ownership structure of share issuers increased from 3% as at 31 December 2019 to 12% at the end of 2020 (this is because in 2020 the share of pension funds started to be recorded in the Funds category, while at the end of 2019 they were in the Other category).
- In the 2015-2020 period, the share issuers' ownership structure did not change significantly, and was dominated by financial institutions and companies with a proportion of about 32%, followed by domestic natural persons with a proportion of about 22%.

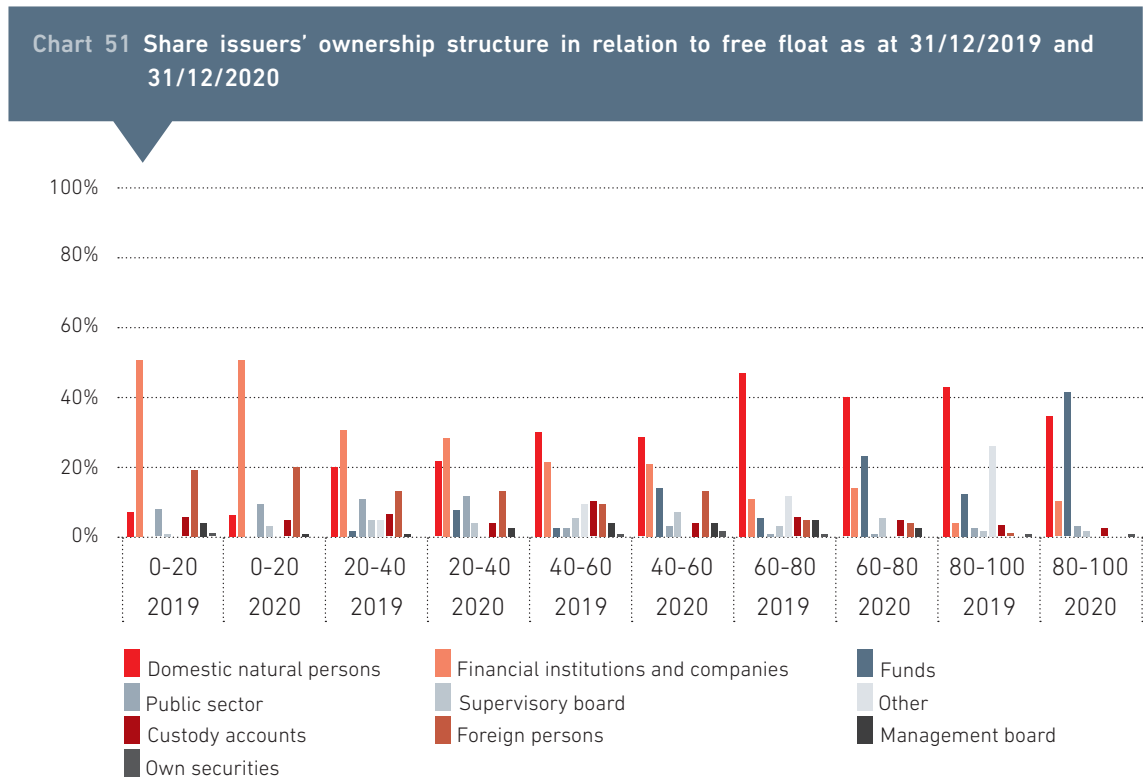
Chart 50 shows the share issuers' ownership structure at the end of 2019 and 2020, with respect to market capitalisation.



Source: CDCC

- At the end of 2020, the ownership structure of share issuers with a market capitalisation larger than HRK 10bn did not change significantly compared with the end of 2019. Foreign persons still dominated, with a 62% share (their share reached 62% at the end of 2019, as well), while the share of funds increased (to 6%), because in 2020 the share of pension funds started to be recorded in the Funds category, while at the end of 2019 they were in the Other category (at the end of 2019, their share stood at 0.5%).
- As at 31 December 2020, foreign persons had a 22% share in the ownership structure of issuers with a market capitalisation between HRK 1bn and HRK 10bn, followed by funds with 20%, financial institutions and companies with 19% and domestic natural persons with 18% (at the end of 2019, the funds' share amounted to 5%).
- A 36% share in the ownership structure of issuers with a market capitalisation of up to HRK 1bn was accounted for by financial institutions and companies (at the end of 2019, financial institutions and companies made up a 36% share), followed by domestic natural persons with a 23% share.

The chart below shows the share issuers' ownership structure as at 31 December 2020 in relation to free float.



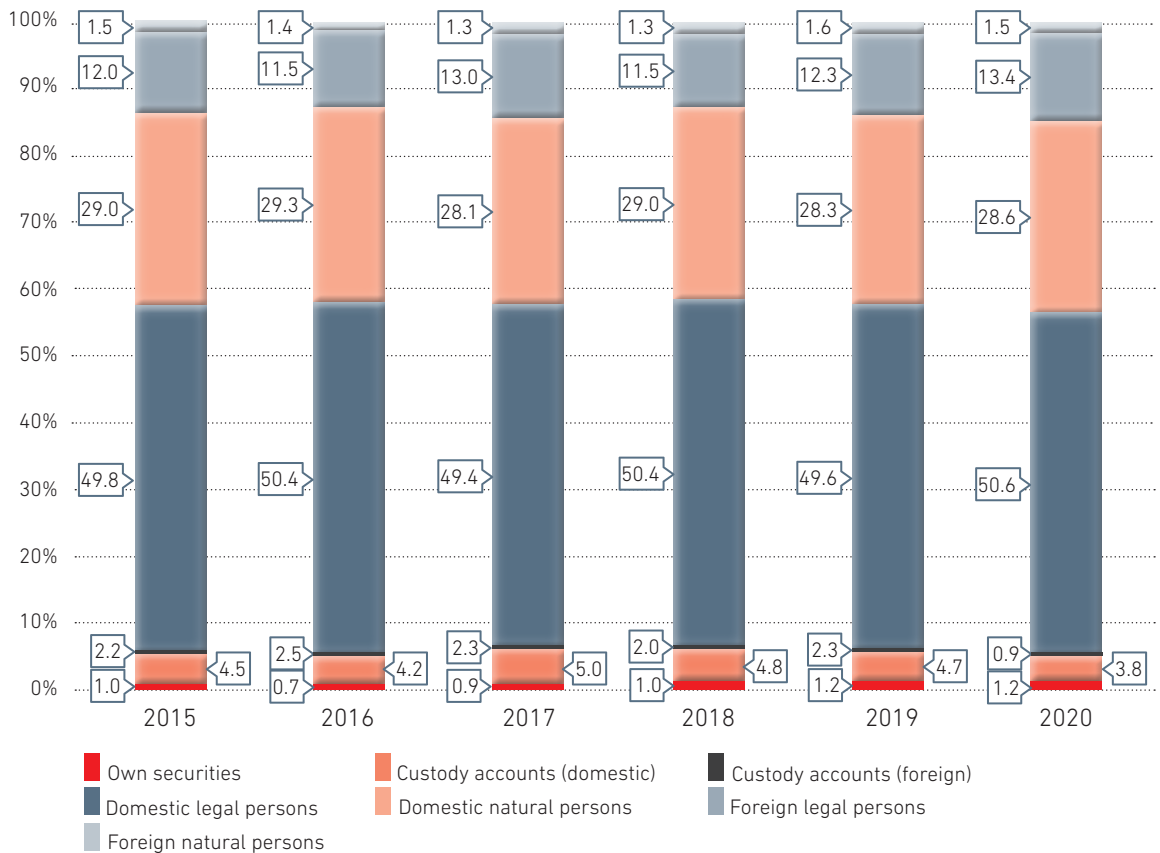
Source: CDCC

- As at 31 December 2020, the ownership structure of share issuers with a free float of up to 20% was dominated by financial institutions and companies with a 51% share, whereas foreign persons accounted for a 21% share (at the end of 2019, the ownership structure was dominated by financial institutions and companies with a 51% share).
- The ownership structure of share issuers with a free float between 80% and 100% was dominated by funds with a 42% share (at the end of 2019, funds had a 13% share, the reason for the increase lies behind the fact that in 2020 the share of pension funds started to be recorded in the Funds category, while at the end of 2019 they were in the Other category). Domestic natural persons accounted for a 40% share in the ownership structure of share issuers with a free float ranging between 60% and 80%.

Origin of share issuers' capital

Chart 52 shows the ownership of shares in the period from 2015 to 2020 by capital origin according to the following categories: domestic natural persons, domestic legal persons, custody accounts (HR), custody accounts (foreign), foreign natural persons, foreign legal persons and own securities.

Chart 52 Origin of issuers' capital at the end of 2015, 2016, 2017, 2018, 2019 and 2020



Source: CDCC

In the period from 2015 to 2020, the origin of capital and shares of individual capital categories in share ownership did not change significantly. The largest proportion in the share ownership as at 31 December 2020 was accounted for by domestic legal entities with a 51% share (49% in 2019).

At the end of 2020, the share of domestic capital amounted to 83% (83% at end-2019), while the share of foreign capital reached 16% (16% as at 31 December 2018).

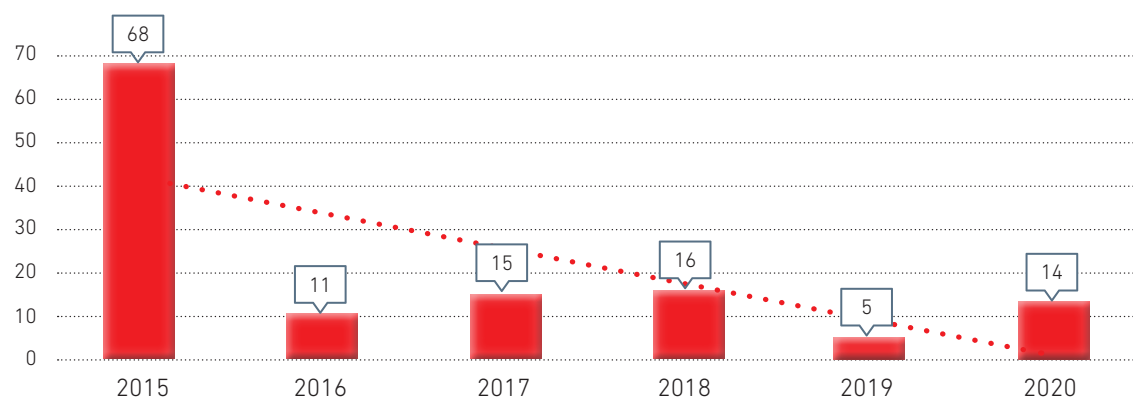
Duties and responsibilities of board members

Conflicts of interest

Conflicts of interest arise if a member of the management or supervisory board or board of directors is not impartial with respect to the subject under consideration or if their relationship to the subject under consideration leads to the assumption that their interests might differ from interests of the company, which may affect their decision-making process.

- / In 2020, there were 14 conflicts of interest (a 180% increase relative to 2019) reported by 4 issuers:
 - 10 conflicts of interest reported by 2 issuers whose shares are admitted to trading on the Official Market,
 - 3 conflicts of interest reported by one issuers whose shares are admitted to trading on the Prime Market, and
 - one case of conflict of interest reported by one issuers whose shares are admitted to trading on the Regular Market.
- / All these reported cases of conflicts in 2020 involved persons who abstained from voting on entering related party transactions.
- / In 2019, 5 cases of conflicts of interest were reported by 2 issuers whose shares were admitted to trading on the Official Market, and the persons involved abstained from voting on entering related party transactions (in 2018, 3 issuers reported 16 cases of conflicts of interests, of which 2 issuers reported 14 cases of conflicts of interest due to which the persons involved abstained from voting on entering related party transactions).
- / In 2020, 4 issuers reported a total of 14 conflicts of interest. Ten cases of conflict of interest were reported by the senior management, 4 cases by the management board and none by the management board (in 2019, there were 5 reported cases of conflict of interest, one reported by the supervisory board and one by the senior management).

Chart 53 Number of cases of conflicts of interest reported during the year in the period from 2015 to 2020



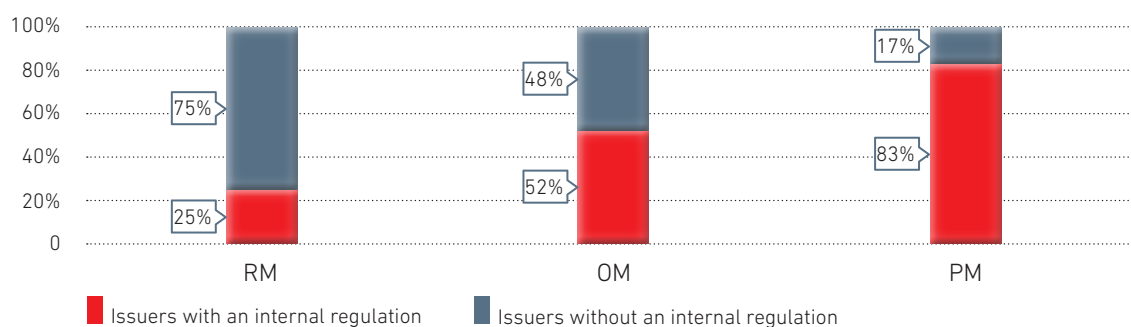
Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

Related party transactions

Pursuant to the Code, the supervisory board should ensure that procedures are in place for approving and publicly reporting related party transactions that comply with legal provisions and financial reporting standards.

- / Compared to 2019, as regards related party transactions, there is a visible improvement (according to the data from the governance practices questionnaire) since in 2020, 34% of issuers have internal rules of procedure in cases of related party transactions (25% issuers in 2019).
- / However, the majority of issuers still do not have internal rules of procedure in cases of related party transactions – 65% of them (74% in 2019).

Chart 54 Share issuers that reported having/not having an internal regulation for cases of related party transactions in 2020 by segments of the regulated market



Source: Governance practices questionnaire 2020

Table 17 sets out the average value of reported transactions concluded by the issuer in the period from 2015 to 2020 with the following stakeholders: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, the senior management of the issuer and within the group the issuer belongs to or is its parent.

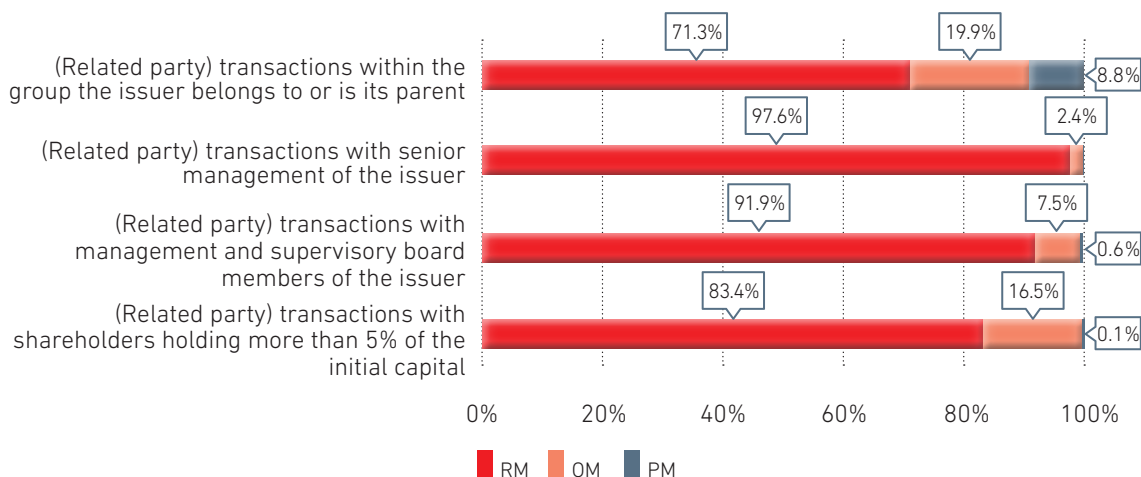
Table 17 Average value of reported related party transactions from 2015 to 2020

		Average gross value (in HRK) of related party transactions concluded by the issuer			
		with shareholders holding more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with the senior management of the issuer	within the group the issuer belongs to or is its parent
2020	Number of issuers having reported the transaction	38	22	13	46
	Transaction value	196,902,219	2,796,438	9,376,777	277,341,280
2019	Number of issuers having reported the transaction	38	21	10	49
	Transaction value	231,338,954	3,250,770	6,832,584	319,914,029
2018	Number of issuers having reported the transaction	40	20	10	45
	Transaction value	184,924,188	4,785,646	4,913,846	322,994,226
2017	Number of issuers having reported the transaction	34	19	8	45
	Transaction value	161,198,802	4,910,966	8,851,501	235,074,283
2016	Number of issuers having reported the transaction	36	22	12	46
	Transaction value	252,381,830	12,715,746	7,139,912	363,163,243
2015	Number of issuers having reported the transaction	37	19	9	50
	Transaction value	271,561,189	10,144,030	5,623,301	408,656,623

Source: Governance practices questionnaire 2019, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- ✓ The total average gross value of related party transactions concluded by issuers in 2020 is lower relative to the past two years and to 2016 and 2015, and higher relative to 2017.
- ✓ The average gross value of related party transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer, board members of the issuer and within the group the issuer belongs to or its parent was lower in 2020 than in 2019.
- ✓ Average gross value of related party transactions concluded by issuers with the senior management of the issuer was higher in 2020 than in 2019.
- ✓ The total number of reported issuers' transactions with board members of issuers in 2020 is the highest in comparison to the period from 2015 to 2019; at the same time, the highest average gross amount of related party transactions was recorded in 2020.

Chart 55 Number of related party transactions concluded by the issuer in 2020, by categories and segments of the regulated market



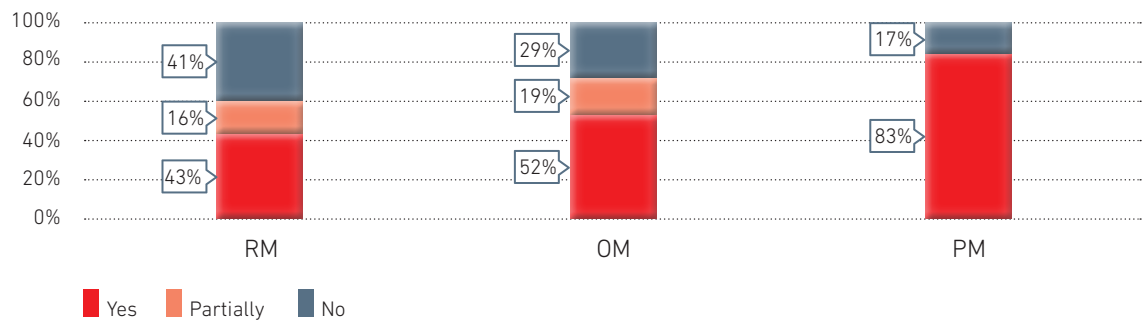
Source: Governance practices questionnaire 2020

- ✓ The largest number of transactions with related parties in 2020 (shareholders holding more than 5% of the issuer's capital during the year, members of the management and supervisory board of the issuer, the senior management of the issuer, within the group the issuer belongs to or is its parent) was concluded by issuers on the Regular Market (79 transactions with their gross value reaching about HRK 15.4bn).
- ✓ The average number of transactions with related parties (of all the categories) amounted to 20 for the Regular Market, 8 for the Official Market and 2 for the Prime Market (in 2019, it amounted to 19 for the Regular Market, 9 for the Official Market and 2 for the Prime Market).

Code of conduct for management and supervisory board members and participation in the decision-making process

Supervisory boards of 48% of the issuers gave their consent to the code of conduct or another internal regulation establishing rules of conduct to be followed by supervisory and management board members, employees and other persons acting on behalf of the company (46% in 2019).

Chart 56 Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2020



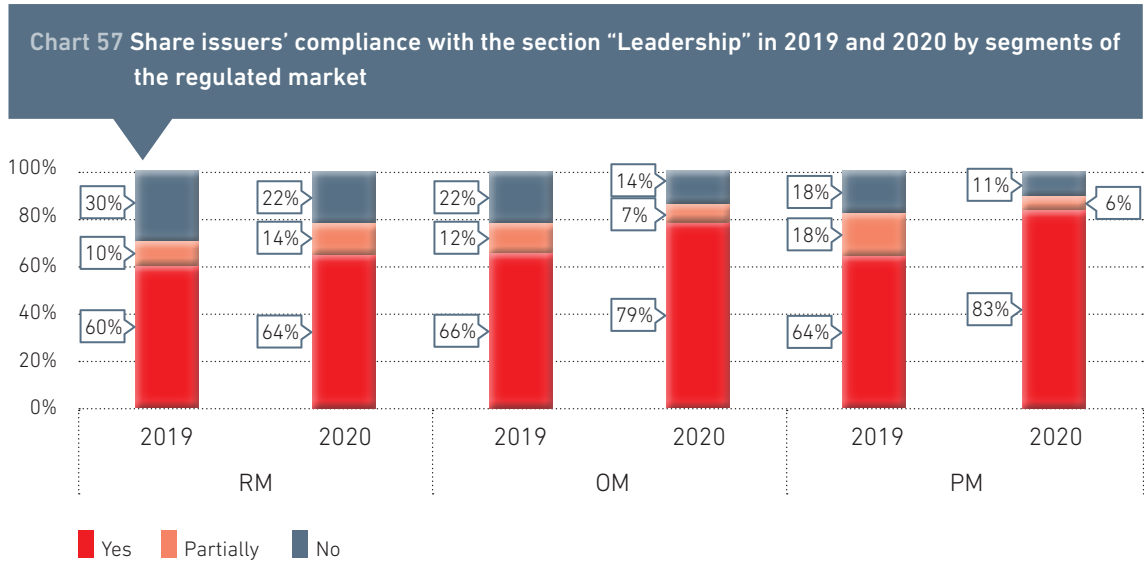
Source: Compliance questionnaire 2020

- ✓ A total of 39% of issuers published their codes of conduct for management and supervisory board members on their websites (26% in 2019).
- ✓ A total of 83% of issuers whose shares are admitted to trading on the Prime Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge. Compared to 2019, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Prime Market (in 2019, 60% of issuers whose shares are admitted to trading on the Prime Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company).
- ✓ A total of 62% of issuers whose shares are admitted to trading on the Official Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge. Compared to 2019, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Official Market (in 2019, 40% of issuers whose shares are admitted to trading on the Official Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company).
- ✓ A total of 44% of issuers whose shares are admitted to trading on the Regular Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge. Compared to 2019, there is a visible improvement regarding the number of issuers whose shares are admitted to trading on the Regular Market (in 2019, 19% of issuers whose shares were admitted to trading on the Official Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company).

Pursuant to the Code, the issuers should lay down the prohibition on the participation in the decision-making processes which give rise to conflicts of interest for management and supervisory board members.

Issuers' compliance with the Code in the area relating to leadership

The following chart shows the issuers' compliance with the section "Leadership" in 2020 in comparison with 2019.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- ✓ The level of compliance with the section "Leadership" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 83%.
- ✓ The issuers whose shares are admitted to trading on the Official Market and Regular Market recorded compliance reaching 79% and 64% respectively.

In 2020, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Leadership" in comparison with 2019.

Supervisory board and its committees

The supervisory board must have enough members in order to be able to fulfil its duties and duties of its committees efficiently. It also needs to develop the supervisory board's profile, which defines the minimum number of its members, as well as a combination of skills, knowledge and qualifications, including professional and practical experience required for membership in the supervisory board.

The Code prescribes that every five years the supervisory board must define a target percentage of female supervisory board members to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been set and a plan for its achievement, while the progress made towards the goal must be disclosed every year.

Pursuant to the Code, the majority of supervisory board members should be independent and must not have any business, family or other relationships with the company, majority shareholder or group of majority shareholders or with members of the management board or supervisory board of the company or of the majority shareholder. The chair or deputy chair of the supervisory board should be independent. Independent supervisory board members ensure the adoption of objective decisions relating to management board

members, the company itself and its shareholders, such as decisions on remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, and audit function.

The function of a management board in a two-tier governance system is the management and representation of the company, and members are appointed by the supervisory board. In a one-tier governance system, this function is performed by executive directors of the company, appointed by the general meeting.

- ✓ Out of 99 issuers whose shares were admitted to trading on the regulated market as at 31 December 2020, 2 issuers had a one-tier governance system, and the remaining 97 issuers reported having a two-tier governance system.
- ✓ Out of 114 issuers whose shares were admitted to trading on the regulated market as at 31 December 2019, 4 issuers had a one-tier governance system, and the remaining 110 issuers reported having a two-tier governance system.

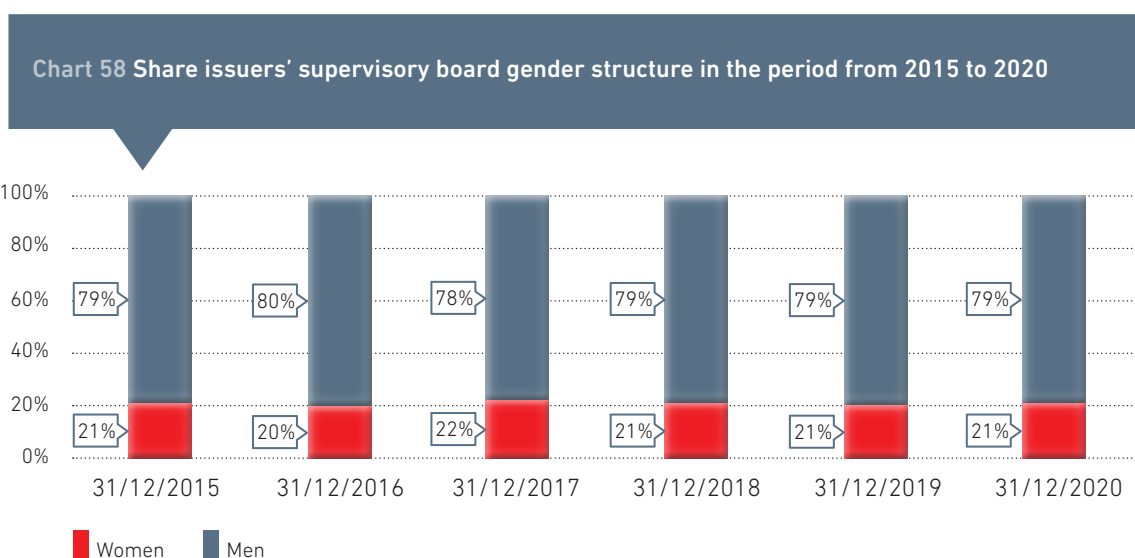
Data relating to executive directors and the chief executive director of issuers with a one-tier governance system are analysed along with data on management board members, while data relating to non-executive directors, deputy chair and chair of the board of directors are analysed along with data on members of the supervisory board of issuers with a two-tier governance system.

The following analysis covers all the share issuers admitted to the regulated market of the ZSE as at 31 December 2015, 2016, 2017, 2018, 2019 and 2020 according to the data from the court register.

Number of members and composition of the supervisory board

- ✓ At the end of 2020, supervisory boards of share issuers consisted of 5 members on average (same as in 2019).
- ✓ At end-2020, the proportion of women on supervisory boards was about 3 times larger than the proportion of women on management boards (at the end of 2019, the proportion of women on supervisory boards was also about 3 times larger than the proportion of women on management boards).

Chart 58 shows the proportion of women and men on supervisory boards of share issuers in the period from 2015 to 2020.

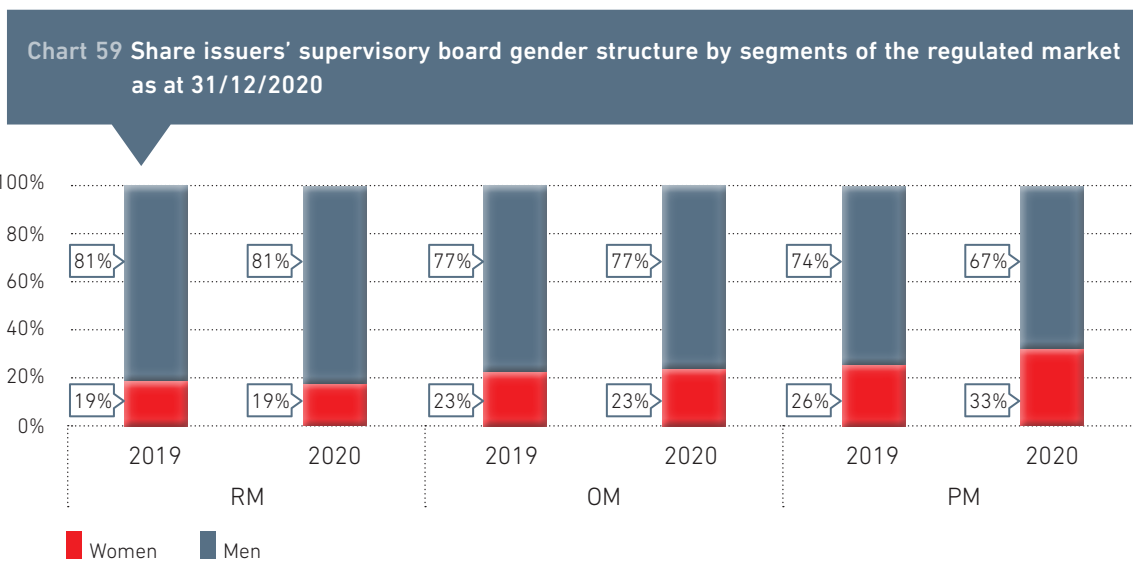


Source: court register¹¹

¹¹ Data on the number and gender of supervisory board members have been analysed based on the data from the court register in order to encompass all of the supervisory board members. It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

- At the end of 2020, the share of women on supervisory boards did not change compared to the previous year, and the share of female members on supervisory boards of share issuers did not change significantly during the observed period.
- Broken down by segments of the regulated market in 2020:
 - the share of women on supervisory boards of the issuers on the Regular Market was 20%
 - the share of women on supervisory boards of the issuers on the Official Market was 25%
 - the share of women on supervisory boards of the issuers on the Prime Market was 30%.

Chart 59 shows the representation of supervisory boards' female members in relation to the total number of the issuers' supervisory board members in 2020 by segments of the regulated market.

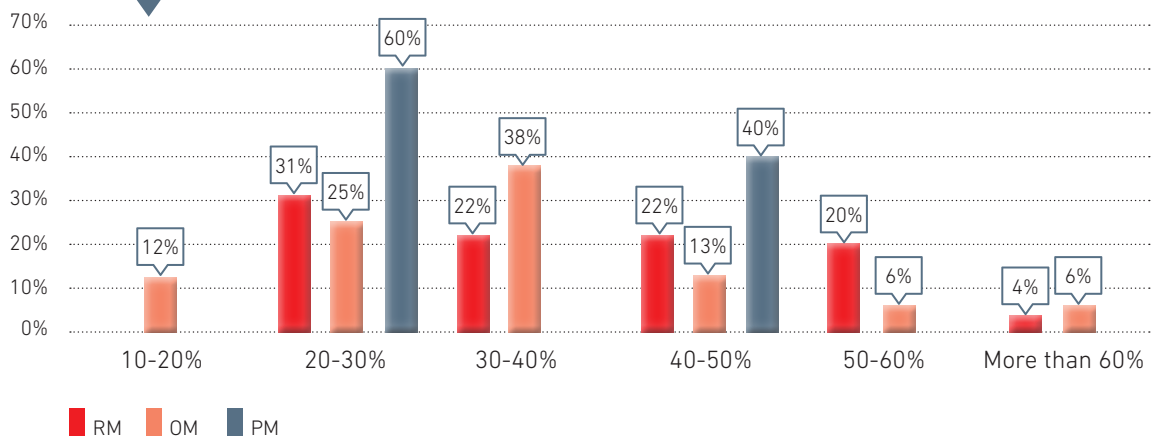


Source: court register

- The chart shows that the change in proportion happened only on the Prime Market. The share of women increased from 26% to 33%, while the share of men decreased from 74% to 67%.
- The average proportion of women on supervisory boards in the 2015–2020 period amounted to about 21%.
- The governance practices questionnaire showed that 8.3% of female members had a PhD (7.3% in 2019).
- As at 31 December 2020, the majority of supervisory board members (42%) were over 56 years old (44% in 2019); 36% of them were between 46 and 55 years old (34% in 2019); 19% of them were between 36 and 45 years old (18% in 2019); while only 4% of supervisory board members were younger than 35 years of age (5% in 2019).
- As at 31 December 2020, the majority of supervisory board members (73.8%) had a university degree (69% in 2019), while 10.5% of supervisory board members had a PhD (8% in 2019).
- As at 31 December 2020, 18.4% of supervisory board members were foreign citizens (18% at the end of 2019).
- Supervisory boards of 57% of share issuers evaluated their effectiveness in the previous 12 months (53% of issuers in 2019), of which in 80% of share issuers the evaluation was led by the chair or deputy chair of the supervisory board (in 2019, this share reached 41%).
- At the end of 2020, the average duration of supervisory board membership was 6 years (the same as in 2019).

- ✓ A total of 64 issuers (63.3%) had employee/trade union representatives in supervisory boards in 2020 (63 issuers, or 64%, in 2019).
- ✓ Supervisory boards of 66 issuers, i.e. 66.7%, set a target percentage of female supervisory board members (62 issuers, i.e. 62% in 2019).

Chart 60 Share issuers with a set target percentage of female supervisory board members in 2020



Source: Governance practices questionnaire 2020

By segments of the regulated market, the target percentage of female supervisory board members was set by:

- 5 issuers on the Prime Market
- 16 issuers on the Official Market
- 45 issuers on the Regular Market.

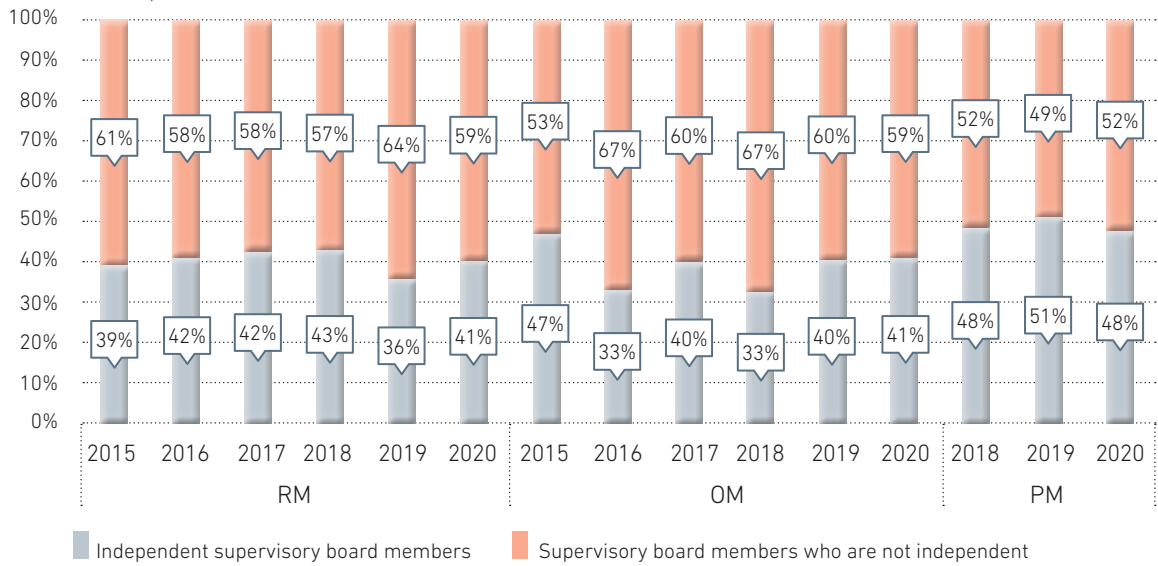
- ✓ Out of the total number the issuers on the Prime Market that set a target percentage of female supervisory board members in 2020, 60% of them set a target percentage ranging between 20% and 30% and the remaining 40% set a target percentage between 40% and 50%.
- ✓ Issuers whose shares are admitted to the Official Market are the only ones with a target percentage of female supervisory board members ranging between 10% and 20%.
- ✓ The largest percentage of issuers whose shares are admitted to the Regular Market (31% of the total number of share issuers on the Regular Market with a set target percentage of female supervisory board members in 2020) are the only ones with the target percentage of female supervisory board members between 20% and 30%.

Independence of supervisory board members

- ✓ According to the data from the governance practices questionnaire, at end-2020 there were 41% of independent supervisory board members (35% of independent members as at 31 December 2019).
- ✓ In 2020, 43 issuers (43%) had an independent chair or deputy chair of the supervisory board (in 2019, 45 issuers (45%)).
- ✓ At the end of 2020, supervisory boards of each of the issuers had 2 independent members on average (same as in 2019).

The chart below shows the proportion of independent supervisory board members in the total number of supervisory board members by segments of the regulated market of the ZSE.

Chart 61 Share of independent supervisory board members in the total number of supervisory board members by market segment, from 2015 to 2020



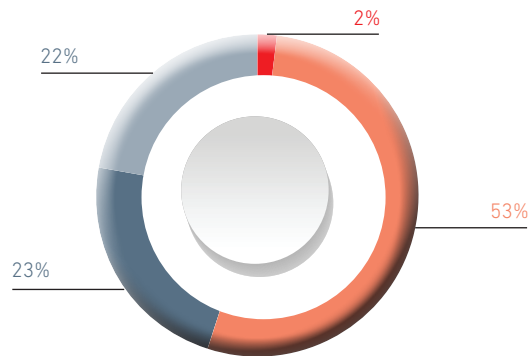
Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- ✓ The average number of independent supervisory board members in all segments of the regulated market from 2015 to 2020 amounted to 42%, while the average number of supervisory board members who are not independent stood at 58%.
- ✓ All issuers (6) whose shares are admitted to trading on the Prime Market had at least one independent supervisory board member, with a total of 48% of independent board members. Out of the total number of supervisory board members of issuers whose shares are admitted to trading on the Official Market 41% were independent. Out of the total number of supervisory board members of issuers whose shares are admitted to trading on the Regular Market 41% were independent.
- ✓ Analysing each segment of the regulated market of the ZSE, it is evident that on 31 December 2020, the Prime Market had the largest number of independent supervisory board members.

Relationship between supervisory board members with management board members and other supervisory board members

- ✓ The governance practices questionnaire showed that 56 supervisory board members of 24 issuers were related to management board members in 2020 (55 supervisory board members and 25 issuers in 2019).
- ✓ The most common type of relationship was business relationship (53%), followed by business and family relationship (22%) and other types of relationships (about 2%) (in 2019, business relationships accounted for 39%, family relationships 26%, other types of relationships 23% and business and family relationships 12%).

Chart 62 Relationship between the issuers' supervisory board members and management board members in 2020

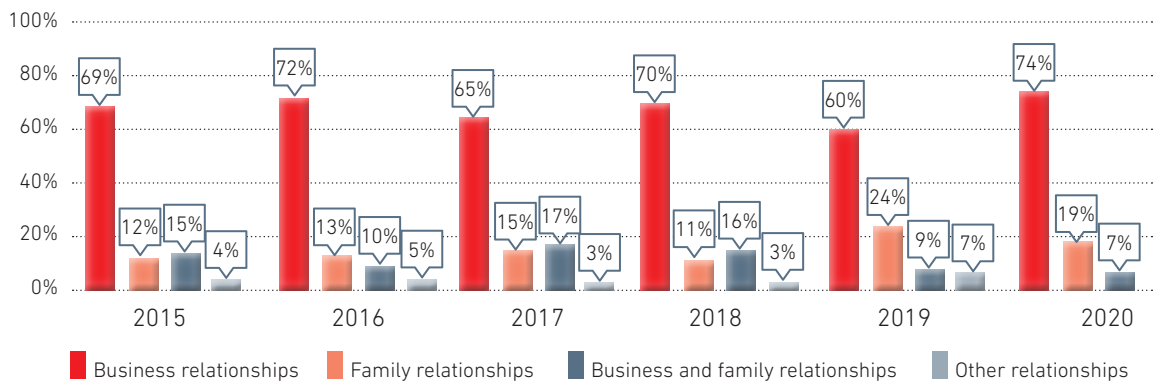


■ Other relationships ■ Business relationships ■ Family relationships ■ Business and family relationships

Source: Governance practices questionnaire 2020

- ✓ In 2020, 108 supervisory board members of 37 issuers were related to other supervisory board members (104 supervisory board members of 36 issuers in 2019).
- ✓ The majority of them were related by business relationships (74%), followed by family relationships (19%) and business and family relationships (7%) (in 2019, business relationships accounted for around 60%, family relationships 24%, business and family relationships 9%, and other types of relationships 7%).

Chart 63 Relationship between supervisory board members and other supervisory board members from 2015 to 2020



Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

Supervisory board meetings

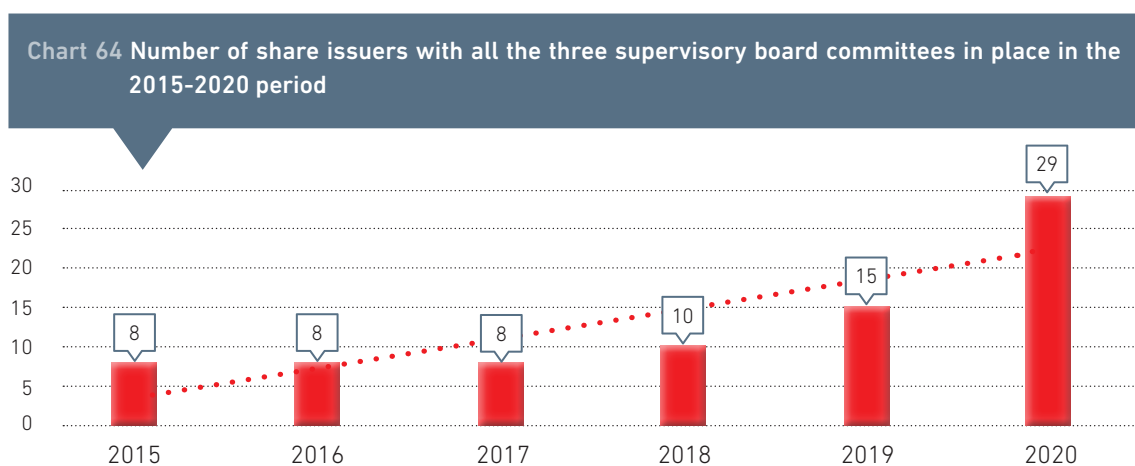
- ✓ In 2020, the number of supervisory board meetings ranged between 0 and 123, with the average number of the issuers' supervisory board meetings held during the year amounting to 11 (9 meetings in 2019). Supervisory boards of two issuers held no meetings in 2020. (In 2019, supervisory board of 1 issuer did not hold any meetings).
- ✓ Meetings of supervisory boards of 82 issuers (83%) were held at least once in three months (the data are provided for 2019 for the first time).
- ✓ A total of 56 issuers (57%) reported having a schedule of meetings of supervisory board for 2020 (53 issuers, i.e. 54%, in 2019).
- ✓ A total of 80 issuers (81%) reported having an internal regulation on supervisory board activities (75 issuers, i.e. 76% in 2019); 18 issuers (18%) reported changes in the regulation during the year (7 issuers reported this in 2019).

Supervisory board committees

Pursuant to the Code, the supervisory board should establish at least an audit committee, a nomination committee and a remuneration committee. The supervisory board should define the mandate and activities of each of the committees. Each supervisory board committee should have at least three members, and the majority of the members of each committee should be independent. The chair of the board should be an independent supervisory board member, as well. Management board members may not be members of supervisory board committees. The supervisory board should ensure that members of each of its committees possess an appropriate level of education, knowledge, skills, and professional and practical experience to perform the tasks of the committee effectively.

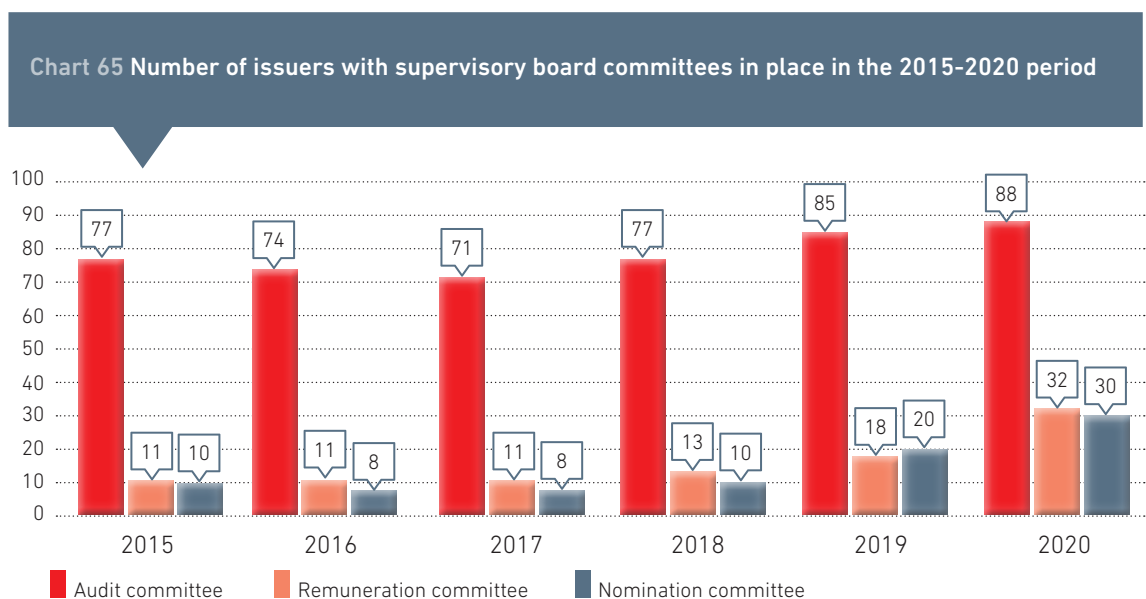
- ✓ In 2020, a total of 29 issuers (29%) reported having established all three supervisory board committees: nomination committee, remuneration committee and audit committee (15% of issuers in 2019).
- ✓ Broken down by segments of the regulated market, all the three supervisory board committees were established by:
 - all the 6 issuers whose shares are admitted to trading on the Prime Market,
 - 9 issuers (out of 21) on the Official Market and
 - 15 issuers (out of 72) on the Regular Market.

The chart below shows the number of share issuers with all the three supervisory board committees (nomination committee, remuneration committee and audit committee) in place from 2015 to 2020.



Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

- Broken down by individual supervisory board committees, 88 issuers (89%) reported having established an audit committee, 32 issuers (32%) reported having established a remuneration committee, while 30 issuers (30%) reported having established a nomination committee (in 2019, 85 issuers (86%) had an audit committee, 18 issuers (18%) had a remuneration committee, while 20 issuers (20%) had a nomination committee).



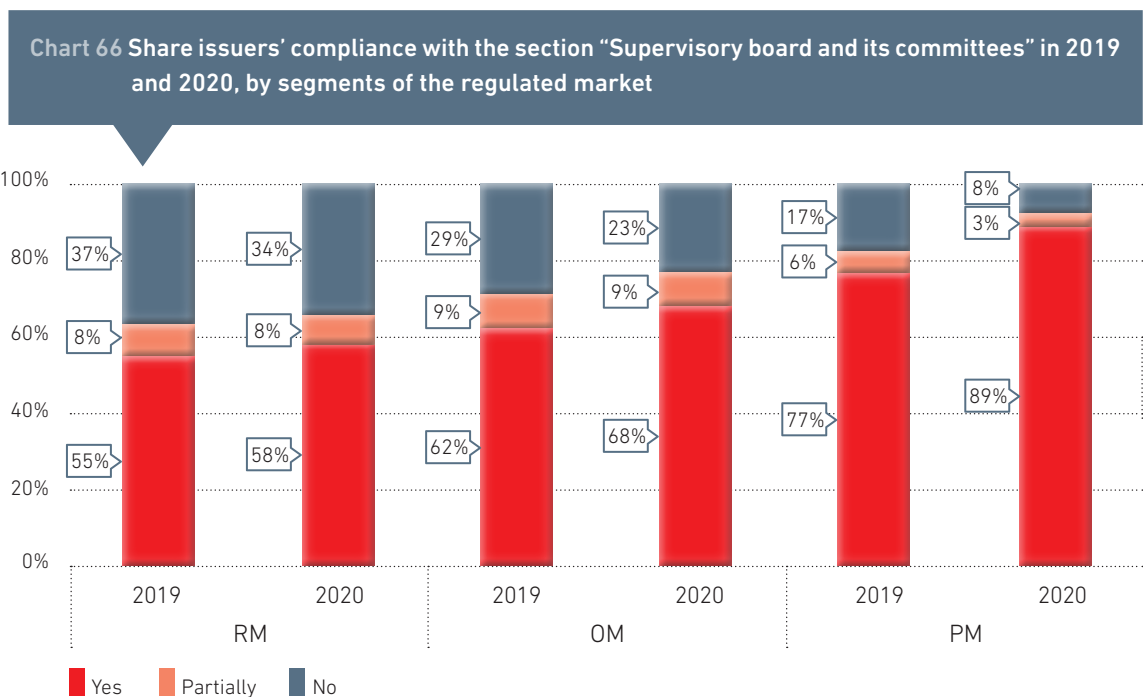
Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

- Broken down by individual supervisory board committees:
 - 240 supervisory board members (46%) were audit committee members
 - 82 supervisory board members (16%) were remuneration committee members
 - 74 supervisory board members (14%) were nomination committee members
 - 238 supervisory board members (45%) were not members of any of the basic committees pursuant to the Code.
- In 2020, 14% of share issuers had an additional committee in place (same as in 2019).
- In 2020, audit committees had 3 members on average, while remuneration committees and nomination committees had 2 members (in 2019, all the three supervisory board committees had 3 members). One member on average in each of the committees was independent (same as in 2019).
- A total of 59 issuers (67%) that had an audit committee in place also reported having established its internal working procedures; 55 of them (63%) reported the preparation of reports on the work of the audit committee, with 20 (23%) of the reports being available to the public (in 2019, out of 85 issuers with the audit committee in place 57 of them reported having established its internal working procedures, while 14 issuers (55%) reported the preparation of reports on the work of the audit committee, with 15% of the reports being available to the public).
- A total of 23 issuers (72%) that had a remuneration committee in place also reported having established its internal working procedures, while 13 of them (57%) reported the preparation of reports on the work of the remuneration committee, with 69% of the reports being available to the public (in 2019, out of 18 issuers with a remuneration committee in place 14 issuers reported having established its internal working procedures, while 9 issuers (50%) reported the preparation of reports on the work of the remuneration committee, with 28% of the reports being available to the public).
- A total of 22 issuers (76%) with the nomination committee in place also reported having established its internal working procedures (in 2019, out of 20 issuers with the nomination committee in place 7 issuers reported having established its internal working procedures).

- ✓ In 2020, audit committees held 4 meetings on average, while remuneration committees and nomination committee held 3 meetings on average (in 2019, audit committee and remuneration committee held 4 meetings, while the remuneration committee held 3 meetings during the year on average).
- ✓ Supervisory boards of 78% of issuers ensured that members of each of their committees possessed an appropriate level of education, knowledge, skills, and professional and practical experience to perform the tasks of the committee effectively (79% in 2019).
- ✓ Supervisory board committees of 80% of share issuers met as often as necessary to perform their tasks effectively and reported to the supervisory board regularly on their activities (80% in 2019, as well).

Issuers' compliance with the Code in the area relating to the supervisory board and its committees

The chart below shows the share issuers' compliance with the section "Supervisory board and its committees" in 2020. The data on compliance with this section were provided for 2019 for the first time as the share issuers were obliged to submit the compliance questionnaire in 2019 for the first time.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- ✓ In 2020, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Supervisory board and its committees" of 89% on average.
- ✓ The issuers on the Official Market reached the level of compliance with the section "Supervisory board and its committees" of 68% on average.
- ✓ The issuers on the Regular Market reached the level of compliance with the section "Supervisory board and its committees" of 58% on average.

In 2020, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Supervisory board and its committees" in comparison with 2019.

Management board

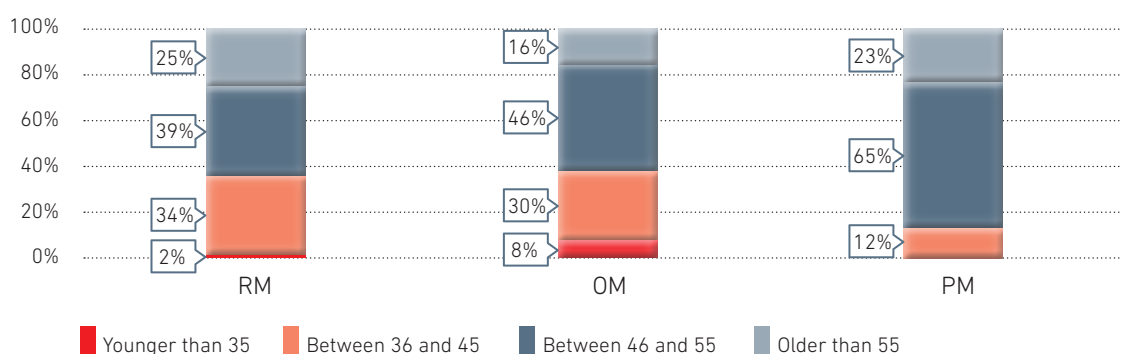
The management board has the primary responsibility for the company's operations, for meeting its targets and strategic objectives set, and for maintaining its reputation as a responsible and trustworthy company.

The following text presents the analysis of the data delivered in the 2020 governance practices questionnaire and compliance questionnaire.

Number of members and composition of the management board

- ✓ According to the governance practices questionnaire, as at 31 December 2020, the majority of management board members (53%) had a university degree (55% in 2019), while 5% of them had a PhD (3% in 2019).
- ✓ As at 31 December 2020, 12% of management board members were foreign citizens (around 10% in 2019).
- ✓ As at 31 December 2020, the management board of the issuers consisted of 2 members on average (2 members in 2019, as well).
- ✓ Out of the total number of female management board members, around 6% had a PhD.
- ✓ According to the data from the governance practices questionnaire, as at 31 December 2020, the majority of management board members (44%) were between 46 and 55 years old (42% in 2019), 30% of them were between 36 and 45 years old (29% in 2019), 22.6% of them were over 56 years of age (24% in 2019), while 3% of them were younger than 35 years of age (4.5% in 2019). The age structure shows a positive trend in the number of management board members younger than 35 years of age.

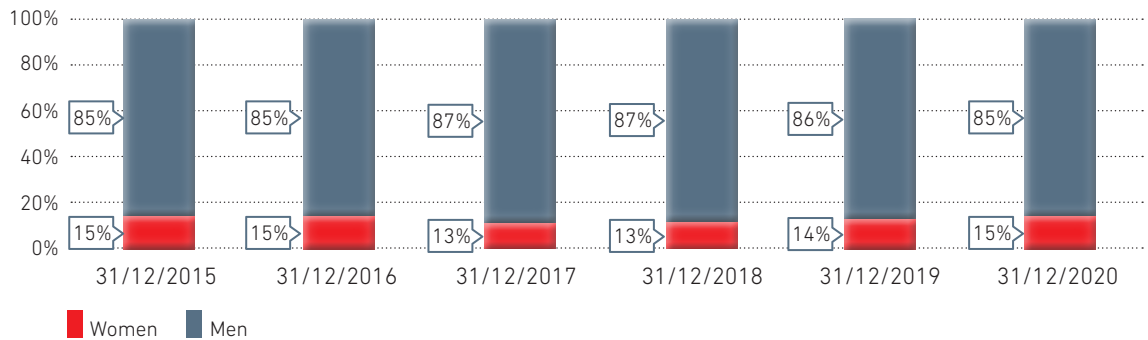
Chart 67 Management board age structure as at 31/12/2020 by segments of the regulated market



Source: Governance practices questionnaire 2020

- ✓ The majority of management board members between 46 and 55 years of age sat on management boards of issuers whose shares are admitted to trading on the Prime Market (65%), a share significantly higher compared to the Official and Regular Market, where the percentages totalled 46% and 39% respectively.
- ✓ There were no members younger than 35 on management boards of issuers whose shares are admitted to trading on the Prime Market.

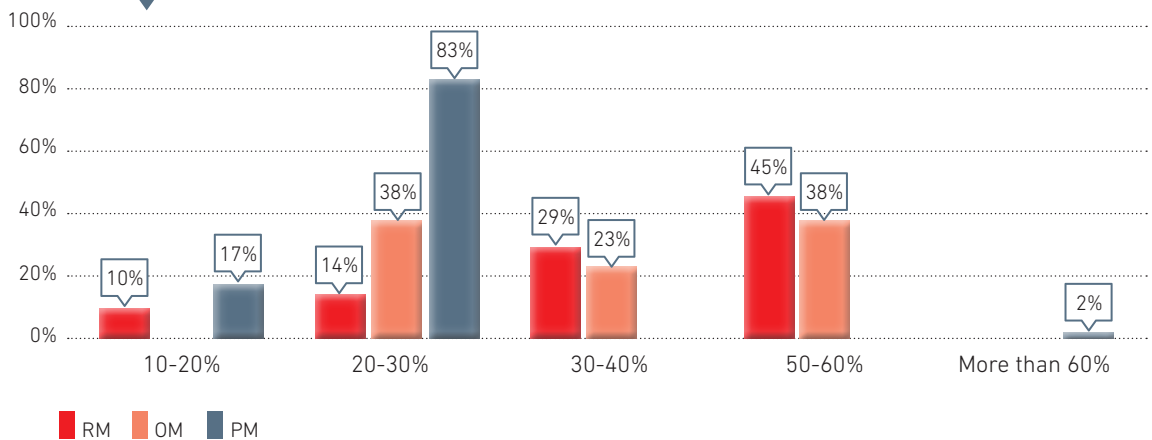
Chart 68 Share issuers' management board gender structure from 2015 to 2020



Source: court register¹²

- Management board gender structure did not change significantly during the observed period. The share of women on the share issuers' management boards at the end of 2020 slightly increased relative to 2019 and 2018.

Chart 69 Share issuers with a set target percentage of female management board members in 2020



Source: Governance practices questionnaire 2020

- According to the corporate governance practices questionnaire, 84 issuers set a target percentage of female management board members (64 issuers in 2019).
- The largest number of issuers (29 of them, i.e. 35%) set a target percentage of female supervisory board members between 10% and 20% and between 40% and 50%, with one issuer having the target percentage at the level above 60% (in 2019, the largest number of issuers (46%) set the target percentage between 40% and 50%, and 4 issuers (6%) above 60%).
- None of the share issuers set a target percentage of female management board members in the range between 40% and 50%.

12 Data on the number and gender of management board members have been analysed based on the data from the court register in order for all issuers to be encompassed by the analysis (including those that failed to deliver the questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

- One share issuer on the Regular Market set a target percentage of female management board members in the range over 60%.

Meetings of the management board

- In 2020, the number of management board meetings held ranged from 1 to 247 (the number of meetings held by one issuer on the Regular Market), while the average number of management board meetings held during the year was 23 (in 2019, the number of management board meetings held ranged from 1 to 239 (the number of meetings held by one issuer on the Regular Market, too, while the average number of the meetings held during the year was 22).
- In 2020, 37 issuers (37%) reported having a schedule of meetings of the management board (38 issuers or 38% in 2019).
- A total of 68 issuers (69%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 17 issuers (17%) reported changes in this regulation having occurred during the year (in 2019, 59 issuers (around 60%) reported having an internal regulation on management board activities, and 11 of them (19%) reported changes in this regulation having occurred during the year).

Terms of office and duration of management board membership

Members and the chair of the management board are appointed by the supervisory board of the issuer for a maximum period of five years, and may be reappointed.

- At the end of 2020, the average duration of management board membership was 5 years (in 2019 it was 6 years).
- As at 31 December 2020, the average number of terms of office of management board members was 2.16 (2.36 in 2019). In 2020, the largest number of consecutive terms of office (ten) was reported by 3 management board members (in 2019, the largest number of consecutive terms of office (9 and 10) was reported by 3 management board members).
- In 2020, a total of 34 issuers reported new appointments (first term of office - 54 newly appointed members). In 2019, 32 issuers reported a total of 47 newly appointed management board members.
- Out of the 54 newly appointed management board members in 2020, 10 (19%) were women (in 2019, out of the 47 newly appointed management board members, 4 (9%) were women).

Resignations of management board members

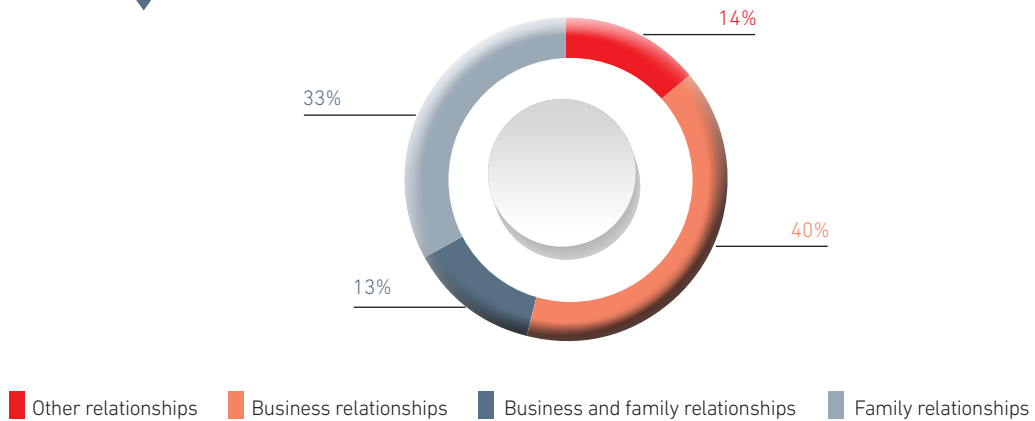
Resignations of management board members are submitted in writing.

- In 2020, a total of 18 management board members resigned prior to the expiry of their terms, mostly due to personal reasons (26 management board members due to same reasons in 2019).

Relationship between management board members and members of the management/supervisory board within the issuer and with other companies

Chart 70 shows the proportion of management board members related to other management board members in 2020.

Chart 70 Relationship between management board members and other management board members in 2020

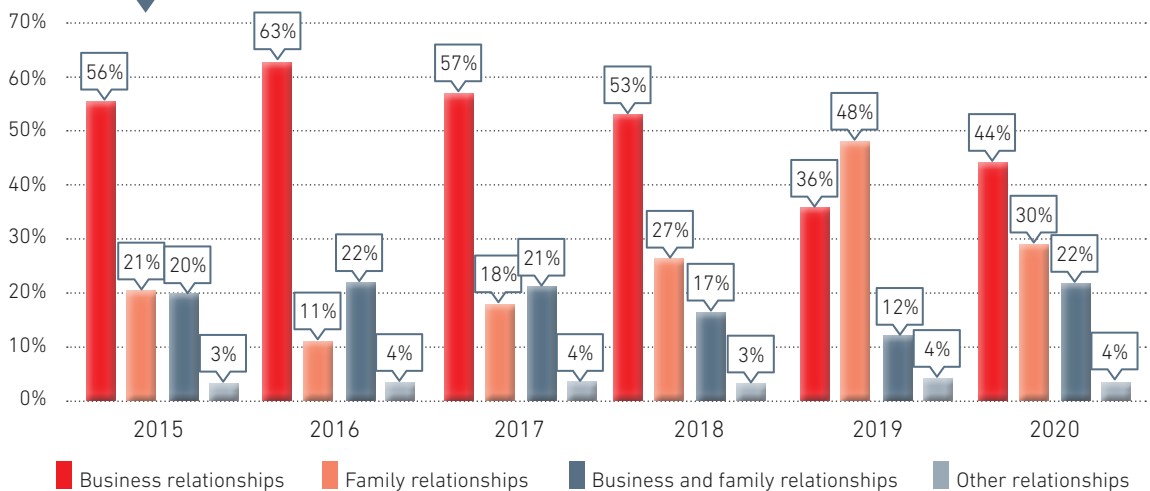


Source: Governance practices questionnaire 2020

✓ In 2020, a total of 15 management board members in 7 issuers were related with other management board members. The majority of management board members (6 of them, or 40%) were related by business relationships, followed by family relationships (5 members, or 33%), business and family relationships (2 management board members) and other relationships (2 members, or 14%). In the previous year, a total of 11 management board members in 6 issuers were related with other management board members. The majority of management board members (5 of them, i.e. 46%) were related by family relationships, followed by business relationships (4, i.e. 36%) and other relationships (2, i.e. 18%)

The chart below shows the relationship between management board members and supervisory board members from 2015 to 2020, by types or relationships.

Chart 71 Relationship between management board members and supervisory board members from 2015 to 2020

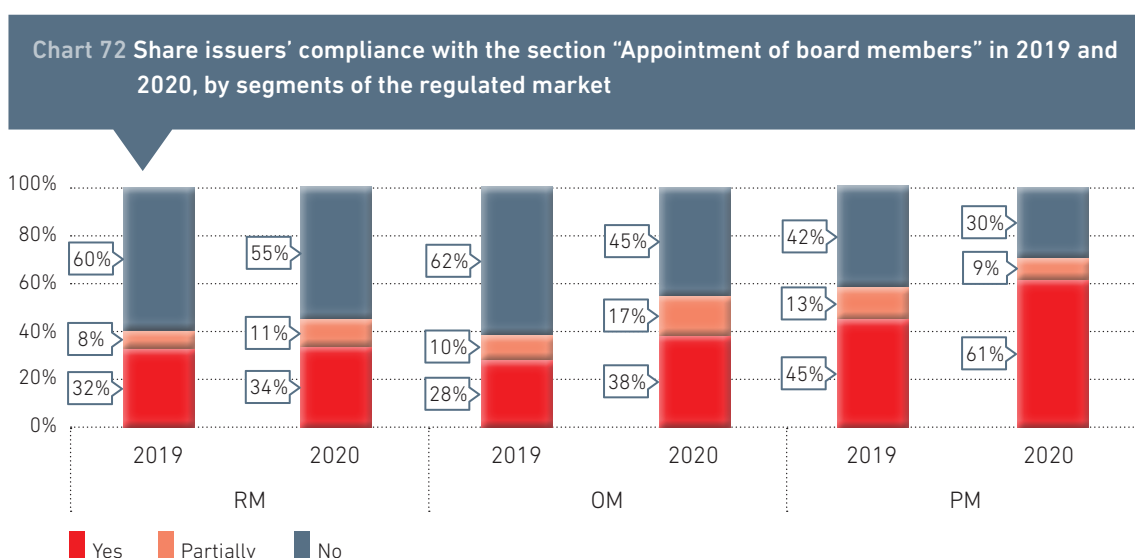


Source: Governance practices questionnaire 2020 and 2019, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- ✓ In the period observed, the majority of management board members were related to supervisory board members by business relationships (52% of management board members were related to supervisory board members on average), while 4% of management board members on average were related to supervisory board members by other relationships.
- ✓ In 2020, a total of 27 management board members in 20 issuers were related to supervisory board members. The majority of them were related by business relationships (12 management board members or 44%), followed by family relationships (8 management board members or 30%), business and family relationships (6 management board members or 22%) and other types of relationships (1 management board member or 4%). In 2019, a total of 25 management board members in 21 issuers were related to supervisory board members. The most common type of relationship was family relationship.
- ✓ In 2020, 76 management board members were at the same time members of the management board in 3 other companies on average, of which on average 0.4 were issuers on the regulated market and 2 linked companies within the meaning of Article 473 of the Companies Act (in 2019, 74 management board members were at the same time members of the management board in 3 other companies on average, of which on average 1 issuer on the regulated market and 2 linked companies).
- ✓ In 2020, 79 management board members were at the same time supervisory board members in 2 other companies on average, of which 1.6 were linked companies within the meaning of Article 473 of the Companies Act (in 2019, 94 management board members were at the same time supervisory board members in 2 other companies, of which 1 was a linked company under Article 473 of the Companies Act).
- ✓ In 2020, a total of 54% of share issuers reported having in place rules of procedure of the management board adopted by the supervisory board which define the division of responsibilities and cooperation among management board members (50% in 2019).
- ✓ Supervisory boards of 93% of share issuers ensured that the management board was defined by a minimum number of members and a combination of members who possessed an appropriate level of education, skills, knowledge and professional and practical experience (90% in 2019).
- ✓ Supervisory boards of 73% of share issuers evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in the past 12 months (70% in 2019).

Issuers' compliance with the Code in the area relating to the supervisory board and management board

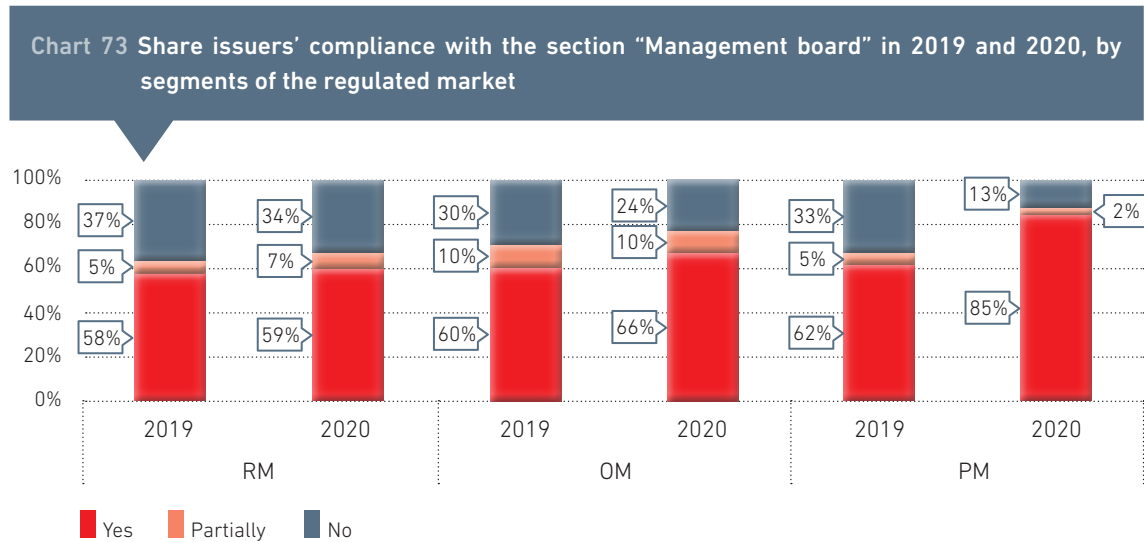
The chart below shows the compliance of the share issuers with the provisions of the section "Appointment of board members" by segments of the regulated market.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- ✓ In 2020, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Appointment of board members" of 61%.
- ✓ The average level of compliance of the issuers on the Official Market and Regular Market with the section "Appointment of board members" reached 38% and 34% respectively.

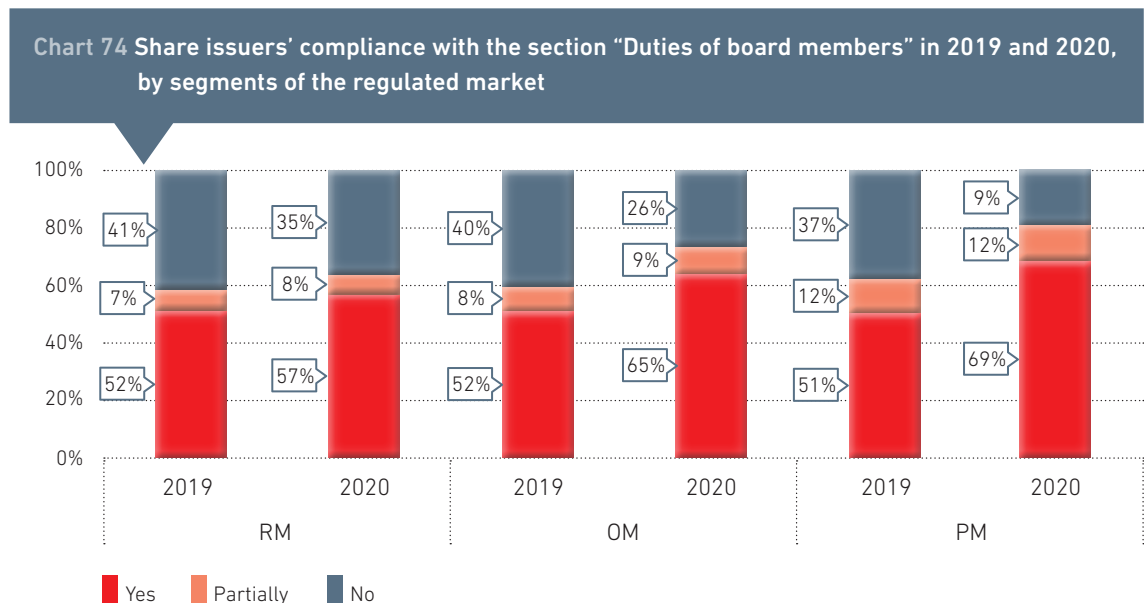
In 2020, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Appointment of board members" in comparison with 2019.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- ✓ In 2020, the issuers whose shares are admitted to trading on the Prime Market recorded the level of compliance with the section "Management board" of 85% on average.
- ✓ The level of compliance with this section of the Code achieved by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 66% and 59% respectively.

In 2020, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions relating to the section "Management board" in comparison with 2019.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- ✓ Issuers whose shares are admitted to the Prime Market comply with the section “Duties of board members” 69% on average.
- ✓ The level of compliance recorded by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 65% and 57% respectively.

Remuneration of board members

The supervisory board of the issuer is responsible for the adoption of decisions on the remuneration of management and supervisory board members, which should be in line with the long-term interests of the issuer, as well as its shareholders. It is considered a good governance practice to ensure a transparent relationship between the governance and remuneration policies and performance of the company, for the purpose of which issuers should publicly disclose a remuneration statement and allow shareholders to express their views on the remuneration policy.

The amount of remuneration of management board members is determined by the supervisory board. Pursuant to the Code, when determining the aggregate income of each management board member (salary, profit participation, reimbursement of expenses, payment of insurance premiums, commissions and all other benefits), the supervisory board should ensure that the aggregate income bears a reasonable relationship to the work done by that management board member and to the financial position of the company.

In accordance with the Code, the remuneration of management board members consists of the following elements:

- fixed remuneration, which is invariable and does not depend on the performance of the company (salary, reimbursement of travel and other expenses, payments of life and health insurance premiums, additional retirement premiums, etc.)
- variable remuneration, which is linked to the performance of the company in a particular business year (profit participation, commission, royalties)
- share options and similar instruments with the effect of long-term incentives.

Table 18 shows the average gross amount of fixed and variable remuneration paid to management board members, the average amount of other benefits paid to management board members and the average value of options given to management board members in the period from 2015 to 2020. The amounts shown in Table 18 are average amounts paid to the entire management board (not to a single management board member).

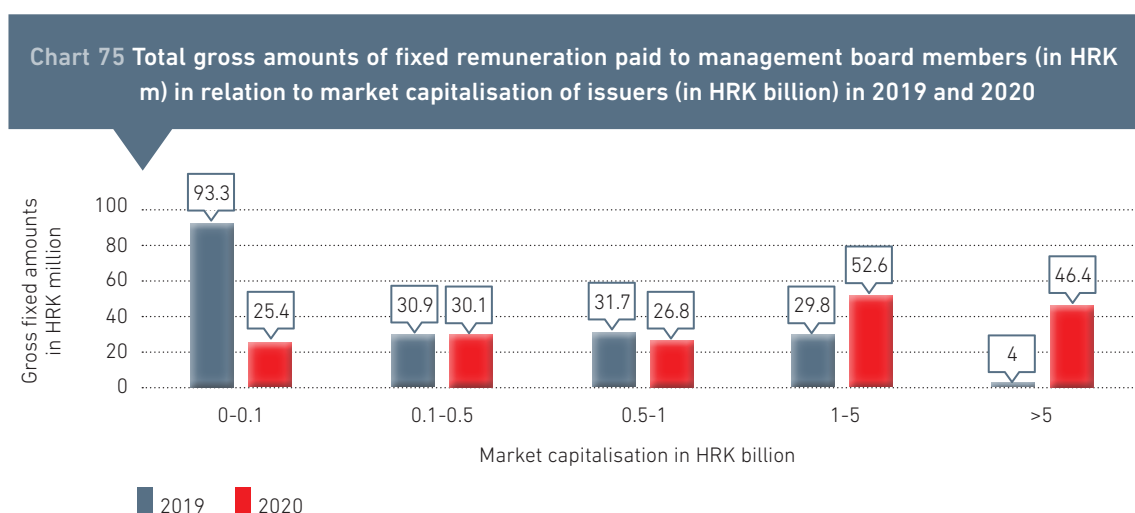
Table 18 Remuneration paid to share issuers' management board members in the 2015-2020 period

		Average gross amount of remuneration (in HRK)		Average amount of options held by management board members (in HRK)	Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration		
2020	Number of issuers	86	36	3	31
	Amount	2,082,318	602,692	3,585,288	373,954
2019	Number of issuers	84	39	2	31
	Amount	2,257,302	2,031,888	1,114,077	822,969
2018	Number of issuers	73	19	3	1
	Amount	2,487,501	2,325,776	12,270,100	1,197,802
2017	Number of issuers	69	16	2	14
	Amount	2,175,208	1,899,286	12,811,131	1,186,087
2016	Number of issuers	72	19	3	7
	Amount	2,236,450	1,752,400	11,886,341	1,349,549
2015	Number of issuers	85	20	4	7
	Amount	1,918,047	2,845,726	10,673,739	463,883

Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- ✓ In 2020, 86 share issuers paid the gross fixed amount of remuneration to management board members totalling HRK 181,161,668 (in 2019, 84 issuers paid the gross fixed amount of remuneration to management board members totalling HRK 189,613,350).
- ✓ The average gross fixed amount of remuneration paid to management board members in 2020 is the lowest compared to the previous four years, totalling HRK 2,082,318 (in 2018 it was the highest, while in 2015 it was the lowest).
- ✓ The gross fixed amount of remuneration paid to management board members in 2020 ranged from HRK 52.0 thousand to HRK 19.0m (from 68.4 thousand to 15.4m in 2019). As in the previous year, the highest gross amounts of fixed remuneration in 2020 were paid to management board members of issuers from the banking sector, while the lowest amounts were paid in the accommodation and food service activities.
- ✓ A total of 36 issuers paid gross variable remuneration to management board members reaching HRK 52,434,174 (in 2019, the amount totalling HRK 79,243,628 was paid by 39 issuers).
- ✓ The gross amounts of variable remuneration paid to management board members in 2020 reached HRK 602,692 on average (HRK 2,031,888 in 2019).
- ✓ The gross variable amount of remuneration paid to management board members in 2020 ranged from HRK 3.4 thousand to HRK 8.0m (from HRK 1.5 thousand to HRK 8.9m in 2019).
- ✓ In 2020, the highest and lowest gross amounts of variable remuneration were paid to management board members of issuers from the defence sector (in 2019, the highest amount was paid in the telecommunications industry and the lowest in the transport sector).
- ✓ Three issuers from tourism sector and food industry granted options to management board members in the amount of HRK 10,755,865, with single amounts of the options granted ranging between HRK 1.9m and HRK 6.4m (2 issuers from food industry granted options to management board members in the amount of HRK 2,228,154, with single amounts of the options granted ranging from HRK 506.3 thousand to HRK 1.7m).
- ✓ A total of 31 issuers paid other benefits to management board members in the amount reaching HRK 11,592,571 (in 2019, other benefits totalling HRK 25,512,045 were paid by 31 issuers). The amounts of other benefits paid to management board members in 2020 ranged from HRK 852 to HRK 2m (in 2019, they ranged from HRK 2.5 thousand to HRK 7.5m).
- ✓ A total of 60 issuers reported having submitted the annual management board remuneration report to the general meeting (30 issuers in 2019).

The chart below shows a comparative overview of the total gross fixed remuneration paid to management board members (in HRK million) in relation to the market capitalisation of issuers for 2020 and 2019.

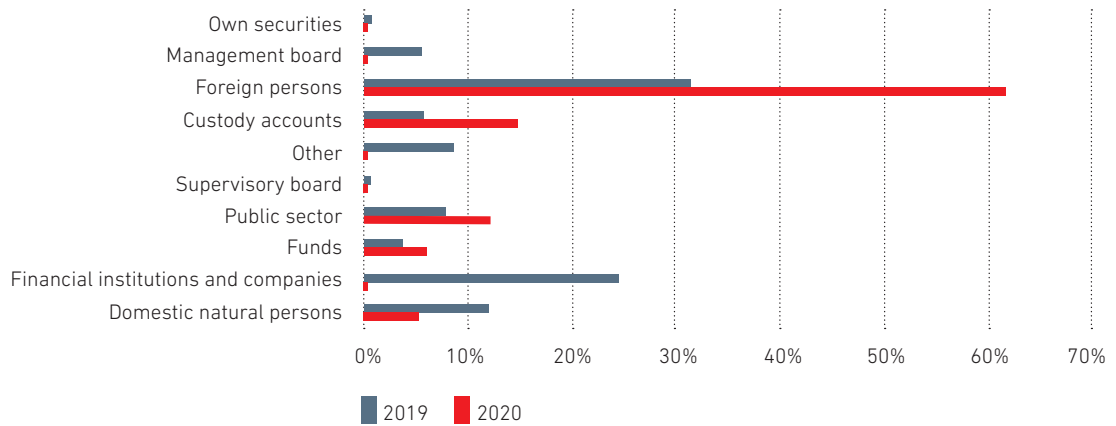


Source: Governance practices questionnaire 2020 and 2019, ZSE

In 2020, management board members were paid gross fixed remuneration in the amount reaching HRK 181,161,668 (in 2019, the amount totalled HRK 189,613,350). The largest amount of gross fixed remuneration reaching HRK 19,026,902 was paid to management board members by issuers with the market capitalisation in the amount > HRK 5bn, while the smallest amount of gross fixed remuneration reaching HRK 52,000 was paid to management board members by issuers with their market capitalisation between HRK 0 and 0.1bn.

- ✓ Compared to 2019, the greatest difference in total gross fixed remuneration paid to management board members is evident among issuers with a market capitalisation from HRK 0 to 0.1bn and HRK > 5bn.
- ✓ In 2020, compared to 2019, the increase in gross fixed remuneration paid to management board members amounted to 1059% for share issuers with market capitalisation > HRK 5bn.
- ✓ The decrease in gross fixed remuneration paid to management board members in 2020, compared to 2019, amounted to 73% for share issuers with market capitalisation from HRK 0 to 1bn.

Chart 76 Ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m in 2019 and 2020



Source: Governance practices questionnaire 2019 and 2020, CDCC

- ✓ The ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m in 2020 was dominated by foreign persons with a 62% share (in 2019, this ownership structure was also dominated by foreign persons with a 31% share, followed by financial institutions and companies with a 25% share.)

Management board remuneration policy

Article 34 of the Act Amending the Companies Act, that entered into force on 12 April 2019, lays down the obligation to make decisions on the remuneration system relating to management and supervisory board members through the adoption of a remuneration policy. In addition, Article 40 of that Act stipulates that the management and supervisory board, or executive directors and the board of directors of the company whose shares are admitted to trading on the regulated market, once a year prepare a clear and comprehensible report on all remuneration paid or committed to be paid by the company, or another company belonging to the same group, to each current and former member of the management board and supervisory board, or to the executive director and a member of the board of directors during the previous financial year. Contents of the report on remuneration paid to management and supervisory board members are prescribed by Article 272r(1) and (2) of the Companies Act.

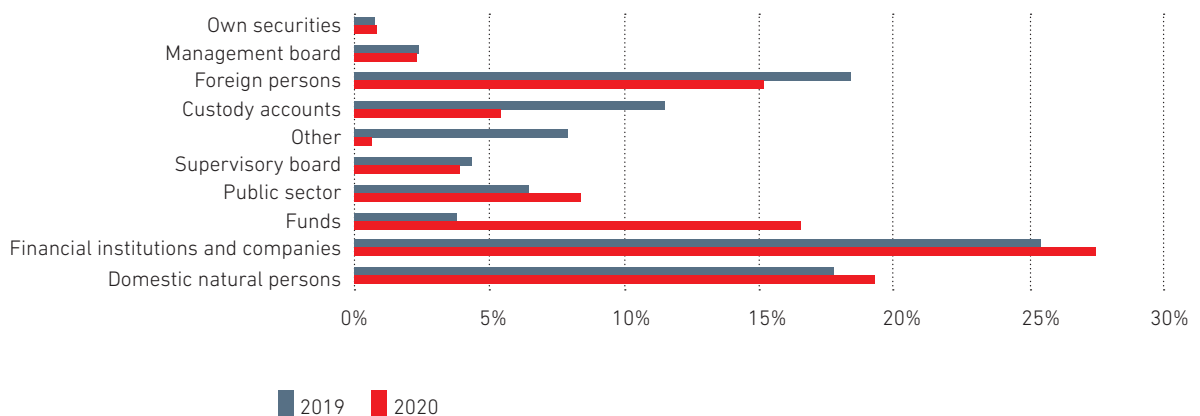
Pursuant to provisions 51 and 52 of the Code, the supervisory board should determine annual remuneration paid to each member of the management board, based on recommendations from the remuneration committee and in line with the approved remuneration policy, while the policy should be prepared in accordance with relevant legal requirements. The remuneration of management board members and key performance indicators taken into account when determining performance-based part of remuneration should be at an adequate level, taking account of the strategy agreed, risk appetite, economic environment the company is operating in, and pay and working conditions of the company's employees.

Furthermore, provision 53 of the Code stipulates that, where shares are awarded to a management board member as part of the remuneration package, the management board member should not dispose of those shares for at least two years following the day on which they were awarded the shares. Where a member of the management board is awarded options to buy shares as part of the remuneration package, the management board member should not exercise the options prior to the expiry of two years following the day on which they were awarded the options. The remuneration policy should include provisions specifying circumstances in which part of the management board member's remuneration would be withheld or recovered.

- ✓ In 2020, 64% of the issuers reported having in place a remuneration policy for management board members, of which 4 issuers on the Prime Market, 18 issuers on the Official Market and 41 issuers on the Regular Market (in 2019, 22% of the issuers reported having in place a remuneration policy, of which 1 issuer on the Prime Market, 8 issuers on the Official Market and 13 issuers on the Regular Market).
- ✓ A total of 87% out of 63 issuers who had in place a remuneration policy for management board members publicly disclosed their policy (in 2019, 50% out of 22 issuers with a remuneration policy in place publicly disclosed their policy).
- ✓ The remuneration policy was approved by shareholders at the general meeting of 56% of the issuers (in 2019, this number reached 22%).
- ✓ The remuneration policy of 40% of the issuers included provisions specifying in more detail circumstances in which part of the management board member's remuneration would be withheld or recovered.
- ✓ A total of 90% of the issuers reported that the level of remuneration paid to their management board members took account of the strategy agreed, risk appetite, economic environment the company is operating in, and pay and working conditions of the company's employees (83% of the issuers in 2019).

The ownership structure of issuers who reported having in place a remuneration policy for management board members in 2019 and 2020 is shown in the following chart.

Chart 77 Ownership structure of share issuers with a remuneration policy for management board members in place in 2019 and 2020



Source: Governance practices questionnaire 2019 and 2020, CDCC

- Issuers who reported having in place a remuneration policy for management board members at the end of 2020 were mostly owned by financial institutions and companies with a 28% share (25% in 2019) and domestic natural persons with a 19% share (18% in 2019).

Severance allowance for management board members

- In 2020, 16% of the issuers reported having agreed the amount of severance allowance for management board members totalling HRK 41,223,825 (in 2019, 19 issuers (19%) reported having agreed the amount of severance allowance for management board members totalling HRK 56,094,419).
- In 2020, the amounts of severance allowance agreed ranged from HRK 37.5 thousand to HRK 9.9m (from HRK 40.5 thousand to HRK 20.1m in 2019).
- A total of 15% of the issuers paid severance allowance to management board members in 2020 (10% of the issuers in 2019).

Remuneration of supervisory board members

Pursuant to Article 269 of the Companies Act (in force since 1 May 2020), members of the supervisory board may receive remuneration for their services that may be defined as the participation by the supervisory board member in the profit of the issuer. The remuneration is determined by the statute or by the decision of the general meeting of the issuer. It should be in line with activities carried out by the supervisory board member and with the financial position of the issuer.

Furthermore, companies whose shares are admitted to trading on the regulated market should adopt a decision on the remuneration of supervisory board members at least every four years.

Pursuant to the Code, the level of remuneration of the chair and other members of the supervisory board should reflect the time commitment and responsibilities of their roles, including those in supervisory board committees. Furthermore, the remuneration of supervisory board members should not include variable or other elements relating to business performance.

- In 2020, 43% of the issuers reported having in place a remuneration policy for supervisory board members (2 issuers on the Prime Market, 13 issuers on the Official Market and 25 issuers on the Regular Market), of which 34 issuers (79%) reported having publicly disclosed the policy.

Table 19 Manner of determining the level of remuneration for supervisory board members in 2019 and 2020

	2019	2020
General meeting	70%	76%
Statute	15%	16%
Other	12%	6%

Source: Governance practices questionnaire 2019 and 2020

- ✓ In 2020 (as in 2019), the level of remuneration for supervisory board members was most often determined by the general meeting (76% of the issuers), followed by the statute (16% of the issuers) and other manners of determining the level of remuneration for supervisory board members of the issuers (6% of the issuers).
- ✓ In 2020, fixed amounts of remuneration totalling HRK 40,079,582 were paid to supervisory board members by 80% of the issuers (the amount of HRK 38,323,312 was paid by 75 issuers in 2019).

The following table shows the amounts of remuneration paid to supervisory board members in the period from 2015 to 2020.

Table 20 Remuneration paid to supervisory board members in the 2015-2020 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2020	Number of issuers	79	/	18
	Amount	507,336	/	1,024,842
2019	Number of issuers	75	/	12
	Amount	510,977	/	293,127
2018	Number of issuers	78	7	1
	Amount	477,511	249,462	3,267
2017	Number of issuers	71	4	0
	Amount	431,817	291,696	0
2016	Number of issuers	78	5	0
	Amount	406,855	774,894	0
2015	Number of issuers	89	5	1
	Amount	391,127	479,791	0

Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- ✓ In 2020, 79 issuers paid remuneration to supervisory board members in the total amount of HRK 40.1m, while 18 issuers paid other benefits to supervisory board members in the total amount of HRK 18.4m.
- ✓ In 2020, fixed amounts of remuneration paid to supervisory board members ranged from HRK 2.3 thousand to HRK 16.1m (from HRK 1.5 thousand to HRK 3.3m in 2019).
- ✓ A total of 60% of the issuers reported having submitted the annual supervisory board remuneration report to the general meeting (26% of the issuers in 2019).
- ✓ Levels of remuneration of the chair and members of the supervisory board of the majority of the issuers (68%) reflected the time commitment and responsibilities of their roles (60% of the issuers in 2019).
- ✓ Remuneration policies and/or internal regulations of 45% of the issuers prohibit the inclusion of variable or other elements relating to business performance in the remuneration of supervisory board members (44% of the issuers in 2019).
- ✓ A total of 63% of the issuers reported having included data on the remuneration of individual supervisory board members in the annual remuneration report (23% of the issuers in 2019).

Remuneration paid to the senior management

In 2020, 68% of the issuers paid fixed remuneration to their senior management in the total amount of HRK 380,463,655, with single amounts of the remuneration ranging from HRK 80.3 thousand, reported by an issuer engaged in management activities of holding companies, to HRK 32.9m, reported by an issuer from the food industry (in 2019, 62% of the issuers paid fixed remuneration to their senior management in the total amount of HRK 387,245,699, with single amounts of the remuneration ranging from HRK 300.9 thousand, reported by an issuer from the manufacture of wearing apparel sector, to HRK 31.0m, reported by an issuer from the food industry).

Table 21 Remuneration paid to the issuers' senior management in the 2015-2020 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2020	Number of issuers	67	29	19
	Amount	5,678,562	839,041,92	459,632
2019	Number of issuers	62	31	23
	Amount	6,245,898	2,381,780	387,702
2018	Number of issuers	57	15	11
	Amount	5,439,305	2,271,969	709,008
2017	Number of issuers	55	16	8
	Amount	2,722,802	1,579,774	1,038,411
2016	Number of issuers	60	16	8
	Amount	5,119,443	1,622,029	1,333,959
2015	Number of issuers	66	/	/
	Amount	4,802,968	/	/

Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

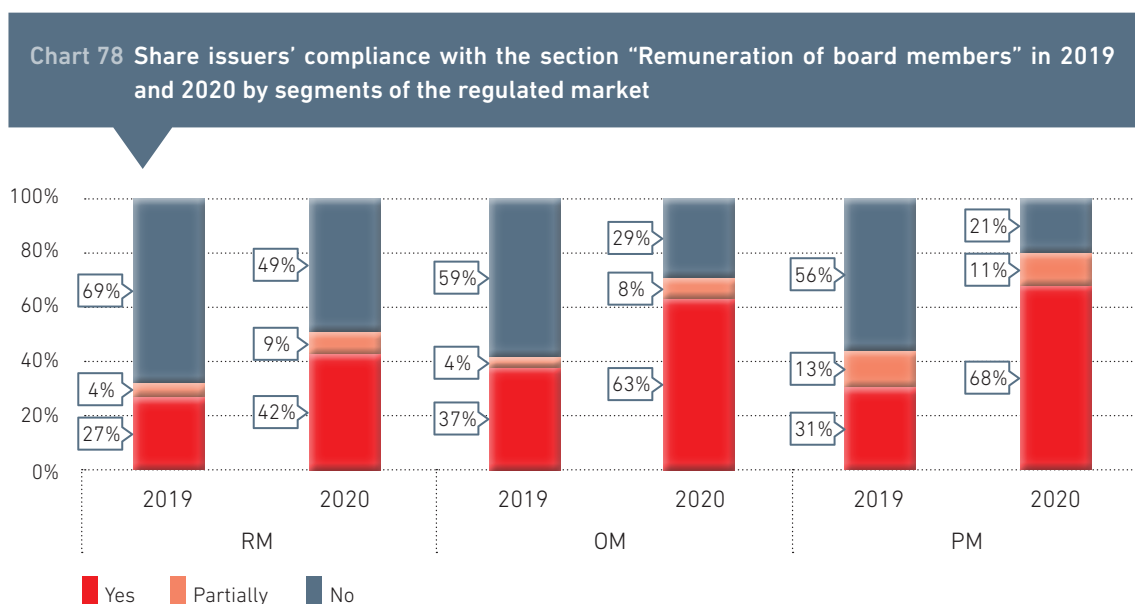
- / In 2020, 29 issuers paid variable remuneration to their senior management in the total amount of HRK 56,215,808, with single amounts of variable remuneration ranging from HRK 14.2 thousand, reported by an issuer engaged in management activities of holding companies, to HRK 6.7m, reported by an issuer from the banking sector (in 2019, 31 issuers paid fixed remuneration to their senior management in the total amount of HRK 73,835,174, with single amounts of the remuneration ranging from HRK 2.3 thousand, reported by an issuer from the banking sector, to HRK 9.8m, reported by an issuer from the tourism industry).
- / Other benefits in the average amount of HRK 459,632 were paid to the senior management by 19 issuers (in 2019, other benefits in the average amount of HRK 387,702 were paid to the senior management by 23 issuers).
- / 2 issuers granted options to their senior management in the total amount of HRK 3,746,942 (2 issuers, too, in 2019, with the total amount reaching HRK 2,840,736), with the average value of options granted totalling HRK 1.8m (HRK 1.4m in 2019).

Severance allowance for the senior management

- / In 2020, 13 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 24,924,358, with single amounts ranging from HRK 180.0 thousand to HRK 6.1m (in 2019, 13 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 23,240,431, with single amounts ranging from HRK 70.3 thousand to HRK 6.7m).
- / Severance allowance in the total amount of HRK 8,230,419 was paid to the senior management by 11 issuers, with single amounts of the severance allowance ranging from HRK 108.1 thousand to HRK 2.4m (in 2019, severance allowance was paid to the senior management by 13 issuers, with single amounts of the severance allowance ranging from HRK 4.0 thousand to HRK 2.2m).

Issuers' compliance with the Code in the area relating to the remuneration of management and supervisory board members

The following chart shows the compliance of the issuers with the section "Remuneration of board members" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2020.



Source: Compliance questionnaire 2020 and 2019, internal calculation

- / The level of compliance recorded by issuers whose shares are admitted to trading on the Prime Market with the section "Remuneration of board members" reached 68%.
- / The level of compliance recorded by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 63% and 42% respectively.

In 2020, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Remuneration of board members" in comparison with 2019.

Risks, internal control and audit

Risk management and internal control are an integral part of the company's success, and the ability to determine and deliver strategic objectives, to seize new opportunities and to ensure its long-term survival depends on the company being able to identify and deal with the risks it faces.

The basic principle of the Code relating to risks, internal control and audit is the fact that the supervisory board should ensure that effective structures, policies and procedures are in place aimed at identifying, reporting, managing and monitoring significant risks the company faces and that it should ensure the independence and effectiveness of the internal and external audit function.

- ✓ In 2020, 33% of the issuers reported having a person in charge of risk management (27% of the issuers in 2019):
 - 5 issuers on the Prime Market (3 issuers on the Prime Market in 2019)
 - 7 issuers on the Official Market (7 issuers on the Official Market in 2019)
 - 19 issuers on the Regular Market (16 issuers on the Regular Market in 2019).
- ✓ Out of the 33 issuers who reported having a person in charge of risk management in 2020, the majority (11) were from the financial sector (in 2019, the majority (7) of 27 issuers who reported having appointed a person in charge of risk management were from the banking sector).
- ✓ The most frequent risk faced by the issuers in 2020 was macroeconomic environment risk, while in 2019, the most frequent risk was liquidity risk.
- ✓ The most frequent risks faced by issuers in 2020 were:
 - macroeconomic environment risk (reported by 22 issuers)
 - liquidity risk (reported by 21 issuers)
 - operational risk (reported by 13 issuers) and
 - credit risk (reported by 13 issuers).
- ✓ In 2020, the majority of the issuers (88%) reported maintaining an effective risk management system that ensures reliable risk identification, measurement and monitoring (68% of the issuers in 2019).

Internal control and audit

Risk management and internal control should not be seen as compliance functions that can be performed adequately at a junior level within the company. Instead, these functions should be incorporated in the company's strategy, business model and governance processes, starting from the supervisory and management board.

Internal control system

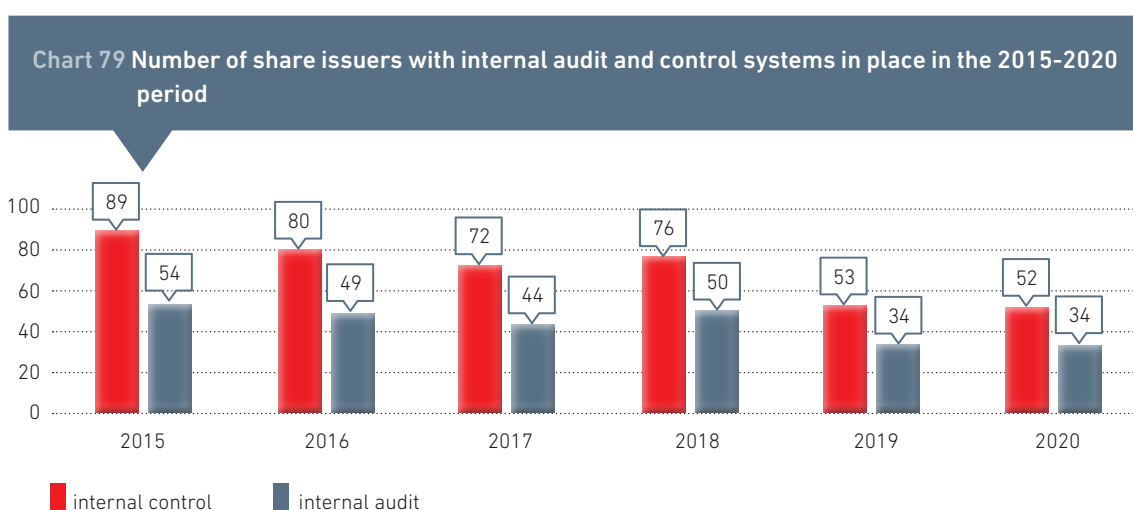
- ✓ In 2020, 53% of the issuers reported having in place an internal control system (54% of the issuers in 2019). Broken down by segments of the regulated market, this system was established by:
 - 6 issuers on the Prime Market (5 issuers on the Prime Market in 2019)
 - 15 issuers on the Official Market (15 issuers on the Official Market in 2019)
 - 31 issuers on the Regular Market (33 issuers on the Regular Market in 2019).
- ✓ In 2020, there were 15 employees in each internal control system on average (in 2019, there were 12 employees in each internal control system on average).
- ✓ The majority of the issuers who reported having in place an internal control system in 2020 were from the tourism industry (13 issuers), followed by 10 issuers from the financial sector and 5 issuers from

the food industry (in 2019, the majority of the issuers who reported having in place an internal control system in 2019 were from the tourism industry (11 issuers), followed by 7 issuers from the banking sector and 4 issuers from the food industry).

Internal audit system

- / In 2020, 34% of the issuers reported having in place an internal audit system (34% of the issuers in 2019 as well). Broken down by segments of the regulated market, this system was established by:
 - 5 issuers on the Prime Market (4 issuers on the Prime Market in 2019)
 - 12 issuers on the Official Market (11 issuers on the Official Market in 2019)
 - 17 issuers on the Regular Market (19 issuers on the Regular Market in 2019).
- / In 2020, there were 5 employees in each internal audit system on average, as in 2019.
- / The majority of the issuers who reported having in place an internal audit system in 2020 were from the financial sector (11 issuers), followed by 4 issuers from the tourism industry and 3 issuers from the food industry (the majority of the issuers who reported having in place an internal audit system in 2019 were from the banking sector (7 issuers), followed by 4 issuers from the tourism industry and 3 issuers from the food industry).
- / The audit committee of 69% of issuers who reported not having in place an internal audit system assessed the need for this function within the framework of internal control system assessment once in the previous 12 months (27% of the issuers in 2019).
- / The audit committee of 92% of the issuers who reported having in place an internal audit system received the internal auditor's reports and supervised the implementation of their recommendations (91% of the issuers in 2019).
- / Market capitalisation of shares of 34 issuers who had in place an internal audit system in 2020 amounted to HRK 110.1bn as at 31 December 2020 (market capitalisation of shares of 34 issuers who had in place an internal audit system in 2019 amounted to HRK 109.9bn as at 31 December 2019).

The following chart shows the number of issuers who reported having in place internal audit and control systems in the period from 2015 to 2020.



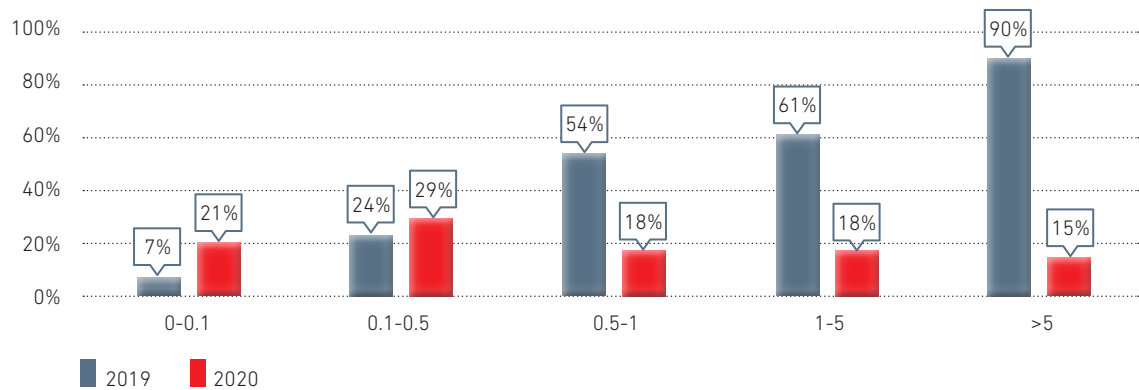
Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

- / All 6 issuers whose shares were admitted to trading on the Prime Market in 2020 had in place an internal control system, while 83% of them also had in place an internal audit system (in 2019, all 5 issuers whose shares were admitted to trading on the Prime Market in 2019 had in place an internal control system, while 80% of them also had in place an internal audit system).

- Out of 21 issuers on the Official Market, 71% had in place an internal control system, while 57% of them had in place an internal audit system (in 2019, out of 23 issuers on the Official Market, 65% had in place an internal control system, while 48% of them had in place an internal audit system).
- Out of 72 issuers on the Regular Market, 43% had in place an internal control system, while 24% of them had in place an internal audit system (in 2019, out of 86 issuers on the Regular Market, 38% had in place an internal control system, while 22% of them had in place an internal audit system).

The following chart shows the share of issuers who had in place an internal audit system in 2020 in relation to their market capitalisation.

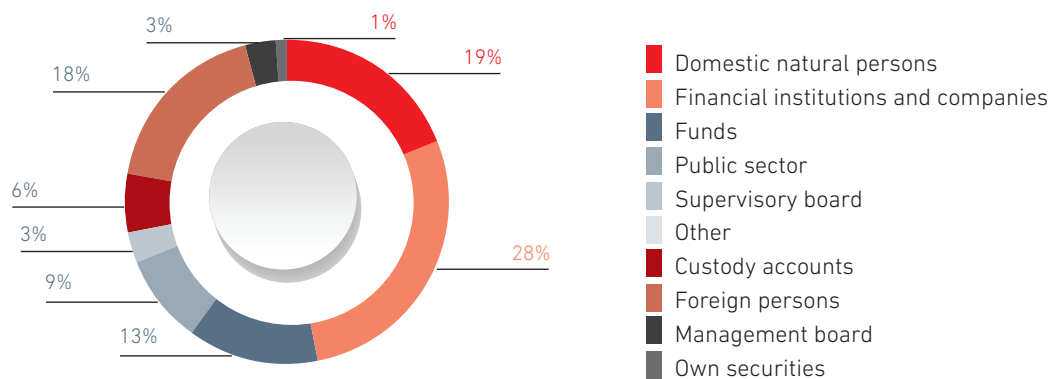
Chart 80 Share of issuers having in place an internal audit system in 2019 and 2020 in relation to their market capitalisation (in HRK billion)



Source: Governance practices questionnaire 2019 and 2020, ZSE

- As opposed to 2019, the share of issuers who had in place an internal audit system in 2020 was equally represented in all market capitalisation classes.

Chart 81 Ownership structure of share issuers with an internal control system in place in 2020



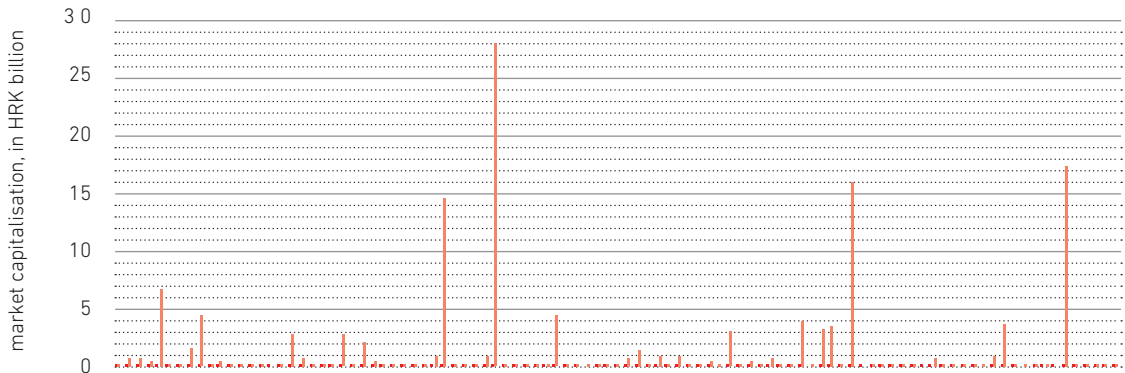
Source: Governance practices questionnaire 2020, CDCC

- ✓ The largest share in the ownership structure of issuers who had an internal control system in place in 2020 was accounted for by financial institutions and companies (28%), while the share of domestic natural persons amounted to HRK 19% (the largest share in the ownership structure of issuers who had an internal control system in place in 2019 was accounted for by financial institutions and companies (25%), while the share of domestic natural persons amounted to HRK 20%).

External audit

- ✓ The process of selecting the external auditor is overseen by the audit committee, which makes recommendations to the supervisory board on the selection of the external auditor and the terms of their appointment. In accordance with the Code and legal requirements, the company should have an external auditor, whose main function is to ensure that financial statements of the company adequately reflect its current financial position. Independent external auditors are not related through ownership or other interests with the company. In 2020, 52% of the issuers received financial statement audit services from one of the four largest audit firms (as in 2019).
- ✓ Broken down by segments of the regulated market, financial statement audit services were provided in 2020 by one of the four largest audit firms for
 - 6 issuers on the Prime Market (4 issuers on the Prime Market in 2019)
 - 17 issuers on the Official Market (19 issuers on the Official Market in 2019) and
 - 28 issuers on the Regular Market (28 issuers on the Regular Market in 2019).
- ✓ The majority of issuers (11) who received financial statement audit services from one of the four largest audit firms belonged to the tourism industry (in 2019, the majority of issuers (15) who received financial statement audit services from one of the four largest audit firms also belonged to the tourism industry).
- ✓ At end-2020, market capitalisation of issuers who used services provided by the four largest audit firms totalled HRK 106.3bn and accounted for 77% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2020 (at end-2019, market capitalisation of issuers who used services provided by the four largest audit firms totalled HRK 117.6bn and accounted for about 80% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2019).
- ✓ A total of 6 issuers used services of the same audit firm for 7 years or longer (one issuer from the Regular Market for as long as 23 years), of which 1 issuer on the Prime Market, 3 issuers on the Official Market and 2 issuers on the Regular Market (in 2019, a total of 14 issuers used services of the same audit firm for longer than 7 years, of which 1 issuer on the Prime Market, 2 issuers on the Official Market and 11 issuers on the Regular Market).
- ✓ The average length of time during which the issuers used services of the same audit firm was 4 years (5 years in 2019).
- ✓ The average length of time during which the issuers used services of the same certified auditor in the same audit firm was 3 years (3 years too in 2019).
- ✓ The average gross amount paid to an audit firm for audit services provided in 2020 reached HRK 363.5 thousand (HRK 330.4 thousand in 2019), with all the amounts ranging between HRK 29.0 thousand and HRK 3.4m (between HRK 8 thousand and HRK 5.9m in 2019).
- ✓ In 2020, audit firms provided services other than audit services to 23 issuers, with the average gross amount paid to an audit firm for other services during the year amounting to HRK 202.1 thousand (in 2019, other services were provided by audit firms to 18 issuers, with the average gross amount paid to an auditor for other services totalling HRK 183.3 thousand).

Chart 82 Gross amount paid to audit firms for audit services provided during 2020 in relation to market capitalisation of the issuers



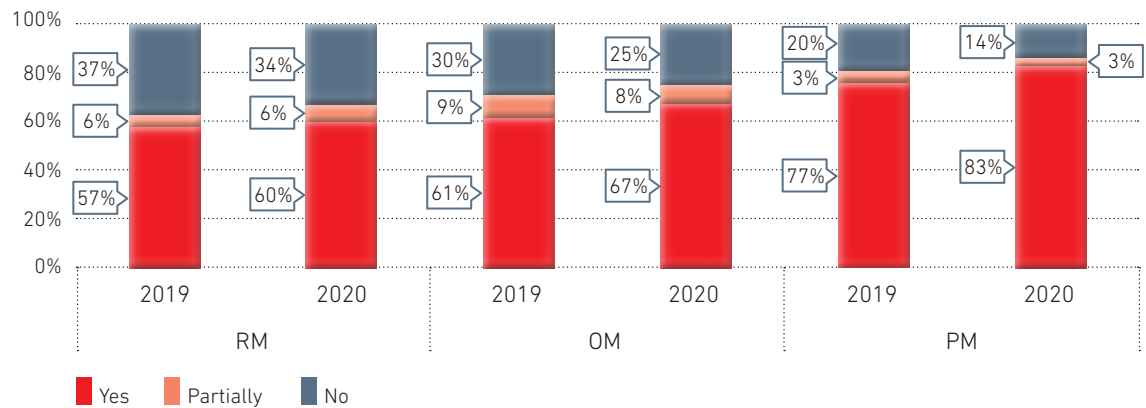
Source: Governance practices questionnaire 2019, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2020 and market capitalisation of the issuers was as high as 0.7985 (in 2019, it stood at 0.7231).

Issuers' compliance with the Code in the area relating to risks, internal control and audit

The following chart shows the compliance of the issuers with the section "Risks, internal control and audit" by segments of the regulated market according to the data submitted in the compliance questionnaire for 2020 and 2019.

Chart 83 Share issuers' compliance with the section "Risks, internal control and audit" in 2019 and 2020 by segments of the regulated market



Source: Compliance questionnaire 2019 and 2020, internal calculation

- ✓ The level of compliance with the section “Risks, internal control and audit” achieved by issuers whose shares are admitted to trading on the Prime Market reached 83%.
- ✓ The level of compliance with this section achieved by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 67% and 60% respectively..

In 2020, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section “Risks, internal control and audit” in comparison with 2019.

General meeting

The obligation to act in the best long-term interest of the company instead of in the interest of certain individuals or entities requires management and supervisory board members to take account of the impact of their decisions on all shareholders during the decision making process. It is therefore important to ensure that all shareholders, irrespective of the size of their shares, have equal opportunity to participate in the discussion with the company and to express their opinions at the general meeting.

Internal rules of procedure of the general meeting

- ✓ In 2020, a total of 40% of the issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 7 issuers on the Official Market and 29 issuers on the Regular Market (in 2019, 42% of the issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 6 issuers on the Official Market and 32 issuers on the Regular Market).
- ✓ Out of the 40 issuers who had in place rules of procedure of the general meeting, 4 issuers reported changes in their rules of procedure during the year (4 issuers in 2019 as well).

Participation in the general meeting

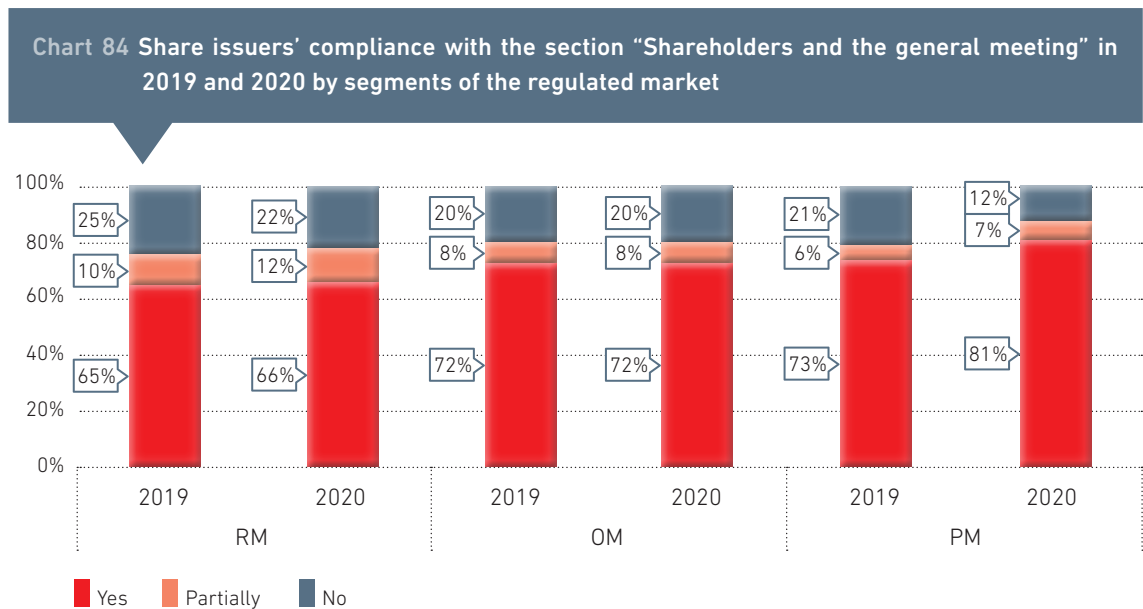
The basic principle of the Code as regards shareholders and general meeting of issuers is the fact that the company should take measures to ensure equal treatment of all shareholders in order to ensure their access to the company and full participation in the general meeting, removing any barriers to their participation.

- ✓ In 2020, a total of 119 general meetings were held (106 general meetings in 2019).
- ✓ According to data from the governance practices questionnaire, 77 issuers reported having held only 1 general meeting, 12 issuers held 2 general meetings, while 6 issuers held 3 general meetings (in 2019, 70 issuers reported having held only 1 general meeting, 12 issuers held 2 general meetings, while 4 issuers held 3 general meetings).
- ✓ 3 issuers on the Regular Market held no general meetings in 2020 (2 issuers in 2019).
- ✓ According to data from the governance practices questionnaire, the largest number of shareholders who participated in the general meeting was reported by an issuer on the Regular Market, and the number totals 378,290. Excluding this issuer, who represents a significant deviation from the average, the average number of shareholders who participated in the general meeting amounts to 29 (52 in 2019).

- Only 21% of the issuers allowed, on the basis of the statute or another internal regulation, their shareholders to vote online without limitations (10% of the issuers in 2019).
- In 2020, 98% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 91% of them ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge (in 2019, 97% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 90% of them ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge).
- A total of 36% of the issuers ensured that all documents required for the general meeting were available in Croatian and English (37% of them in 2019).
- The chair and deputy chair of the supervisory board, chairs of supervisory board committees and all management board members attended general meetings of 48% of the issuers (of 51% of the issuers in 2019).
- External auditors attended general meetings of 49% of the issuers at which financial statements were presented (of 45% of the issuers in 2019).

Issuers' compliance with the Code in the area relating to shareholders and the general meeting

The following chart shows the compliance of the issuers with the section "Shareholders and the general meeting" by segments of the regulated market according to data submitted in the compliance questionnaire for 2019 and 2020.



Source: Compliance questionnaires 2019, internal calculation

- The average level of compliance of the issuers on the Prime Market, Official Market and Regular Market with the section "Shareholders and the general meeting" reached 81%, 71% and 66% respectively.
- In 2020, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Shareholders and the general meeting" in comparison with 2019.

Transparency and corporate social responsibility

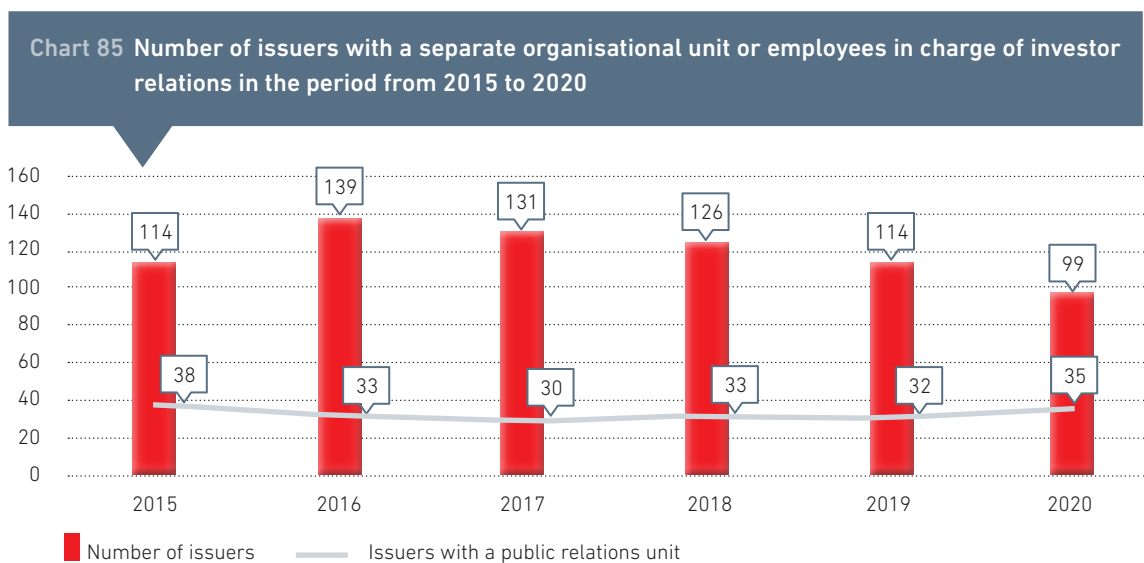
Investor relations

Basic principles in connection with transparency and corporate social responsibility state that the company shall ensure that shareholders and other stakeholders have easy and non-discriminatory access to information on the company's ownership structure, corporate governance arrangements and financial and operational performance. In addition, the supervisory and management boards are jointly responsible for the accuracy and integrity of the financial and other information published by the company.

Issuers are obliged to ensure an efficient and practical information exchange via their websites. For the purpose of equal treatment of all shareholders, irrespective of the country of the company's registered office, all the information published by the issuer on its website must be provided both in Croatian and English.

- ✓ In 2020, 99% of the issuers had their websites in Croatian, of which 67% had their websites in English as well (in 2019, 98% of the issuers had their websites in Croatian, of which 69% had their websites in English as well).
- ✓ One issuer on the Regular Market did not have a website in 2020 (as in 2019).
- ✓ In 2020, 92% of the issuers made sure that the information published on their websites was up-to-date and published within deadlines prescribed by law and regulations (95% of the issuers in 2019).
- ✓ In 2020, 35% of the issuers had a separate organisational unit or employees in charge of investor relations exclusively (28% of the issuers in 2019). Broken down by segments of the regulated market, a separate organisational unit or employees in charge of investor relations were reported by:
 - 6 issuers on the Prime Market (5 issuers in 2019)
 - 8 issuers in the Official Market (7 issuers in 2019)
 - 20 issuers on the Regular Market (7 issuers in 2019).
- ✓ A separate organisational unit or employees in charge of investor relations were reported mostly by issuers from the tourism industry (9 issuers, as in 2019).

The following chart shows the number of issuers who had a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2020.

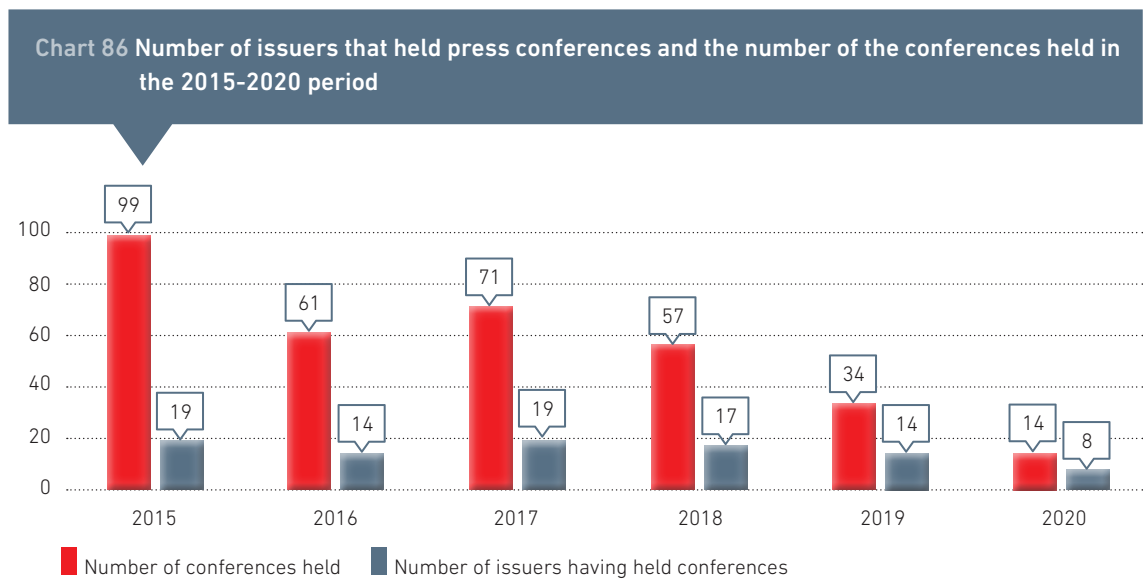


Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

The chart shows that in 2019 and 2020 there were more issuers who had an organisational unit or employees in charge of investor relations exclusively in spite of a reducing number of the issuers in the period observed. Compared to the number of issuers, the largest share of issuers with a separate organisational unit or employees in charge of investor relations was recorded in 2020 (35%) and the smallest in 2017 (23%).

- ✓ A total of 8% of the issuers (7% of the issuers in 2019) had an institution in charge of monitoring the position of issuers on the capital market (drawing up market position analyses, etc.).
- ✓ In 2020, 33% of the issuers (26% of them in 2019) reported having published the calendar of significant events on their websites:
 - 6 issuers on the Prime Market (5 issuers in 2019)
 - 11 issuers in the Official Market (12 issuers in 2019)
 - 15 issuers on the Regular Market (11 issuers in 2019).
- ✓ A total of 8% of the issuers (14% of them in 2019) reported having held one or more press conferences in 2020, of which 4 issuers on the Prime Market, 2 issuers on the Official Market and 2 issuers on the Regular Market (4 issuers on the Prime Market, 5 issuers on the Official Market and 5 issuers on the Regular Market in 2019).
- ✓ The largest number of press conferences (5) were reported by an issuer on the Official Market (in 2019, the largest number of conferences (9) were also reported by an issuer on the Official Market).

The following chart shows the number of issuers who held press conferences in the period from 2015 to 2020 and the number of the conferences held in that period.



Source: Governance practices questionnaire 2019 and 2020, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

The largest number of press conferences held (99) were reported in 2015, but that year also saw the largest number of issuers whose shares were admitted to trading on the regulated market. The smallest number of press conferences held were reported in 2020, the year which also saw the smallest number of issuers whose shares were admitted to trading on the regulated market in the period observed. The chart shows a declining trend in the number of press conferences held in the last four years.

- ✓ The most common reasons for convening a press conference in 2020 were presentations of business results (3 issuers) and presentations of significant activities and investments (2 issuers) (in 2019, the most common reasons for convening a press conference were also presentations of business results (5 issuers)).

Dividend payments

Ownership of shares entitles shareholders to receive dividends. A decision on dividend payment is adopted by the general meeting upon the proposal of the management board. Dividends are in general paid out in cash, but may also be paid out in stock. In addition, the management board may, subject to the consent of the supervisory board, adopt a decision on advance dividend payment.

- ✓ In 2020, a decision on the payment of dividend out of profits generated in 2019 was adopted by 15% of the issuers (in 2019, a decision on dividend payment was made by 25% of the issuers), of which:
 - 4 issuers on the Prime Market (5 issuers in 2019)
 - 3 issuers in the Official Market (5 issuers in 2019)
 - 8 issuers on the Regular Market (15 issuers in 2019).
- ✓ The largest number of issuers (3) who adopted a decision on the payment of dividend or advance dividend out of profits generated in 2019 belonged to the food industry (to the tourism industry in 2019, 5 issuers).
- ✓ The total market capitalisation of issuers who in 2020 adopted a decision on dividend payment at the end of the year reached HRK 63.5bn (in 2019, it stood at HRK 120.7bn).
- ✓ Among these issuers, the largest market capitalisation was reported by an issuer from the energy sector (HRK 28bn) (in 2019, an issuer from the energy sector, too, with the market capitalisation reaching HRK 31.2bn), and the smallest by an issuer from the transport industry (HRK 152.9m) (in 2019, an issuer from the transport industry, too, with the market capitalisation reaching HRK 159.6m).
- ✓ The average amount of dividend per stock paid out in 2020 totalled HRK 146.85 (HRK 73.50 in 2019). The largest amount was paid out by an issuer engaged in wholesale and retail trade services, and it totalled HRK 1,320.00.

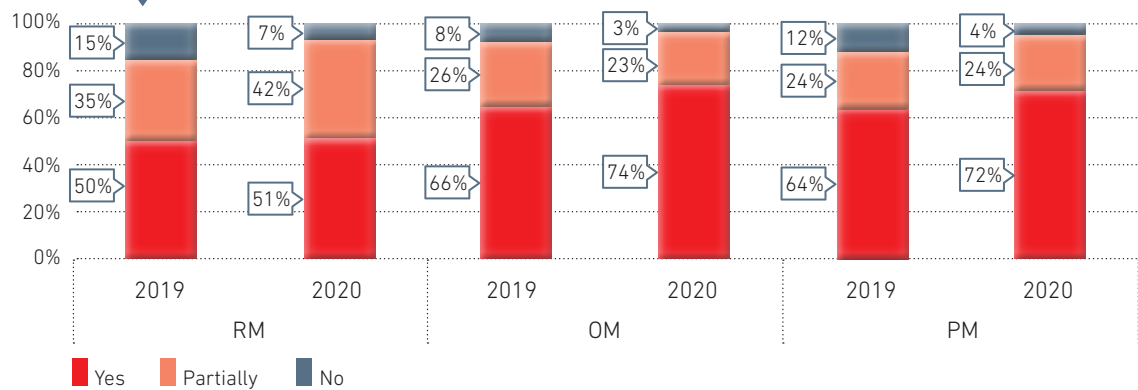
Corporate Governance Code

- ✓ A total of 74% of the issuers (6 issuers on the Prime Market, 18 issuers on the Official Market and 47 issuers on the Regular Market) published their compliance questionnaire for 2020 on their websites (71% of the issuers in 2019).
- ✓ 27% of the issuers (29% of them in 2019) complied with another corporate governance code in addition to the Code (3 issuers on the Prime Market, 8 issuers on the Official Market and 16 issuers on the Regular Market).
- ✓ Out of the total of 27 issuers who complied with another corporate governance code in addition to the Code in 2020, 17 issuers complied with an internal code, 5 issuers complied with the Code of Corporate Governance of Companies in which the Republic of Croatia Holds Shares, 4 issuers complied with other codes, while 1 issuer complied with a code applied in the industry the issuer belongs to (in 2019, 29 issuers also complied with another corporate governance code, mostly with an internal code of the issuer).

Issuers' compliance with the Code in the area relating to disclosure and transparency

The following chart shows the compliance of the issuers with the section "Disclosure and transparency" by segments of the regulated market according to data submitted in the compliance questionnaire for 2020 and 2019.

Chart 87 Share issuers' compliance with the section "Disclosure and transparency" in 2019 and 2020 by segments of the regulated market

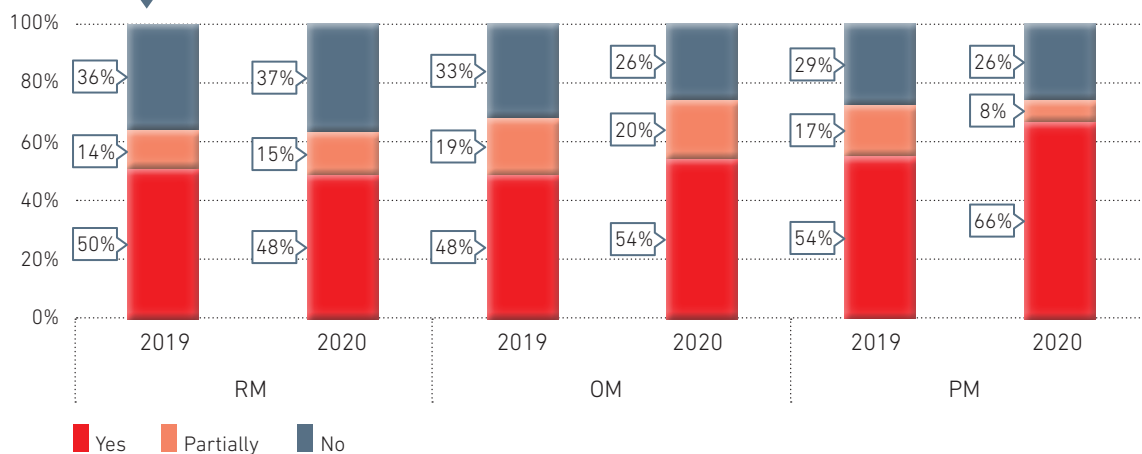


Source: Compliance questionnaire 2020 and 2019, internal calculation

✓ The level of compliance with the section "Disclosure and transparency" achieved by issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market reached 72%, 74% and 51% on average, respectively.

In 2020, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Disclosure and transparency" in comparison with 2019.

Chart 88 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020 by segments of the regulated market



Source: Compliance questionnaire 2020 and 2019, internal calculation

✓ The level of compliance with the section "Stakeholders and corporate social responsibility" achieved by issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market reached 66%, 54% and 48% on average, respectively.

✓ As regards this section, issuers whose shares are admitted to trading on the Prime Market and Official Market showed improvement in compliance, while issuers whose shares are admitted to trading on the Regular Market recorded a slight decrease in the level of compliance relative to 2019.

Annual report on corporate governance for bond issuers

Introduction

Issuers of corporate bonds admitted to trading on the regulated market of the ZSE are obliged to submit to Hanfa data on corporate governance practices contained in the governance practices questionnaire for bond issuers. Issuers whose bonds and shares are both admitted to trading on the regulated market submit the governance practices questionnaire for share issuers; these data are therefore presented in the previous chapter, that relates to share issuers.

At the end of 2020, there were a total of 10 corporate bonds issued by 8 issuers, of which 8 bonds were admitted to trading on the Official Market and 2 bonds on the Regular Market. Out of the 8 issuers, 5 issuers issued only corporate bonds and were obliged to submit to Hanfa the governance practices questionnaire for bond issuers, while the remaining 3 issuers issued both bonds and shares and were obliged to submit to Hanfa the governance practices questionnaire for share issuers.

Out of the 5 corporate bond issuers obliged to submit to Hanfa the governance practices questionnaire for 2020, all 5 of them (100%) submitted the questionnaire to Hanfa. The following data relate to issuers who submitted to Hanfa their 2020 governance practices questionnaire for bond issuers.

Market capitalisation of bonds amounted to HRK 113.8bn at the end of the year, falling slightly relative to 2019 (by about 2%). A new issuer (SAMOBORKA d.d.) listed its bonds on the Regular Market, while another issuer (ATLANTIC GRUPA d.d.) listed additional bonds on the Official Market.

Capital and its origin

Initial capital

The following table shows data on the initial capital of corporate bond issuers and market capitalisation of corporate bonds in the period from 2015 to 2020.

Table 22 Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2015 to 2020

Number of issuers							31/12/ 2015	31/12/ 2016	31/12/ 2017	31/12/ 2018	31/12/ 2019	31/12/ 2020
2015	2016	2017	2018	2019	2020							
8	10	6	6	5	5	Initial capital (in HRK billion)	23,045	26,878	5,953	5,954	5,002	5,149
						Market capitalisation (in HRK billion)	1,532	4,415	3,417	3,475	3,427	3,669

Source: court register, ZSE

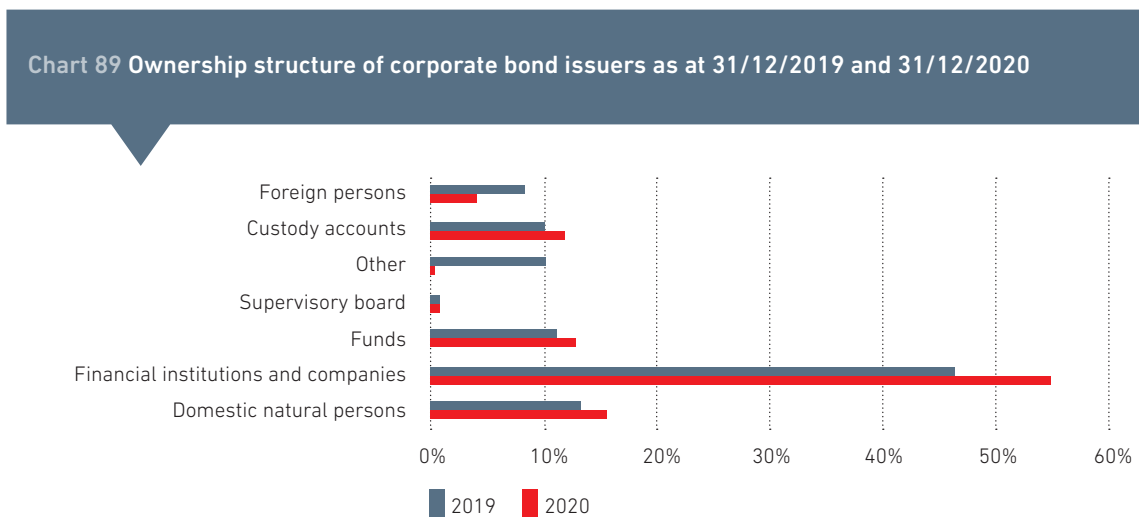
- Initial capital of corporate bond issuers reached HRK 5.1bn at the end of 2020, rising slightly compared to end-2019 (by 3%).
- Market capitalisation of corporate bonds admitted to trading on the regulated market amounted to HRK 3.7bn at the end of 2020, increasing by 7% compared to the end of the previous year.

Ownership structure of corporate bond issuers

Data on the ownership structure of corporate bond issuers have been provided on the basis of information received from the CDCC. The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100.0% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

The structure of joint-stock companies is divided into the following groups: own securities, financial institutions and companies, funds (investment and pension funds with their registered offices in the Republic of Croatia), public sector (Republic of Croatia), management board members, supervisory board members, domestic natural persons (except for members of the management and supervisory board), foreign persons (except for members of the management and supervisory board), custody accounts and other.

The following chart presents the ownership structure of corporate bond issuers as at 31 December 2019 and 2020 by the above-mentioned groups.



Source: CDCC

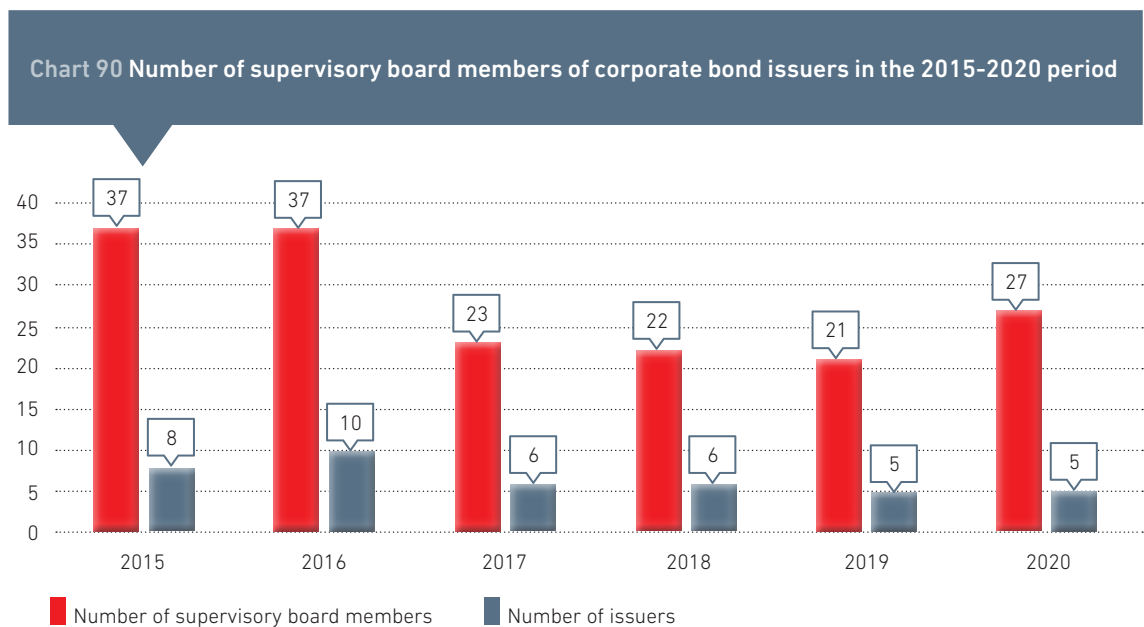
In 2020, the ownership structure of corporate bond issuers was dominated by financial institutions and companies with a 55% share (in 2019, this share reached 46%), followed by domestic natural persons with a 16% share (13% in 2019) and funds with a 13% share (11% in 2019).

Supervisory board and its committees

Supervisory board

- At the end of 2020, supervisory boards of corporate bond issuers consisted of 6 members on average (as at the end of 2019).
- At end-2020, the proportion of women on supervisory boards of corporate bond issuers was by 50% larger than the proportion of women on management boards (at the end of 2019, the proportion of women on supervisory boards of corporate bond issuers was also by 50% larger in relation to the proportion of women on management boards).

The following chart shows the number of supervisory board members of corporate bond issuers in the period from 2015 to 2020.

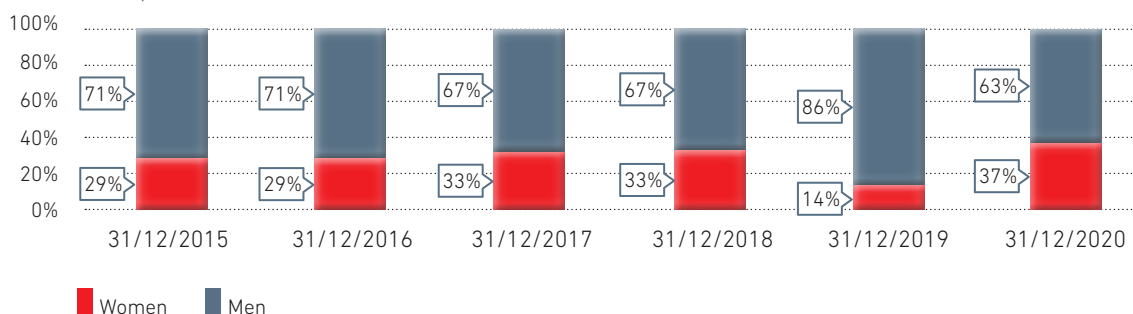


Source: court register

The number of supervisory board members in the observed period ranged from 37 in 2015 and 2016 to 27 in 2020. The reduction in the number of supervisory board members was due to a decrease in the number of corporate bond issuers.

Gender structure of corporate bond issuers' supervisory boards in the period from 2015 to 2020 is shown in the following chart.

Chart 91 Share issuers' supervisory board gender structure in the 2015-2020 period



Source: court register

According to the court register, in the observed period the proportion of women on supervisory boards of corporate bond issuers totalled 29%, exceeding the average number of women on management boards of corporate bond issuers in the same period (19%).

Table 23 Age structure of supervisory board members in the 2015-2020 period

Age of supervisory board members	2015	2016	2017	2018	2019	2020
Younger than 35	5%	5%	2%	2%	-	-
Between 36 and 45	29%	35%	36%	27%	24%	22%
Between 46 and 55	26%	27%	26%	37%	29%	26%
Older than 56	40%	33%	36%	34%	47%	52%

Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

- ✓ During the period observed, the smallest percentage of members of corporate bond issuers' supervisory boards were under 35 years of age. In 2020, the majority of supervisory board members of corporate bond issuers were older than 56 years of age.
- ✓ As at 31 December 2020, 52% of supervisory board members of corporate bond issuers were older than 56 years of age, 26% of them were between 46 and 55 years old, while 22% of them were between 36 and 45 years old (as at 31 December 2019, 47% of supervisory board members of corporate bond issuers were older than 56 years of age, 29% of them were between 46 and 55 years old, while 23% of them were between 36 and 45 years old).
- ✓ As at 31 December 2020, the majority of supervisory board members of corporate bond issuers (81%) had a university degree (70% of supervisory board members at the end of 2019).
- ✓ The average number of corporate bond issuers' supervisory board meetings held in 2020 was 7 (7 meetings in 2019, as well).

Supervisory board committees

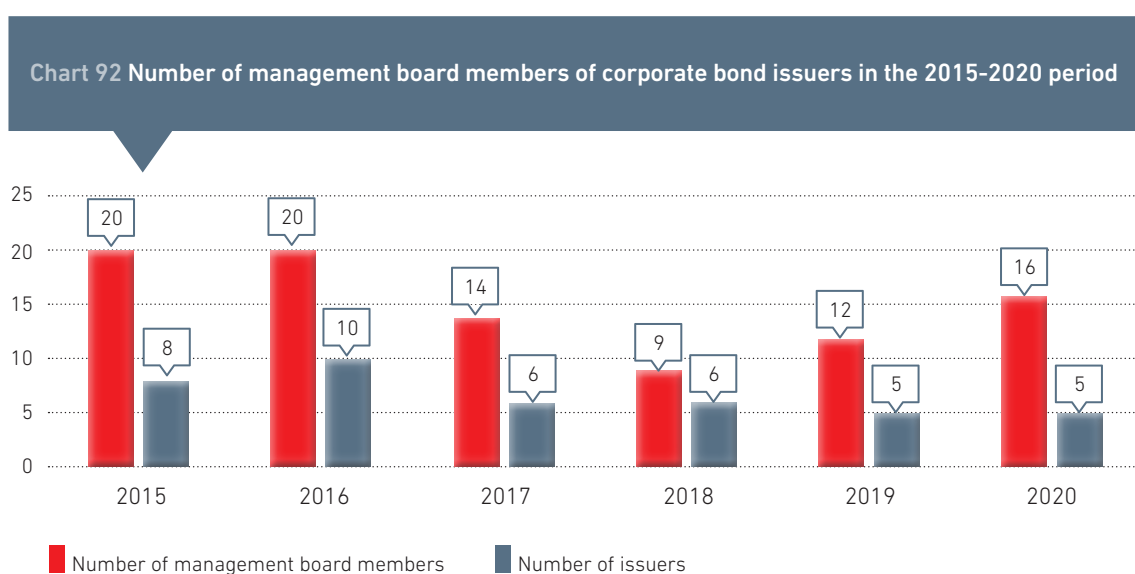
- ✓ One corporate bond issuer (20%) had in place all three supervisory board committees in 2020 (1 issuer in 2019, as well).
- ✓ Broken down by individual committees, 4 issuers (80%) had an audit committee, one issuer had a remuneration committee, and one issuer had a nomination committee (in 2019, 4 issuers had an audit committee, one issuer had a remuneration committee and one issuer had a nomination committee, as well).
- ✓ Each of the supervisory board committees had a minimum of 3 members (as in 2019).
- ✓ Out of the 4 issuers that had in place an audit committee in 2020, 3 issuers (75%) had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee (in 2019, out of the 4 corporate bond issuers that had in place an audit committee, 3 issuers had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee).
- ✓ The average number of meetings held by the audit committee during 2020 was 3. The issuer with a remuneration committee and a nomination committee in place also held 3 meetings for each of the committees in 2020 (in 2019, 3 meetings of the audit committee were held on average, while an issuer with a remuneration committee and a nomination committee in place held 2 meetings for each of the committees).

Management board

The following analysis presents the data on management board members of corporate bond issuers in the 2015 - 2020 period.

- ✓ In 2020, 40% of corporate bond issuers had a one-tier governance system, while 3 issuers (60%) had a two-tier governance system (in 2019, 2 corporate bond issuers (40%) had a one-tier governance system, and 3 issuers (60%) had a two-tier governance system).
- ✓ At end-2020, management boards of corporate bond issuers consisted of 3 members on average (of 2 members on average at end-2019).

The number of management board members of corporate bond issuers in the period from 2015 to 2020 is shown in the following chart.

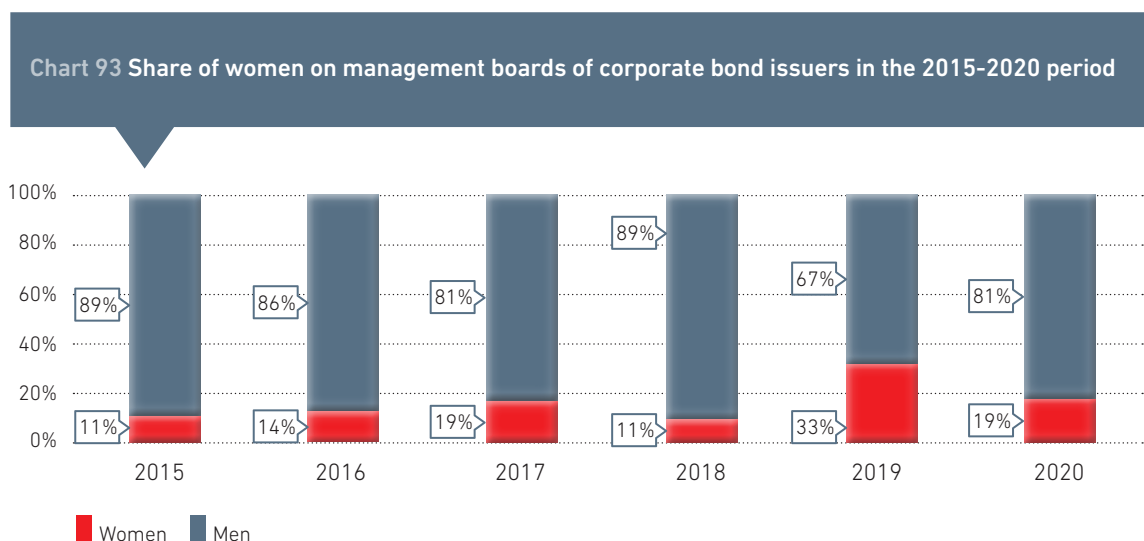


Source: court register

✓ The number of management board members of bond issuers varied from 2015 to 2020, but at the end of 2020 it returned to the 2017 level.

✓ The number of bond issuers was the highest in 2016, and at the end of 2020 there were 5 bond issuers.

The following chart shows the share women on management boards of corporate bond issuers in the period from 2015 to 2020.



Source: court register

In the period observed (2015 - 2020), the average share of women on management boards of corporate bond issuers totalled 18%.

Table 24 Age structure of management board members of corporate bond issuers in the 2015-2020 period

Age of management board members	2015	2016	2017	2018	2019	2020
Younger than 35	5%	5%	-	-	-	-
Between 36 and 45	48%	49%	50%	30%	44%	31%
Between 46 and 55	32%	31%	43%	60%	33%	50%
Older than 56	15%	15%	7%	10%	22%	19%

Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

✓ During almost all periods observed, the majority of management board members were between 36 and 45 years old, except in 2018 and 2020, when the majority of management board members were between 46 and 55 years old.

✓ At the end of 2020, the majority of management board members had finished an undergraduate university study and graduate university study or integrated undergraduate university study and graduate university study / undergraduate university study (44%) and a graduate specialist professional study / undergraduate professional study (25%) (at the end of 2019, the majority of management board members had finished an undergraduate university study and graduate university study or integrated undergraduate university study and graduate university study / undergraduate university study (89%) and a postgraduate specialist study / postgraduate professional study conducted at the university (11%)).

- ✓ A total of 3 issuers (75%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 1 issuer reported having made amendments to that regulation during the year (in 2019, 3 issuers (75%) reported having an internal regulation on management board activities (rules of procedure of the management board), which they did not amend during the year).
- ✓ 2 issuers reported having a schedule of meetings of the management board (1 issuer in 2019). The average number of corporate bond issuers' management board meetings held in 2020 was 24 (30 meetings in 2019).
- ✓ In 2020, no member of the corporate bond issuers' management board resigned before the expiry of their term of office due to personal reasons (in 2019, one member of corporate bond issuers' management board resigned before the expiry of their term due to personal reasons).

Duties and responsibilities of board members

Conflicts of interest and related party transactions

In 2020, 1 issuer (25%) reported having in place an internal regulation for cases of related party transactions (1 issuer in 2019, as well).

No conflicts of interest were reported in 2020 (as in 2019).

The following table shows the average value of transactions concluded by corporate bond issuers in the period from 2015 to 2020 with shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members and the senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 25 Average value of related party transactions in the period from 2015 to 2020

		Gross value of related party transactions concluded by the issuer			
		with shareholders holding more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with the senior management of the issuer	within the group the issuer belongs to or is its parent
2020	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	1,418,628,554	15,061,285	48,628,673	951,689,955
2019	Number of issuers having reported the transaction	3	1	1	3
	Average transaction value (in HRK)	1,654,866,742	17,773,876	29,965,948	1,693,719,274
2018	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	2,702,060,938	16,172,725	22,904,727	741,990,627

2017	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	6,711,198,573	14,744,242	23,201,925	1,493,762,311
2016	Number of issuers having reported the transaction	2	2	1	4
	Average transaction value (in HRK)	3,780,588,017	9,111,820	29,761,977	361,361,308
2015	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	2,740,055,064	13,065,650	34,542,009	284,748,431

Source: Governance practices questionnaire 2019, Annual Report on Corporate Governance 2015, 2016, 2017 and 2018

✓ In 2020, as in the previous years, the highest value of related party transactions was recorded in transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer, while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer.

Remuneration of board members

Remuneration of management board members

✓ In 2020, 2 corporate bond issuers (40%) reported having a remuneration policy for management board members, and only 1 issuer (25%) published the remuneration policy for management board members on its website (in 2019, 2 corporate bond issuers (40%) as well had a remuneration policy for management board members, and only 1 issuer (20%) published the remuneration policy for management board members on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to management board members in the 2015 - 2020 period.

Table 26 Remuneration paid to corporate bond issuers' management board members in the 2015-2020 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2020	Number of issuers	4	1	0	0
	Amount	4,235,606	1,135,080	0	0
2019	Number of issuers	4	2	0	1
	Amount	3,422,717	2,163,245	0	237,165

2018	Number of issuers	6	4	3	1
	Amount	4,617,662	2,186,485	196,054	1,449,639
2017	Number of issuers	7	2	2	1
	Amount	5,915,505	2,097,175	436,821	7,406,173
2016	Number of issuers	11	4	1	1
	Amount	4,263,922	1,004,093	4,796,452	2,181,511
2015	Number of issuers	11	4	0	4
	Amount	3,676,886	2,675,902	0	5,622,555

Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

- ✓ In 2020, 4 corporate bond issuers (80%) paid gross fixed remuneration to management board members in the amount of HRK 16,942,000 (4 issuers in 2019).
- ✓ The gross fixed amount of remuneration paid to management board members in 2020 reached HRK 4,235,606 on average (HRK 3,422,717 in 2019).
- ✓ The gross fixed amount of remuneration paid to management board members in 2020 ranged from HRK 549.3 thousand to HRK 9.9m (in 2019, it ranged from HRK 530 thousand to HRK 13.1m).
- ✓ One corporate bond issuer paid variable remuneration to management board members in the amount of HRK 1,135,080 (in 2019, 2 corporate bond issuers paid variable remuneration to management board members in the amount of HRK 4,326,490).
- ✓ The average amount of gross variable remuneration paid to management board members in 2020 reached HRK 1,135,080 (HRK 2,163,245 in 2019).
- ✓ No corporate bond issuer paid other benefits to management board members in 2020 (as in 2019).
- ✓ No corporate bond issuer granted options to management board members in 2020 (as in 2019).

Remuneration of supervisory board members

- ✓ In 2020, 2 corporate bond issuers (40%) reported having a remuneration policy for supervisory board members, and only 1 issuer (20%) published the remuneration policy for supervisory board members on its website (in 2019, 2 corporate bond issuers (40%) as well reported having a remuneration policy for supervisory board members, and only 1 issuer (20%) published the remuneration policy for supervisory board members on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to supervisory board members in the 2015 - 2020 period.

Table 27 Remuneration paid to corporate bond issuers' supervisory board members in the 2015-2020 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2020	Number of issuers	3	0	0
	Amount	1,495,719	0	0
2019	Number of issuers	3	0	0
	Amount	1,456,123	0	0
2018	Number of issuers	5	0	1
	Amount	385,972	0	10,851
2017	Number of issuers	5	1	1
	Amount	1,037,499	17,737	4,474
2016	Number of issuers	9	1	1
	Amount	423,449	21,760	9,910
2015	Number of issuers	9	1	1
	Amount	505,085	25,680	6,897

Source: Governance practices questionnaire 2020, Annual Report on Corporate Governance 2015, 2016, 2017, 2018 and 2019

- ✓ In 2020, 2 corporate bond issuers reported having a remuneration policy for supervisory board members, and one issuer published the policy on its website (in 2019, 2 corporate bond issuers as well reported having a remuneration policy for supervisory board members, and one issuer published the policy on its website).
- ✓ For 2 issuers, the amount of remuneration for supervisory board members was determined by the general meeting (as in 2019).
- ✓ In 2020, no corporate bond issuer reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting (as in 2019).

Remuneration of the senior management

- ✓ In 2020, 4 bond issuers paid remuneration to the senior management, of which all of them paid fixed remuneration (in 2019, 4 bond issuers paid fixed remuneration to the senior management, and 2 issuers paid variable remuneration in addition to fixed remuneration to the senior management).
- ✓ The amounts of fixed remuneration paid to the senior management in 2020 ranged from HRK 1m (paid by an issuer from the transport industry) up to HRK 16.0m (paid by an issuer from the banking sector) (from HRK 549 thousand (paid by an issuer from the construction industry) up to HRK 16.0m (paid by an issuer from the banking sector) in 2019).
- ✓ In 2020, 1 issuer agreed severance allowance with the senior management in the amount totalling HRK 300 thousand (2 issuers in 2019, in the amount ranging from HRK 284 thousand to HRK 359 thousand).
- ✓ In 2020, severance allowance was paid to the senior management in the amount agreed (in 2019, both issuers paid severance allowance in the amount ranging from HRK 27 thousand to HRK 284 thousand).
- ✓ In 2020, 1 issuer granted shares to the senior management, and no issuer paid other benefits to the senior management (as in 2019).

Risks, internal control and audit

Internal control and audit

- ✓ In 2020, 2 issuers had an internal control system in place (2 issuers in 2019, as well).
- ✓ There were 48 employees in the internal control system on average, with the most employees in the internal control system having been reported by an issuer from the banking sector (in 2019, there were also 48 employees in the internal control system on average, with the most employees in the internal control system having been reported by an issuer from the banking sector).
- ✓ 3 issuers reported having an internal audit system in place in 2020 (3 issuers as well in 2019).

Managing company risks

- ✓ 2 issuers (40%) reported having a person in charge of risk management (2 issuers in 2019).
- ✓ The most frequent risks faced by corporate bond issuers in 2020 were liquidity risk, credit risk, interest rate risk and other risks (liquidity risk, interest rate risk and credit risk in 2019).

External audit

- ✓ In 2020, 5 corporate bond issuers used services of 5 different external auditors (in 2019, 5 corporate bond issuers also used services of 5 different external auditors).
- ✓ 3 issuers used services of the largest audit firms (2 issuers in 2019).
- ✓ At the end of 2020, the average length of the time period during which issuers used services of the same external audit firm was 3 years (2 years in 2019).
- ✓ 5 issuers reported the gross amount paid to the external audit firm for audit services provided in 2020, and the amounts ranged from HRK 21.0 thousand to HRK 2.6m (from HRK 31.0 thousand to HRK 1.7m in 2019). External auditors were paid an average of HRK 765 thousand by issuers (HRK 551.5 thousand in 2019).
- ✓ One issuer reported the gross amount paid to an external audit firm for other services provided in 2020, and the amount totalled HRK 1.1 thousand (1 issuer, too, in 2019, and the amount totalled HRK 94 thousand).

Transparency and corporate social responsibility

- ✓ In 2020, 4 issuers had their websites in both Croatian and English (in 2019, 4 issuers, too, had their websites in both Croatian and English).
- ✓ In 2020, 2 issuers (1 issuer from the construction industry and 1 issuer engaged in real estate services) had a separate department or employees in charge of investor relations exclusively (as in 2019).

- 2 issuers published the calendar of significant events on their website, one engaged in real estate activities and one engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations (as in 2019).
- 2 issuers reported having held press conferences in 2020, of which 1 issuer held 4 press conferences during the year (in 2019, 2 issuers as well, of which 1 issuer held a total of 13 press conferences during the year).

Corporate Governance Code

- In 2020, 2 issuers complied with another corporate governance code in addition to the Code, of which 1 issuer complied with an internal code of the issuer (in 2019, 1 issuer complied with another corporate governance code in addition to the Code, namely an internal code of the issuer).
- The issuer who complied with an internal code in addition to the Code in 2020 was engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations (the issuer who complied with an internal code in addition to the Code in 2019 was also engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations).

List of Tables

Table 1	Minimum number or ratio of independent directors on the management board or supervisory board, 2020	14
Table 2	Minimum ratio of independent members of the supervisory board's audit committee in the Republic of Croatia and certain EU Member States	18
Table 3	Share of issuers whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees, which contains the assessment of all the circumstances referred to in provision 41 of the Code.	20
Table 4	Comparative overview of reported conflicts of interest during the year and prior approvals given by supervisory boards for the conflicts of interest management policy in 2019 and 2020 by segments of the regulated market	23
Table 5	Share of issuers that reached the target percentage of female supervisory/management board members and have a nomination committee in place	28
Table 6	ESG themes and rankings based on relevance	32
Table 7	Overview of issuers subject to non-financial reporting requirements by segments of the regulated market and published non-financial statements for 2020	34
Table 8	Overview of issuers that published non-financial statements for 2020, without being subject to non-financial reporting requirements, per segments of the regulated market	35
Table 9	Prime Market issuers' compliance scores by individual sections of the Code for the year 2020	42
Table 10	Official Market issuers' compliance scores by individual sections of the Code for the year 2020	42
Table 11	Regular Market issuers' compliance scores by individual sections of the Code for the year 2020	43
Table 12	List of issuers according to their compliance scores for 2020	45
Table 13	Examples of explanations from the compliance questionnaire for share issuers for the year 2020	55
Table 14	Number of share issuers on the regulated market of the ZSE from 2015 to 2020, as at 31 December	60
Table 15	Classification of issuers by sectors in the period from 2015 to 2020, as at 31 December	62
Table 16	Number of issuers whose shares are admitted to trading on the regulated market of the ZSE, initial capital and market capitalisation (in HRK billion) from 2015 to 2020	65

Table 17	Average value of reported related party transactions from 2015 to 2020	70
Table 18	Remuneration paid to share issuers' management board members in the 2015-2020 period	88
Table 19	Manner of determining the level of remuneration for supervisory board members in 2019 and 2020	92
Table 20	Remuneration paid to supervisory board members in the 2015-2020 period	93
Table 21	Remuneration paid to the issuers' senior management in the 2015-2020 period	94
Table 22	Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2015 to 2020	107
Table 23	Age structure of supervisory board members in the 2015-2020 period	110
Table 24	Age structure of management board members of corporate bond issuers in the 2015-2020 period	112
Table 25	Average value of related party transactions in the period from 2015 to 2020	113
Table 26	Remuneration paid to corporate bond issuers' management board members in the 2015-2020 period	114
Table 27	Remuneration paid to corporate bond issuers' supervisory board members in the 2015-2020 period	116

List of Charts

Chart 1	Independence of supervisory board members of share issuers in the Republic of Croatia, 2010 - 2020	15
Chart 2	Share of issuers with an independent majority of supervisory board members by segments of the regulated market, 2019 and 2020	15
Chart 3	Average number of supervisory board members and average number of independent supervisory board members of share issuers in 2020	16
Chart 4	Share of issuers with an audit committee in place in 2019 and 2020	17
Chart 5	Share of issuers whose supervisory board evaluated its effectiveness by segments of the regulated market	19
Chart 6	Share of issuers whose supervisory board evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in 2019 and 2020 by segments of the regulated market	20
Chart 7	Share of issuers whose management board evaluated its own effectiveness, as well as the effectiveness of its individual members in the previous 12 months by segments of the regulated market	21
Chart 8	Number of reported conflicts of interest in 2019 and 2020 by segments of the regulated market	22
Chart 9	Share of issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2019 and 2020 by segments of the regulated market	22
Chart 10	Share of share issuers who had in place an internal control system in 2019 and 2020 by segments of the regulated market prema segmentima uređenog tržišta	24
Chart 11	Share of share issuers who had in place an internal control system and whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once in 2019 and 2020 by segments of the regulated market	25
Chart 12	Overview of women's participation in management and supervisory boards of issuers in the Republic of Croatia, 2010 – 2020	26
Chart 13	Comparison of the number of issuers with female board chairs in 2019 and 2020	26
Chart 14	Number of issuers without any female board members in 2019 and 2020	27
Chart 15	Share of issuers that did not set the target percentage of female management/ supervisory board members in 2020, by segments of the regulated market	27
Chart 16	Share of issuers where the supervisory board sets annual remuneration of each member of the management board, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy in 2019 and 2020, by segments of the regulated market	29
Chart 17	The company's approved remuneration policy is available on the website of the company free of charge (Article 56 of the Code)	30
Chart 18	Level of client information available to assess the risk profile	33
Chart 19	Overview of disclosed non-financial statements for 2020 by segments of the regulated market	34
Chart 20	Number of non-financial statements containing information by segments	35

Chart 21	Number of non-financial statements containing information on the environmental protection by segments	36
Chart 22	Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020, by segments of the regulated market	39
Chart 23	Share issuers' compliance with the section "Leadership" for the year 2020	45
Chart 24	Share issuers' compliance with the section "Leadership" in 2019 and 2020 by segments of the regulated market	46
Chart 25	Share issuers' compliance with the section "Duties of board members" for the year 2020	46
Chart 26	Share issuers' compliance with the section "Duties of board members" in 2019 and 2020 by segments of the regulated market	46
Chart 27	Share issuers' compliance with the section "Appointment of board members" for the year 2020	47
Chart 28	Share issuers' compliance with the section "Appointment of board members" in 2019 and 2020 by segments of the regulated market	47
Chart 29	Share issuers' compliance with the section "Supervisory board and its committees" for the year 2020	47
Chart 30	Share issuers' compliance with the section "Supervisory board and its committees" in 2019 and 2020 by segments of the regulated market	48
Chart 31	Share issuers' compliance with the section "Management board" for the year 2020	48
Chart 32	Share issuers' compliance with the section "Management board" in 2019 and 2020 by segments of the regulated market	49
Chart 33	Share issuers' compliance with the section "Remuneration of board members" for the year 2020	49
Chart 34	Share issuers' compliance with the section "Remuneration of board members" in 2019 and 2020 by segments of the regulated market	49
Chart 35	Share issuers' compliance with the section "Risks, internal control and audit" for the year 2020	50
Chart 36	Share issuers' compliance with the section "Risks, internal control and audit" in 2019 and 2020 by segments of the regulated market	50
Chart 37	Share issuers' compliance with the section "Disclosure and transparency" for the year 2020	50
Chart 38	Share issuers' compliance with the section "Disclosure and transparency" in 2019 and 2020 by segments of the regulated market	51
Chart 39	Share issuers' compliance with the section "Shareholders and the general meeting" for the year 2020	51
Chart 40	Share issuers' compliance with the section "Shareholders and the general meeting" in 2020 and 2019 by segments of the regulated market	52
Chart 41	Share issuers' compliance with the section "Stakeholders and corporate social responsibility" for the year 2020	52
Chart 42	Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020 by segments of the regulated market	53
Chart 43	Overall compliance of the issuers with the Code for the year 2020	53
Chart 44	Number of issuers per segments of the regulated market, 2010 – 2020	59
Chart 45	Reasons for removing shares from trading on the regulated market from 2015 to 2020	61

Chart 46	Market capitalisation of shares (in HRK billion) admitted to trading on the regulated market and the number of issuers at the end of each year, from 2015 to 2020	63
Chart 47	Market capitalisation of shares (in HRK billion) by segments of the regulated market from 2015 to 2020	63
Chart 48	Number of share issuers by segments of the regulated market from 2010 to 2020	64
Chart 49	Share issuers' ownership structure from 2015 to 2020	65
Chart 50	Share issuers' ownership structure in relation to market capitalisation (in HRK billion) as at 31/12/2019 and 31/12/2020	66
Chart 51	Share issuers' ownership structure in relation to free float as at 31/12/2019 and 31/12/2020	67
Chart 52	Origin of issuers' capital at the end of 2015, 2016, 2017, 2018, 2019 and 2020	68
Chart 53	Number of cases of conflicts of interest reported during the year in the period from 2015 to 2020	69
Chart 54	Share issuers that reported having/not having an internal regulation for cases of related party transactions in 2020 by segments of the regulated market	70
Chart 55	Number of related party transactions concluded by the issuer in 2020, by categories and segments of the regulated market	71
Chart 56	Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2020	72
Chart 57	Share issuers' compliance with the section "Leadership" in 2019 and 2020 by segments of the regulated market	73
Chart 58	Share issuers' supervisory board gender structure in the period from 2015 to 2020	74
Chart 59	Share issuers' supervisory board gender structure by segments of the regulated market as at 31/12/2020	75
Chart 60	Share issuers with a set target percentage of female supervisory board members in 2020	76
Chart 61	Share of independent supervisory board members in the total number of supervisory board members by market segment, from 2015 to 2020	77
Chart 62	Relationship between the issuers' supervisory board members and management board members in 2020	78
Chart 63	Relationship between supervisory board members and other supervisory board members from 2015 to 2020	78
Chart 64	Number of share issuers with all the three supervisory board committees in place in the 2015-2020 period	79
Chart 65	Number of issuers with supervisory board committees in place in the 2015-2020 period	80
Chart 66	Share issuers' compliance with the section "Supervisory board and its committees" in 2019 and 2020, by segments of the regulated market	81
Chart 67	Management board age structure as at 31/12/2020 by segments of the regulated market	82
Chart 68	Share issuers' management board gender structure from 2015 to 2020	83
Chart 69	Share issuers with a set target percentage of female management board members in 2020	83
Chart 70	Relationship between management board members and other management board members in 2020	85
Chart 71	Relationship between management board members and supervisory board members from 2015 to 2020	85

Chart 72	Share issuers' compliance with the section "Appointment of board members" in 2019 and 2020, by segments of the regulated market	86
Chart 73	Share issuers' compliance with the section "Management board" in 2019 and 2020, by segments of the regulated market	87
Chart 74	Share issuers' compliance with the section "Duties of board members" in 2019 and 2020, by segments of the regulated market	87
Chart 75	Total gross amounts of fixed remuneration paid to management board members (in HRK m) in relation to market capitalisation of issuers (in HRK billion) in 2019 and 2020	89
Chart 76	Ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m in 2019 and 2020	90
Chart 77	Ownership structure of share issuers with a remuneration policy for management board members in place in 2019 and 2020	91
Chart 78	Share issuers' compliance with the section "Remuneration of board members" in 2019 and 2020 by segments of the regulated market	95
Chart 79	Number of share issuers with internal audit and control systems in place in the 2015-2020 period	97
Chart 80	Share of issuers having in place an internal audit system in 2019 and 2020 in relation to their market capitalisation (in HRK billion)	98
Chart 81	Ownership structure of share issuers with an internal control system in place in 2020	98
Chart 82	Gross amount paid to audit firms for audit services provided during 2020 in relation to market capitalisation of the issuers	100
Chart 83	Share issuers' compliance with the section "Risks, internal control and audit" in 2019 and 2020 by segments of the regulated market	100
Chart 84	Share issuers' compliance with the section "Shareholders and the general meeting" in 2019 and 2020 by segments of the regulated market	102
Chart 85	Number of issuers with a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2020	103
Chart 86	Number of issuers that held press conferences and the number of the conferences held in the 2015-2020 period	104
Chart 87	Share issuers' compliance with the section "Disclosure and transparency" in 2019 and 2020 by segments of the regulated market	106
Chart 88	Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 and 2020 by segments of the regulated market	106
Chart 89	Ownership structure of corporate bond issuers as at 31/12/2019 and 31/12/2020	108
Chart 90	Number of supervisory board members of corporate bond issuers in the 2015-2020 period	109
Chart 91	Share issuers' supervisory board gender structure in the 2015-2020 period	110
Chart 92	Number of management board members of corporate bond issuers in the 2015-2020 period	111
Chart 93	Share of women on management boards of corporate bond issuers in the 2015-2020 period	112