

# ANNUAL REPORT ON CORPORATE GOVERNANCE

2023



# Annual Report on Corporate Governance

2023



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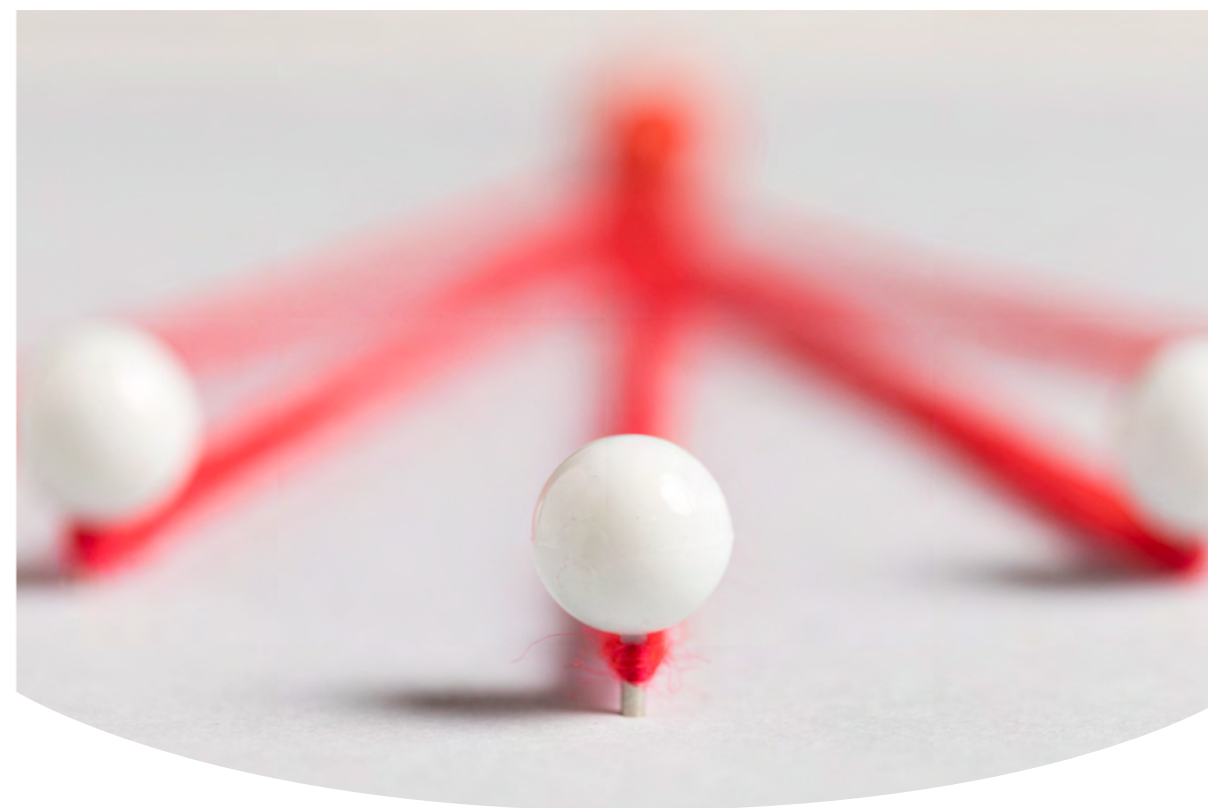
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## INTRODUCTION



### Implementation of the Corporate Governance Code and other regulations in 2023

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

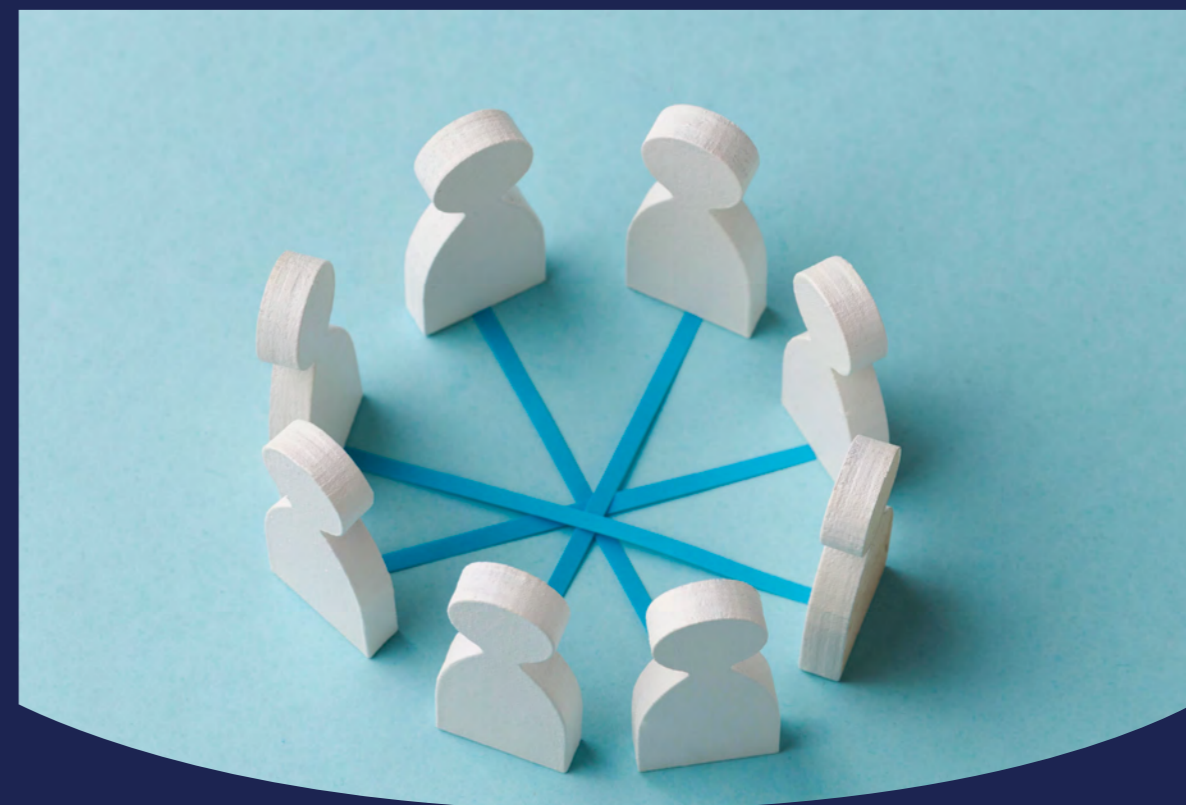
The companies whose shares are listed on the regulated market (stock exchange) in the Republic of Croatia, with the exception of shares of closed-ended investment funds, started to apply the Code on 1 January 2020. Notwithstanding this date, companies informed Hanfa of their compliance with the Code, i.e. their corporate governance practices, also for the year starting on 1 January 2019, enabling the existing practices to be identified and the progress in the years following the beginning of the application of the Code to be monitored. The initial level of companies' compliance with the Code was

presented in the 2020 Annual Report on Corporate Governance, while the 2021 Annual Report on Corporate Governance presented the progress in the compliance with Code.

Following the Decision of the Council of the Organisation for Economic Co-operation and Development (hereinafter: OECD) of 25 January 2022, that provided for the opening of negotiations for the accession of the Republic of Croatia to the OECD<sup>1</sup>, and the Roadmap for the OECD Accession Process of the Republic of Croatia, an assessment of the compliance of Croatia's legal framework with OECD legal instruments was carried out in 2023. The assessment included, inter alia, an assessment of compliance with the corporate governance principles set out by the OECD (G20/OECD Principles of Corporate Governance). During the assessment of the compliance of Croatia's legal framework, OECD expert committees assessed the degree of compliance of the relevant legal regulations of the Republic of Croatia with the G20/OECD Principles of Corporate Governance and identified areas that needed further alignment. The Principles were revised and published on 8 June 2023 in response to the accelerated development of capital markets, digital technologies and business operations amid climate transition, in particular as regards sustainability.

The accession of the Republic of Croatia to the OECD is conditioned by the alignment of the relevant legal regulations of the Republic of Croatia in the forthcoming period, given the need to align the regulations with certain G20/OECD principles on corporate governance and with the amendments to these principles.

# SUMMARY OF KEY COMPLIANCE INFORMATION IN THE 2023 ANNUAL REPORT ON CORPORATE GOVERNANCE



<sup>1</sup> Government of the Republic of Croatia (8.7.2022). Croatia officially starts OECD membership negotiations. Downloaded on 27.8.2024 from <https://mvep.gov.hr/press-22794/croatia-officially-starts-oecd-membership-negotiations/248227>

## SUMMARY OF KEY COMPLIANCE INFORMATION IN THE 2023 ANNUAL REPORT ON CORPORATE GOVERNANCE

Hanfa started to publish its Annual Report on Corporate Governance in 2011. The 2020 Annual Report on Corporate Governance started a new ten-year period of presenting data on issuers' corporate governance.

Compared with 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 issuers' compliance with the recommendations of the Code.

The comparison between data on issuers' compliance with the Code in 2021 and the same data for the preceding year reported in the Annual Report on Corporate Governance for 2020 showed for the first time the progress in compliance achieved by each issuer individually, and their overall progress by segments of the regulated market with respect to each section of the Code.

Issuers report on their implementation of the Code by completing two questionnaires annually: the compliance questionnaire (by means of which they report on their (non) compliance with the recommendations of the Code) and the governance practices questionnaire (by means of which they provide additional and detailed information on their corporate governance practices). On the basis of the authorisation laid down in the Capital Market Act, Hanfa is authorised to process and publish data on corporate governance, the application of the Code and compliance with its recommendations.

The compliance questionnaire requires issuers to explain whether they comply (fully or partially) or fail to comply with each of the recommendations of the Code. If the company fails to comply with a recommendation of the Code, or complies with it only partially, it should explain and specify in the questionnaire which part of the Code it fails to comply with and why, with reference to the company's specific circumstances. It should also describe actions it has taken instead of complying with the recommendation of the Code to make sure it meets the objective set out in the relevant Code principle. If the issuer intends to comply with the Code provision in the future, it should specify when it will start doing so. The compliance questionnaire is disclosed publicly and submitted to Hanfa for the purpose of monitoring compliance with respect to each individual issuer and jointly with respect to all the issuers on the regulated market and on its individual segments.

The governance practices questionnaire provides additional data on issuers' corporate governance practices.

Therefore, in addition to statistical overviews of the situation per corporate governance area, this Annual Report on Corporate Governance will present, as did the previous one, the compliance of issuers whose shares are admitted to the regulated market with specific sections of the Code and with recommendations of the Code for specific areas of

corporate governance, as well as the overall compliance of these issuers with the Code as a whole.

This Report, just like the previous one, shows the progress in compliance made by each individual issuer with respect to each individual section of the Code.

Furthermore, in this year's Annual Report on Corporate Governance Hanfa presents compliance with the new and important provisions and recommendations of the Code (gender diversity, independence of supervisory board members, independence of audit committee members, conflicts of interest, internal control system, whistle-blowing, remuneration policy, ESG policies, and reporting).

Data on compliance with the Code (via the compliance questionnaire) and data on governance practices (via the governance practices questionnaire) for 2023 were submitted by all of the companies obliged to submit their data to Hanfa.

Share 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 issuers' management and supervisory boards.

As at 31 December 2023, there were 83 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which two were closed-ended investment funds. A total of 81 share issuers were therefore obliged to submit their compliance questionnaire for 2023 (86 share issuers in 2022).

The compliance questionnaire was submitted to Hanfa by all the 83 share issuers subject to the submission obligation. 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 that had submitted their compliance questionnaires did not cover share issuers whose answers provided in the compliance questionnaire were not correct, consistent or consistent with publicly available data (2 share issuers). The sample serving as the basis for calculating overall compliance covered therefore 79 issuers.

The analysis of data on share issuers' compliance with the Code in 2023 showed that the level of overall compliance of share issuers with the Code was higher than the one reached in 2022: 70% of all the questions in the 2023 compliance questionnaire were answered "YES" and 21% of the questions were answered "NO", while the remaining 9% were answered "Partially" (in 2022, 68% of all the questions in the compliance questionnaire were answered "YES" and 23% of the questions were answered "NO", while the remaining 9% were answered "Partially").

The comparative analysis of data submitted in the 2022 and 2023 compliance questionnaires points to a **slightly growing trend in compliance** with all the sections of the Code.

According to data provided in the compliance questionnaire for the year 2023, share issuers comply most with the following sections of the Code:

Code section	Level of compliance in 2023	Level of compliance in 2022
<i>Leadership</i>	<b>80%</b>	<b>79%</b>
<i>Shareholders and the general meeting</i>	<b>75%</b>	<b>73%</b>

According to data provided in the compliance questionnaire for the year 2023, share issuers comply least with the following sections of the Code:

Code section	Level of compliance in 2023	Level of compliance in 2022
<i>Appointment of board members</i>	51%	49%
<i>Stakeholders and corporate social responsibility</i>	61%	60%

A significant rise in the level of share issuers' compliance in 2023 relative to 2022 was recorded with respect to the sections "Remuneration of board members" (4% of "YES" answers more compared to 2022).

Furthermore, this year's Annual Report on Corporate Governance assesses the progress in share issuers' compliance with each individual section of the Code. The total number of issuers comprising the sample for the calculation of overall compliance in 2023 (81 issuers) did not include 2 issuers whose shares were admitted to the regulated market during 2023. The total number of issuers comprising the sample therefore reached 79.

The model for assessing progress in share issuers' compliance involved two criteria against which individual issuers were observed, namely:

- progress in comparison with the market;
- progress made by individual issuers in 2023 compared with 2022 by individual sections of the Code.

These scores were added together, representing the final score showing progress in compliance with the Code assigned to individual issuer per section.

The following table provides an overview of compliance progress by sections of the Code in share issuers that received a positive score in 2023 (a score of 1 or 2):

Code section	Level of compliance in 2023	Number of issuers in 2023	Level of compliance in 2022	Number of issuers in 2022
<i>Leadership</i>	4%	3	8%	6
<i>Duties of board members</i>	4%	3	10%	8
<i>Appointment of board members</i>	8%	6	23%	18
<i>Supervisory board and its committees</i>	6%	5	15%	12
<i>Management board</i>	4%	3	14%	11
<i>Remuneration of board members</i>	8%	6	10%	8
<i>Risks, internal control and audit</i>	8%	6	10%	8
<i>Disclosure and transparency</i>	5%	4	6%	5
<i>Shareholders and the general meeting</i>	9%	7	6%	5
<i>Stakeholders and corporate social responsibility</i>	4%	3	8%	6

The comparison of the level of compliance progress in share issuers that made a progress in compliance (and received a score of 1 or 2) with individual sections of the Code in 2023 with the level of compliance progress reached in 2022 showed a **declining trend in compliance progress** as regards most of the sections of the Code. A rising level of compliance progress made in 2023 compared to 2022 was recorded with respect to the section "Shareholders and the general meeting".

# OVERVIEW OF SELECTED CORPORATE GOVERNANCE AREAS RELATING TO SHARE ISSUERS

## INTRODUCTION

The 2023 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: gender diversity, independence of supervisory board members, independence of audit committee members, conflicts of interest, internal control system, whistle-blowing, remuneration policy, ESG policies, and reporting.

## GENDER STRUCTURE OF MANAGEMENT AND SUPERVISORY BOARDS

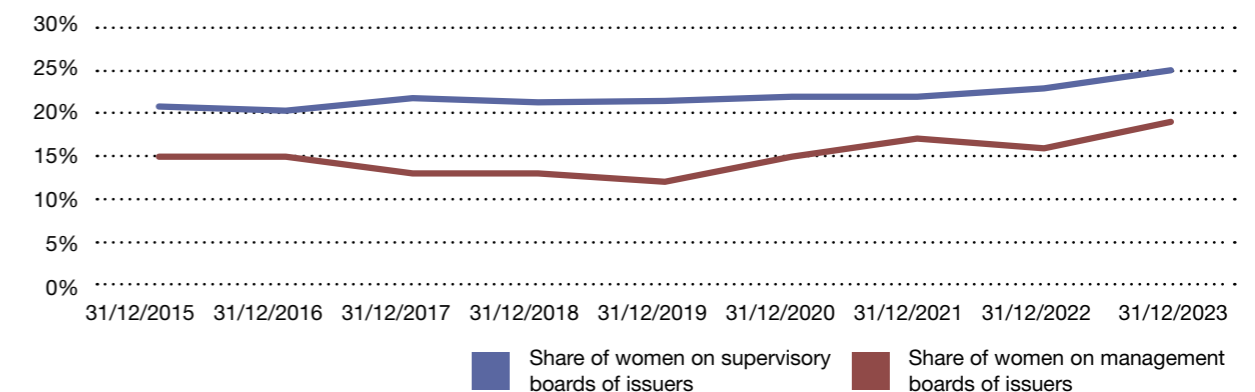
The Code prescribes that every five years, the supervisory board should set the target percentage of female members on supervisory and management boards to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been set. Progress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

The Annual Report on Corporate Governance contains processed data from the court register on the structure of the management and supervisory board for companies whose shares were listed on the regulated market of the Zagreb Stock Exchange as at 31 December 2023.

These data are not identical to EIGE's<sup>2</sup> data on managerial positions held by women, which refer to data on the share of women in non-executive positions in the 20 largest companies in Croatia listed on the regulated market.

The following chart shows changes in the share of women on management and supervisory boards of issuers in the Republic of Croatia from 2015 to 2023.

Chart 1 Overview of women's participation in management and supervisory boards of issuers in the Republic of Croatia, 2015 – 2023



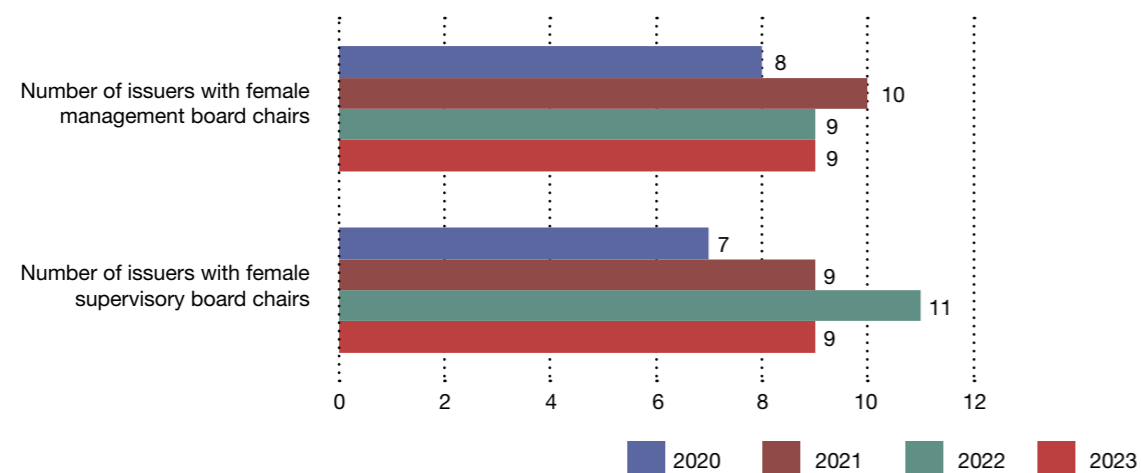
Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

<sup>2</sup> European Institute for Gender Equality Statistics | Eurostat (europa.eu)



In the period from 2015 to 2023, the share of women on management boards and supervisory boards grew slightly (from 15% to 19% and from 21% to 25% respectively). The average share of women on issuers' management and supervisory boards amounted to 15% and 22% respectively.

Chart 2 Comparison of the number of issuers with female board chairs in 2020, 2021, 2022 and 2023

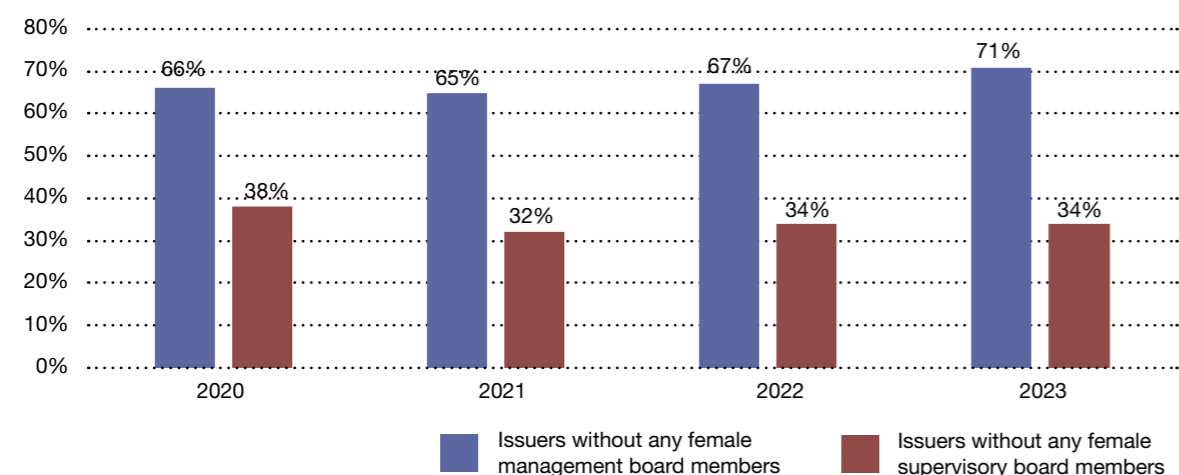


Source: court register

In 2023, the number of women chairing supervisory boards remained the same as in 2022. As regards the number of issuers with female management board chairs, an upward trend is evident in the observed period, but 2023 saw a slight decline.

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

Chart 3 Number of issuers with no female board members in 2020, 2021, 2022 and 2023



Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023

In the period observed, the share of issuers with no female management board members was very high and even rose slightly in 2023 compared to 2020, 2021 and 2022 (it ranged from 66% to 71%), leaving significant room for improvement. The share of issuers

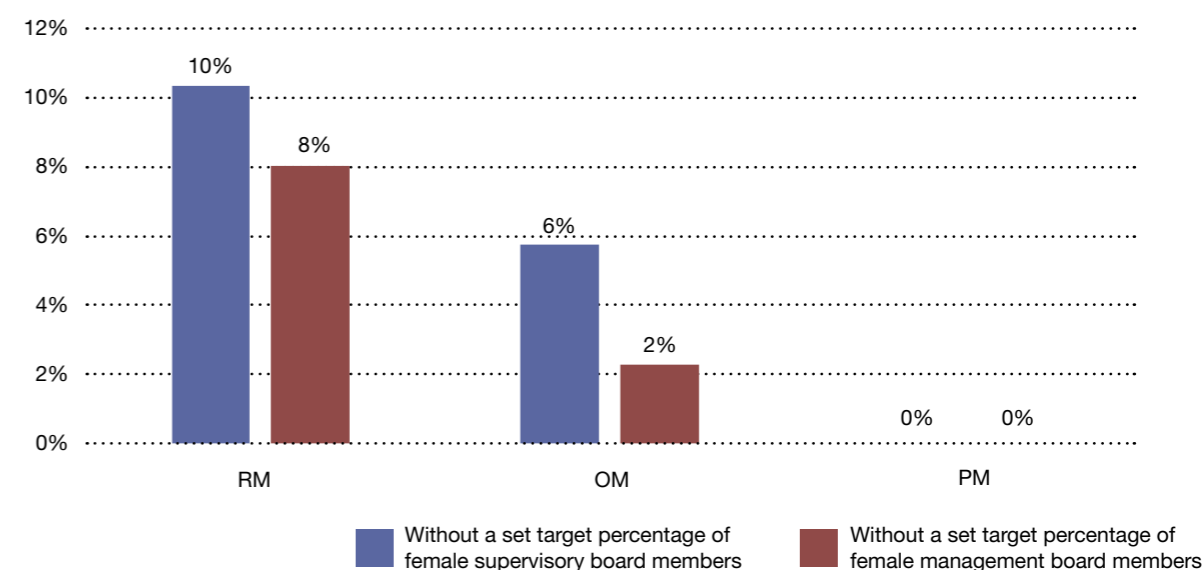
with no female supervisory board members held steady compared to 2022 (34%); however, this share was not very high in the period observed (it ranged from 34% to 38%), which points to slight progress in achieving gender diversity goals.

## TARGET PERCENTAGE OF FEMALE BOARD MEMBERS

The Code prescribes that every five years, the supervisory board of the issuer should set the target relating to the percentage of female members on the supervisory and management board 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 governance practices questionnaire, 69 issuers set the target percentage of female supervisory board members to be achieved within the next five years. According to the same questionnaire, 74 out of 83 issuers (89%) set the target percentage of female management board members.

Chart 4 Share of the issuers that failed to set the target percentage of female board members in 2023, by segments of the regulated market



Source: Governance practices questionnaire 2023

In 2023, the target percentage of female supervisory board members failed to be set by 10% of issuers on the Regular Market and 6% of issuers on the Official Market (in 2022, 14% of issuers on the Regular Market and 6% of issuers on the Official Market). The target percentage of female management board members failed to be set by 8% of issuers on the Regular Market and 2% of issuers on the Official Market (in 2022, 7% of issuers on the Regular Market and 3% of issuers on the Official Market, while all issuers on the Prime Market set the target percentage of female management board members). All issuers on the Prime Market set the target percentage of female management board members in 2023.

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

- 6 issuers on the Prime Market;
- 14 issuers on the Official Market; and
- 49 issuers on the Regular Market.

Broken down by segments of the regulated market, the target percentage of female management board members was set by:

- 6 issuers on the Prime Market;
- 17 issuers on the Official Market; and
- 51 issuers on the Regular Market.

Even though the target percentage of female board members is to be achieved within a period of five years from the date of defining the target percentage, the comparison of the data from the governance practices questionnaires showed that:

28 out of 74 issuers that had set the target (34%) achieved the target percentage of female management board members (19 issuers on the Regular Market, 6 issuers on the Official Market and 3 issuers on the Prime Market);

43 out of 69 issuers that had set the target (60%) achieved the target percentage of female supervisory board members (27 issuers on the Regular Market, 10 issuers on the Official Market and 6 issuers on the Prime Market).

In the following years, the achievement of the target percentage and compliance with the Code (with target percentages and deadlines defined by share issuers themselves) by the share issuers that have set that target will be subject to monitoring. Data on the achievement of the target percentage in 2023 compared to 2022 show a slight decline in the number of women on management boards (1%) and a fairly significant rise in the number of women on supervisory boards (9%). In 2022, these percentages amounted to 35% and 51% for management and supervisory boards respectively.

Provision 15 of the Code stipulates that monitoring the progress in achieving the target percentage of female board members should be one of the responsibilities of the nomination committee.

Table 1 Share of the issuers that reached the target percentage of female board members and have a nomination committee in place

	2020	2021	2022	2023
<b>Issuers that reached the target percentage of female management board members and have a nomination committee in place</b>	24%	37%	16%	17%
<b>Issuers that reached the target percentage of female supervisory board members and have a nomination committee in place</b>	44%	42%	23%	29%

Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023

According to the data from the governance practices questionnaire, 17% of the issuers that had set the target percentage of female management board members achieved that percentage and also have a nomination committee in place. A total of 29% of the issuers that had set the target percentage of female supervisory board members achieved that percentage and also have a nomination committee in place.

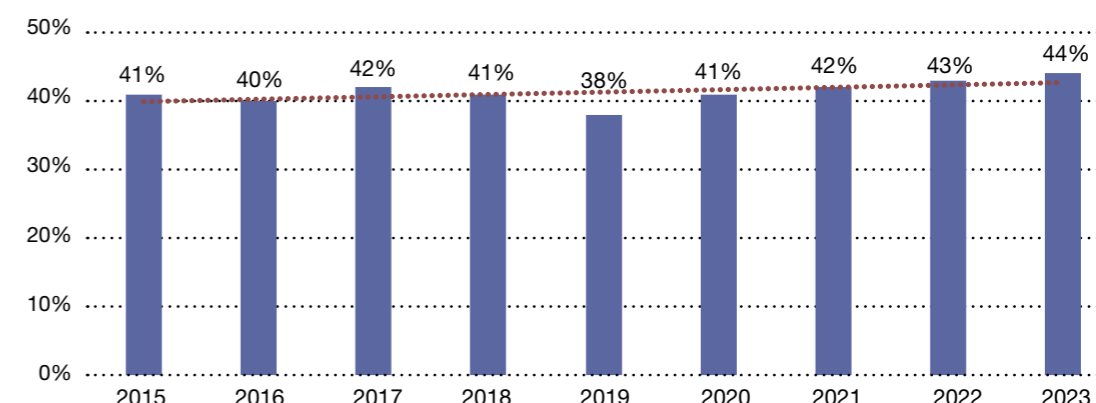
## INDEPENDENCE OF SUPERVISORY BOARD MEMBERS

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

Independent supervisory board members contribute to the adoption of objective decisions relating to management board members, the issuer and its shareholders, such as decisions on remuneration, new appointments and audit function.

The following chart provides a comparative overview of the proportion of independent supervisory board members in share issuers in the Republic of Croatia from 2015 to 2023.

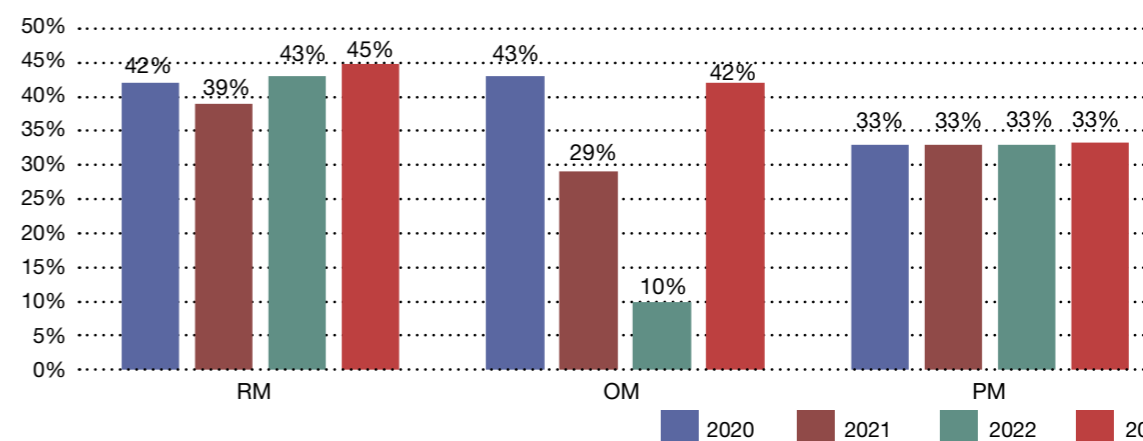
Chart 5 Independent supervisory board members in share issuers in the Republic of Croatia, 2015 – 2023



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

The level of independence of supervisory board members in share issuers in the 2015 - 2023 period shows a slightly upward trend. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2015 to 2023 reached 41%. This means that 59% of supervisory board members were not independent in that period.

Chart 6 Share of issuers with an independent majority of supervisory board members by segments of the regulated market; 2020, 2021, 2022 and 2023



Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

The level of independence of share issuers' supervisory board members in 2020, 2021, 2022 and 2023 changed slightly on the Regular Market (from 42% to 39% and back to 43% and 45%), while the Official Market saw a more significant increase in the share of issuers with an independent majority of supervisory board members compared to 2022 (from 10% to 42%). The share of issuers on the Prime Market with an independent majority of supervisory board members held steady relative to 2020, 2021 and 2022. 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, their supervisory boards consist of 5 members on average. Pursuant to the Code, the majority of 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 2023.

Table 2 Average number of supervisory board members and average number of independent supervisory board members of share issuers in the 2020 – 2023 period

	2020	2021	2022	2023
Average number of supervisory board members of share issuers	5	5.3	5.3	5.3
Average number of independent supervisory board members of share issuers	2	2.2	2.2	2

Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

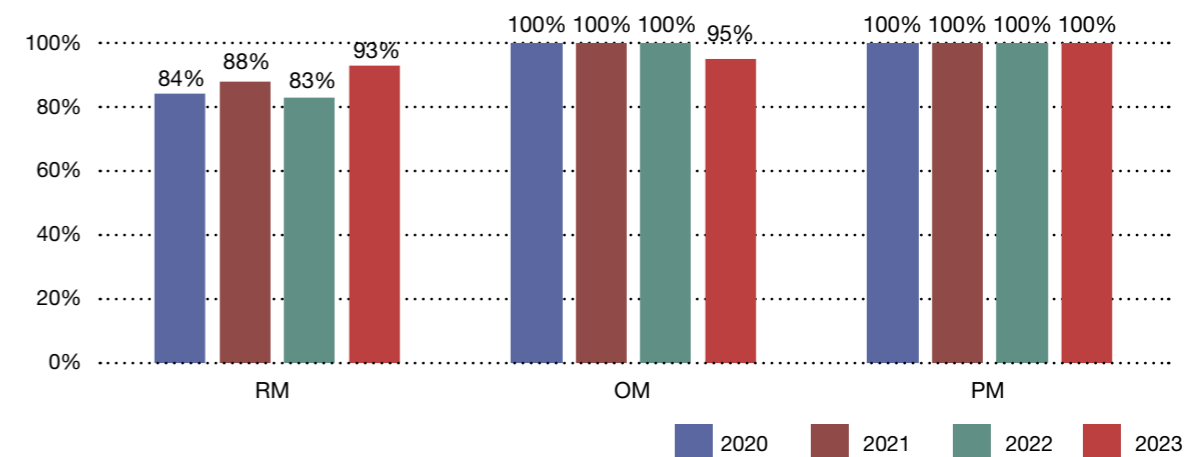
Even though data on independent supervisory board members of share issuers in the Republic of Croatia point to certain (slight) progress towards the increase in their independence, share issuers should put in an additional effort in order to ensure the independence of the majority of their supervisory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

According to data collected, the relationship between supervisory board members and management board members (predominant business relationship reaches 62%) and other supervisory board members (predominant business relationship reaches 71%), as well as related party transactions 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. The obligation to establish an audit committee is also stipulated by the relevant legal provisions governing audit issues.

Chart 7 Proportion of share issuers with an audit committee in place in 2020, 2021, 2022 and 2023



Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

2023 saw increased compliance of share issuers with the Code as regards the establishment of the audit committee by supervisory boards on the Regular Market, while issuers on the Official Market showed a slight decrease in compliance as an issuer transferred to another market segment. Issuers on the Prime Market were fully aligned with the Code in this respect, over all the four years observed.

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.

According to data collected, the average number of share issuers' audit committee members in 2023 was 3, and 1 member of the audit committee was independent on average. These 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 2023, as in the previous year, the minimum majority independence requirement for audit committee members set by the Code was not met.

Issuers have recognised the significance of the audit committee, as evidenced by the increase in the share of the issuers that have set it up. 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.

## CONFLICTS OF INTEREST

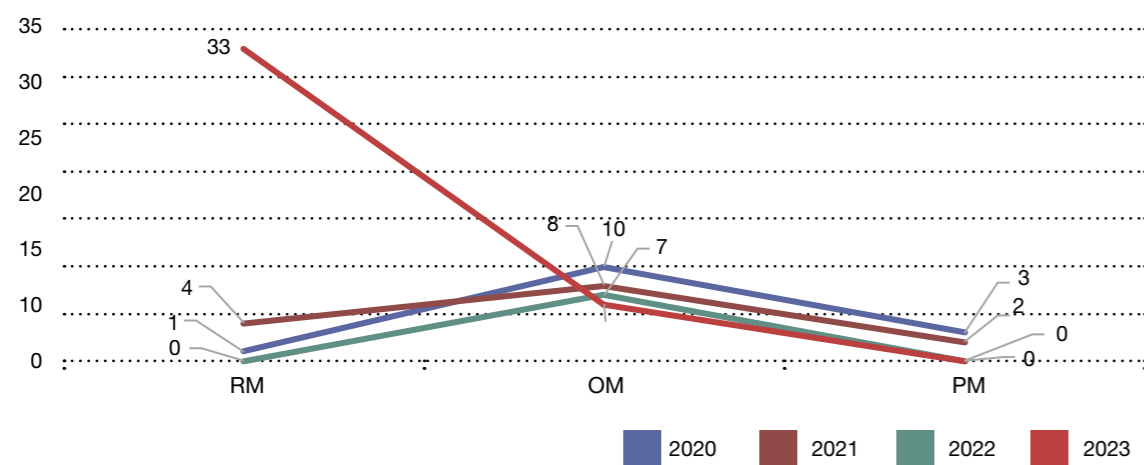
Members of the supervisory and management board are obliged to act in the best long-term interest of the company instead of in their own interest or in the interest of individual shareholders or other parties. In order to ensure acting in the best long-term interest of the company, situations should 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 decision-making 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 2020, 2021, 2022 and 2023 by segments of the regulated market.

Chart 8 Number of conflicts of interest reported during the year, in 2020, 2021, 2022 and 2023, by segments of the regulated market



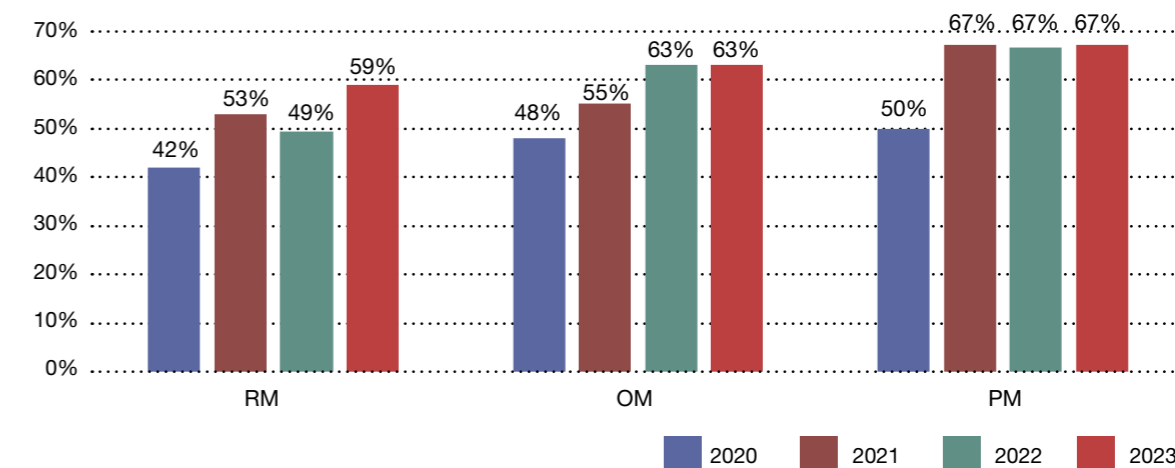
Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

In 2023, 6 conflicts of interest were reported by 4 issuers whose shares are admitted to the Official Market, a decrease compared to the other periods observed. No conflicts of interest were reported by issuers whose shares are admitted to trading on the Prime Market.

These data show a significant (fivefold) rise in the number of conflicts of interest reported by the issuers on the Regular Market compared to 2022.

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 the issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2020, 2021, 2022 and 2023 by segments of the regulated market.

Chart 9 Share of the issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

The chart shows a rise in compliance as regards the granting of the supervisory board's prior approval for the conflicts of interest management policy on the Regular Market relative to the previous years, while the Official Market and Prime Market saw an increase in compliance compared to the previous years and no change in 2023 compared to 2022.

Table 3 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 2020, 2021, 2022 and 2023 by segments of the regulated market

	2020		2021		2022		2023	
	Number of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy
RM	1	YES	4	YES	0	YES	33	YES
OM	10	YES	8	NO	7	YES	6	YES
PM	3	NO	2	NO	0	YES	0	YES
Total	14	-	14	-	7	-	39	-

Source: Questionnaires related to corporate governance, 2020, 2021, 2022 and 2023

In 2023, as in 2022, the supervisory board of the majority of issuers on the regulated market gave its prior approval for the conflicts of interest management policy.

Out of 39 cases of conflicts of interest reported in 2023, 4 were reported by the senior management, 12 by the management board and 23 by the supervisory board (in 2022, out of 7 reported cases of conflicts of interest, 5 were reported by the senior management, 1 by the management board, and 1 by the supervisory board). All the cases of conflicts of interest reported in 2023 (as in 2022) involved persons who abstained from voting on entering related party transactions.

The governance practices questionnaire showed that 29 supervisory board members of 21 issuers were related to management board members in 2023 (39 supervisory board members of 23 issuers in 2022). The number of issuers having reported transactions with management and supervisory board members was higher in 2023 than in 2022 and 2021. Furthermore, the year 2023 saw the highest average gross amount of related party transactions relative to the 2020 – 2022 period. As regards the relationship between management and supervisory board members and data on related party transactions, in 2023, 12 conflicts of interest were reported by the management board and 23 conflicts of interest were reported by the supervisory board.

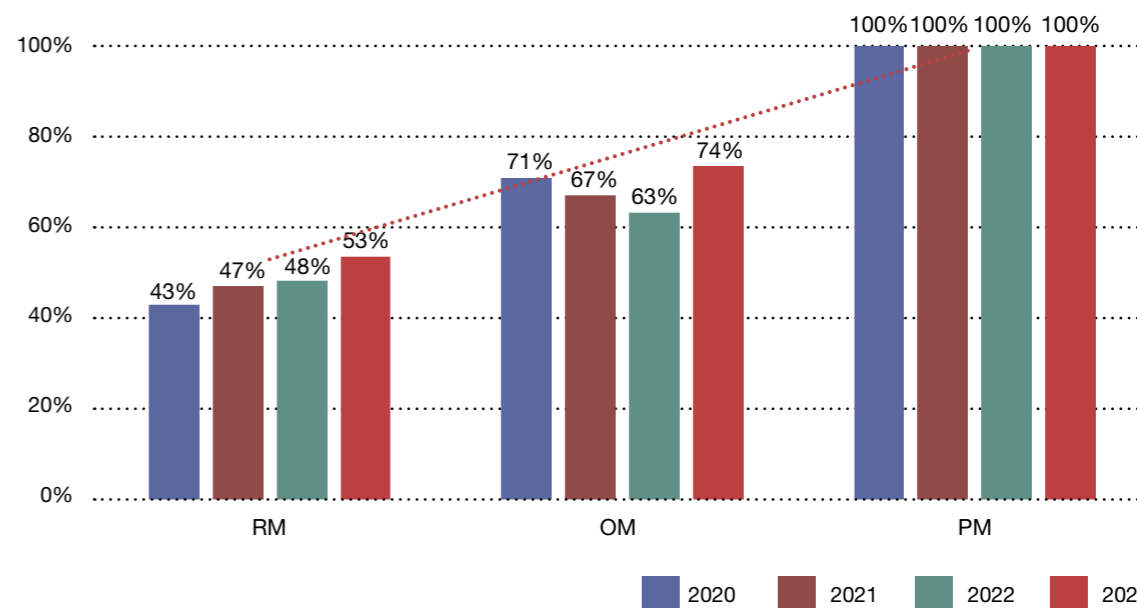
According to data on governance practices, in 2023, just as in 2022, 59% of issuers failed to adopt internal rules of procedure in cases of related party transactions.

## 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 2023, 61% of issuers had an internal control system in place, while this proportion stood at 55% in 2022. The following chart shows the proportion of the share issuers that had in place an internal control system in 2023 by segments of the regulated market.

Chart 10 Proportion of the share issuers that had in place an internal control system in 2020, 2021, 2022 and 2023, by segments of the regulated market



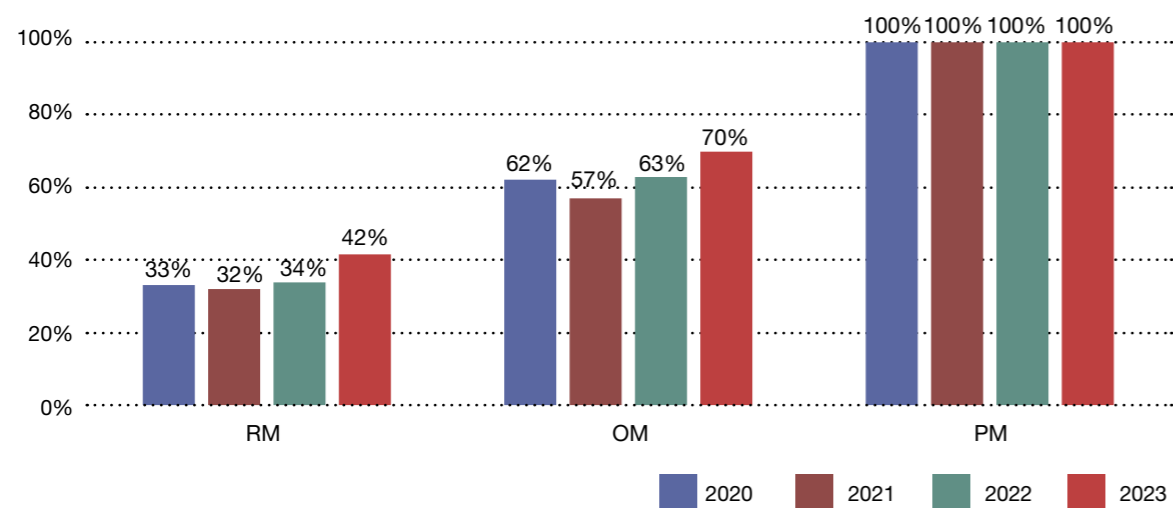
Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

The data provided show a slight increase in the number of issuers on the Regular Market with an internal control system in place, which points to the fact that, even though 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, the share of such issuers on the Regular Market is still low. The Official Market also saw a rise in the number of issuers with an internal control system in place.

In 2023, there were 16 employees in the internal control system on average, as in 2022.

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 Proportion of the share issuers that 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 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Questionnaires related to corporate governance, 2020, 2021, 2022 and 2023

2023 saw an increase in the share of issuers on the Regular Market and Official Market whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once a year.

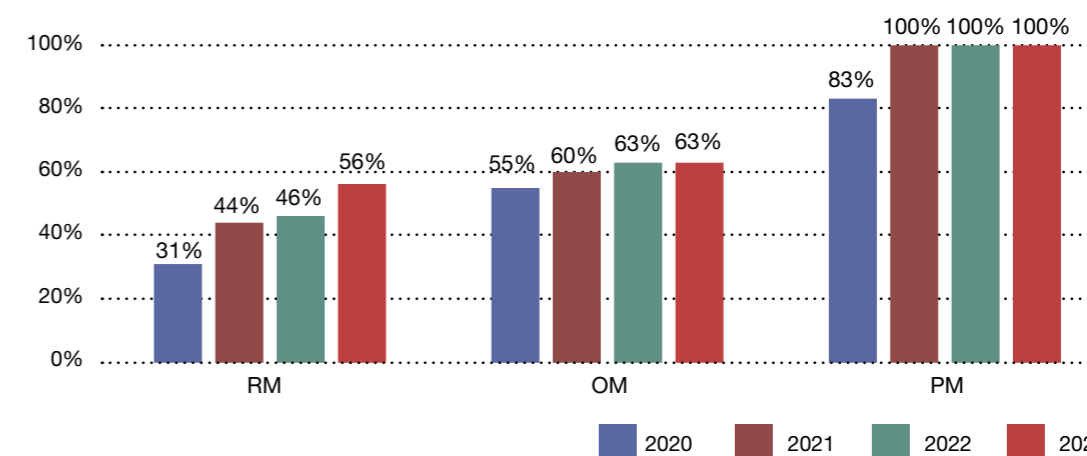
The audit committee of all the share issuers on the Prime Market that have in place an internal control system evaluated the effectiveness of the risk management and internal control system as a whole at least once a year, which points to full compliance of issuers on the Prime Market with this provision 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. Given that the management of conflicts of interest has indicated weaknesses in the internal control system, issuers should make further efforts in the coming period to establish an effective and efficient internal control system. This was also noted in the 2021 and 2022 Annual Reports on Corporate Governance.

## WHISTLE-BLOWING

Provision 69 stipulates that the management board should adopt and make freely available on the company's website, with the prior approval of the supervisory board, a procedure for reporting actual or suspected breaches of the law or of the company's code of conduct. The procedure should ensure that employees or external stakeholders do not suffer negative consequences if they report suspected misconduct.

Chart 12 Proportion of the issuers having made details of the whistle-blowing procedure available free of charge on their websites in 2020, 2021, 2022 and 2023, by segments of the regulated market



Source: Compliance questionnaire 2021, 2021, 2022 and 2023, internal calculation

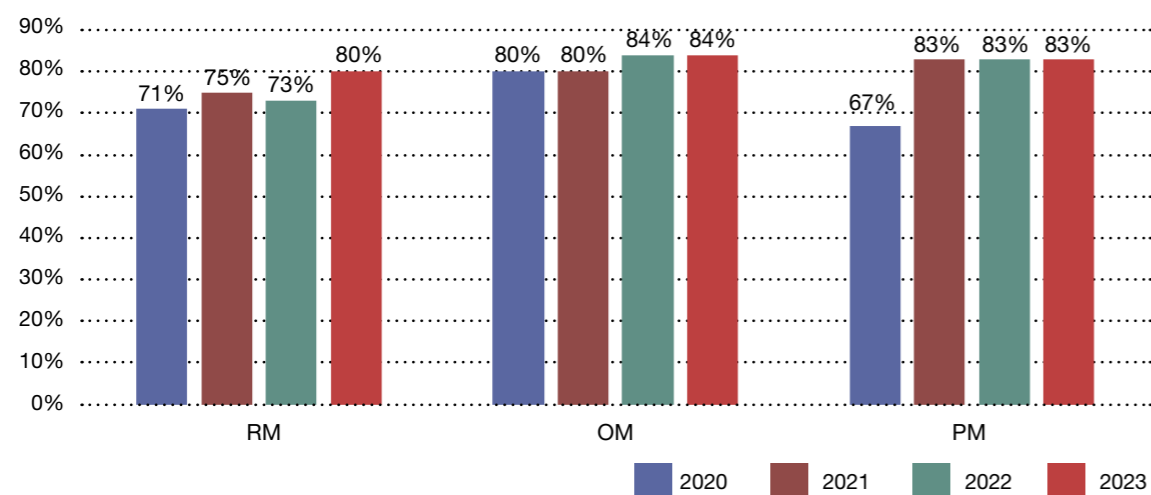
The 2020 – 2023 period saw an increasing number of companies that had made details of the whistle-blowing procedure available free of charge on their websites. The Regular Market and Official Market show a positive trend, however, there is still room for improvement given that in 2023 56% of companies on the Regular Market and 63% of companies on the Official Market made details of the whistle-blowing procedure available free of charge on their websites. All companies on the Prime Market made details of the whistle-blowing procedure available free of charge on their websites.

According to the compliance questionnaire for 2023, 87% of companies have defined a procedure that ensures that employees or external stakeholders do not suffer negative consequences if they report suspected misconduct, and management boards in 67% of companies have adopted a procedure for reporting actual or suspected breaches of the law or of the company's code of conduct following the prior approval of the supervisory board.

Furthermore, Provision 70 of the Code stipulates that the management board should report any breaches identified through this procedure immediately to the supervisory board and arrange the actions that should be taken. The audit committee should review the effectiveness of the procedure and how it has been applied at least annually.

In 2023, 81% of companies had articles of association and/or internal regulations laying down the obligation of the management board to report to the supervisory board any breaches identified and to arrange the actions that should be taken, and the audit committee in 57% of these companies reviewed the effectiveness of the procedure and how it had been applied in the last 12 months.

Chart 13 Share of the issuers whose articles of association and/or internal regulations lay down the obligation of the management board to report to the supervisory board any breaches identified and to arrange the actions that should be taken, in 2020, 2021, 2022 and 2023, by segments of the regulated market



Source: Compliance questionnaire 2021, 2021, 2022 and 2023, internal calculation

In 2023, 83% of companies on the Prime Market, 84% of companies on the Official Market and 80% of companies on the Regular Market had articles of association and/or internal regulations laying down the obligation of the management board to report to the supervisory board any breaches identified and to arrange the actions that should be taken.

## REMUNERATION POLICY

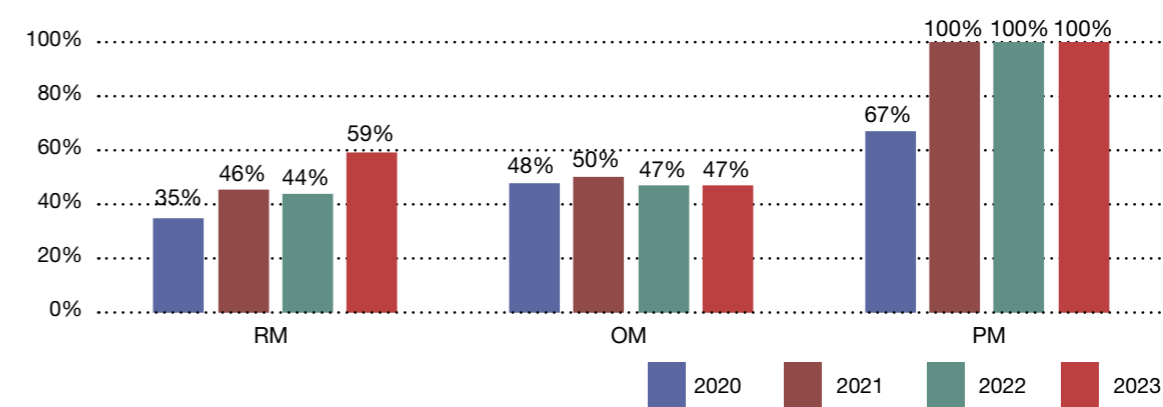
The Companies Act prescribes the obligation to decide on the system of remuneration of members of the management board and supervisory board by adopting a remuneration policy.

Article 272r of the Companies Act<sup>3</sup> 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. 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 should include provisions specifying the circumstances under which part of a management board member's remuneration would be withheld or recovered.

<sup>3</sup> Official Gazette, No 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 111/12, 68/13, 110/15, 40/19, 34/22, 114/22, 18/23 and 130/23

Chart 14 Share of the issuers whose 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 2020, 2021, 2022 and 2023, by segments of the regulated market

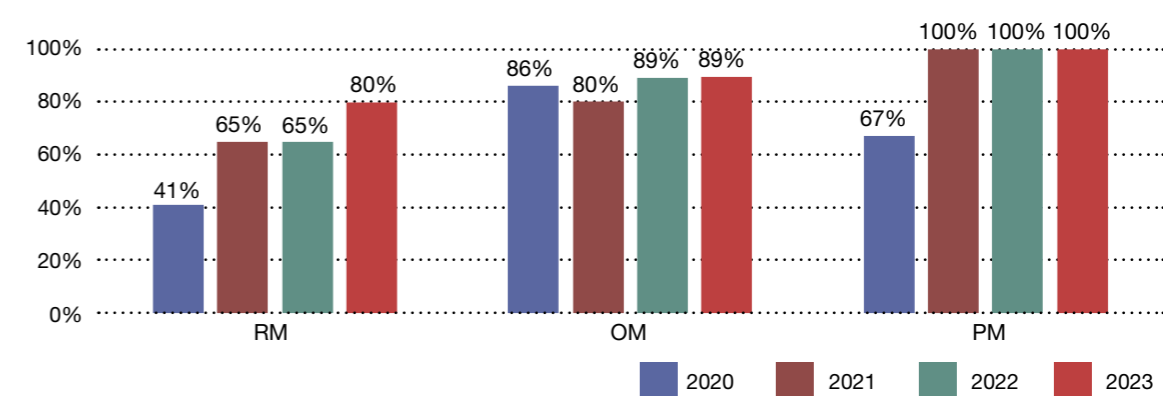


Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

The largest increase in the share of the issuers that complied with this provision in 2023 compared to 2020 was recorded with respect to share issuers on the Prime Market (an increase from 67% to 100% in 2021, 2022 and 2023). The share of such issuers rose compared to 2020 on the Regular Market as well (24 percentage points), whereas their share on the Official Market remained the same.

In addition, Provision 56 of the Code, contained in the part governing the reporting on remuneration, stipulates that issuers should make freely available on their website their remuneration policy as approved by 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 of a remuneration policy.

Chart 15 The company's approved remuneration policy is available on the website of the company free of charge (Provision 56 of the Code)



Source: Governance practices questionnaire 2020, 2021, 2022 and 2023

The chart shows a significant increase in the compliance of issuers with regard to the availability of the issuer's remuneration policy free of charge on the issuer's website on the Prime Market (an increase from 67% to 100%) and Regular Market (an increase from 41% to 80%) in the observed period. This increase is particularly sharp on the Regular

Market, where the share of issuers showing compliance grew by 40 percentage points in four years. The share of the issuers on the Official Market that complied with this provision of the Code showed an upward trend in the observed period.

## NON-FINANCIAL (SUSTAINABILITY) REPORTING

Sustainable financing is a process of considering and taking into account **environmental, social and governance (ESG) factors** when making investment decisions. It involves redirecting financial flows towards the development of low-carbon and climate-resilient economies, the protection of human rights and children's rights and corporate governance culture.

In order to realise the European Green Deal and to fulfil the international commitments under the Paris Agreement relating to meeting the environmental, social and governance sustainability goals, a sustainable financing framework is currently being developed and established. In the Republic of Croatia, the issue of sustainable development has received special attention in the Government's National Recovery and Resilience Plan 2021 – 2026, which highlights the need to create a sustainable and resilient economy with a focus on the green and digital transformation.

The obligations to disclose sustainability-related data are primarily stipulated in Regulation (EU) 2019/2088 of the European Parliament and of the Council (hereinafter: SFDR)<sup>4</sup> and the Taxonomy Regulation and its amendments<sup>5</sup>.

**The SFDR** prescribes the obligation to disclose sustainability-related information for all financial market participants and financial advisers, regulating the process for includ-

<sup>4</sup> **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, OJ L 317, 9.12.2019

<sup>5</sup> **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, OJ L 198, 22.6.2020

**Commission Delegated Regulation (EU) 2021/2139** of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, OJ L 442, 9.12.2019

**Commission Delegated Regulation (EU) 2021/2178** of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, OJ L 443, 10.12.2021

**Commission Delegated Regulation (EU) 2022/1214** of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities, OJ L 188, 15.7.2022

**Commission Delegated Regulation (EU) 2023/2485** of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives, OJ L, 21.11.2023

**Commission Delegated Regulation (EU) 2023/2486** of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities, OJ L 21.11.2023

ing ESG factors in analyses made when deciding on investments in certain companies. Therefore, it indirectly refers to issuers, as only those issuers that disclose the ESG-relevant information will be considered for potential investments.

**The Taxonomy Regulation** establishes a single classification system at European Union level for determining whether an economic activity is environmentally sustainable. Issuers that are subject to non-financial reporting (for the year 2023) and sustainability reporting (starting from the financial year 2024) need to comply with Article 8 of the Taxonomy Regulation imposing the obligation to disclose information on the proportion of the turnover, capital expenditure and operating expenditure associated with environmentally sustainable economic activities with respect to six environmental objectives. The delegated act specifying the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the first two objectives (climate change mitigation and climate change adaptation) was published in December 2021. In November 2023, a delegated act was also published to supplement the Taxonomy Regulation, setting out the technical screening criteria for economic activities with respect to the four remaining objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems). The supplements to the Taxonomy Regulation also specify in more detail key performance indicators, as well as all necessary disclosures in this area.

**The Corporate Sustainability Reporting Directive (CSRD<sup>6</sup>)** was published in the Official Journal of the European Union in December 2022 and entered into force on 5 January 2023. It replaces the former Non-Financial Reporting Directive (NFRD). The Republic of Croatia has implemented it into three acts published in the Official Gazette No 85/2024 on 19 July 2024 (Act on Amendments to the Capital Market Act, Accounting Act and Act on Amendments to the Audit Act).

The CSRD lays down changes as regards entities subject to sustainability reporting requirements and place of publication of sustainability reports and prescribes the adoption of the European Sustainability Reporting Standards, the obligation to draw up management reports in the single electronic reporting format, the requirement to mark up sustainability reporting, assurance of sustainability reporting, etc.

The European Financial Reporting Advisory Group (EFRAG) is tasked with the drawing up of the **European Sustainability Reporting Standards (ESRS)**. Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards was published in the Official Journal of the European Union on 22 December 2023 and has applied since 1 January 2024 for financial years beginning on or after 1 January 2024.

The ESRS consist of three categories, namely cross-cutting standards, topical standards (environmental, social and governance standards) and sector-specific standards. The first two categories are published in Commission Delegated Regulation (EU) 2023/2772 and apply to all companies, regardless of the sector or sectors in which they operate. Sector-specific standards are currently being developed by EFRAG.

<sup>6</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ L 322/15, 16.12.2022

**The transitional and final provisions of the Accounting Act lay down the manner in which the non-financial statement for 2023 had to be published.** With regard to the financial year 2023, the Accounting Act obliges all issuers that exceed the average number of 500 workers during the previous financial year at the date of the statement of financial position to include in their management report a non-financial statement containing information on the development, performance and position of the issuer and on the impact of activities relating to environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery issues. Therefore, the statement of financial position as at 31 December 2023 takes account of the average number of employees in 2022. The last non-financial statement under this criterion was to be prepared for the financial year 2023.

Sustainability reporting under the Accounting Act (in accordance with the CSRD) is carried out in phases, as follows:

- 1 January 2024 for entities already subject to the NFRD;
- 1 January 2025 for large entities currently not subject to the NFRD; and
- 1 January 2026 for small and medium-sized enterprises (except micro-enterprises) admitted to trading on the regulated market.

The Act on Amendments to the Capital Market Act (Official Gazette, No 85/2024) empowers Hanfa to verify whether issuers' sustainability information has been prepared in accordance with the relevant sustainability reporting framework and to take appropriate measures if this is not the case, starting with sustainability reporting in 2025 for the financial year 2024.

On 5 July 2024, ESMA published the Final Report Guidelines on Enforcement of Sustainability Information (**GLESI**)<sup>7</sup>, summarising the responses to the public consultation and including the final draft GLESI. The GLESI consists of 22 guidelines grouped into 6 main areas (basic concepts, enforcers' internal organisation, selection, examination, enforcement actions and European coordination).

On 5 July 2024, ESMA also published a **Public Statement on the first application of ESRS**<sup>8</sup>, with the aim of supporting the implementation of the new requirements and drawing attention to the European Commission and EFRAG guidelines, as well as highlighting key areas that are essential in the preparation of sustainability reporting under the ESRS.

Furthermore, the Code prescribes the disclosure of policies on how environmental and social impacts of the company's activities are assessed, how human rights and the rights of employees are safeguarded, and how corruption and bribery will be prevented and sanctioned. It also prescribes the disclosure of data related to the good governance, environmental and social impact strategy, promotion of ethical behaviour, and a stimulating work environment. These provisions of the Code also apply to the share issuers on the regulated market that are not subject to sustainability reporting requirements under the Accounting Act.

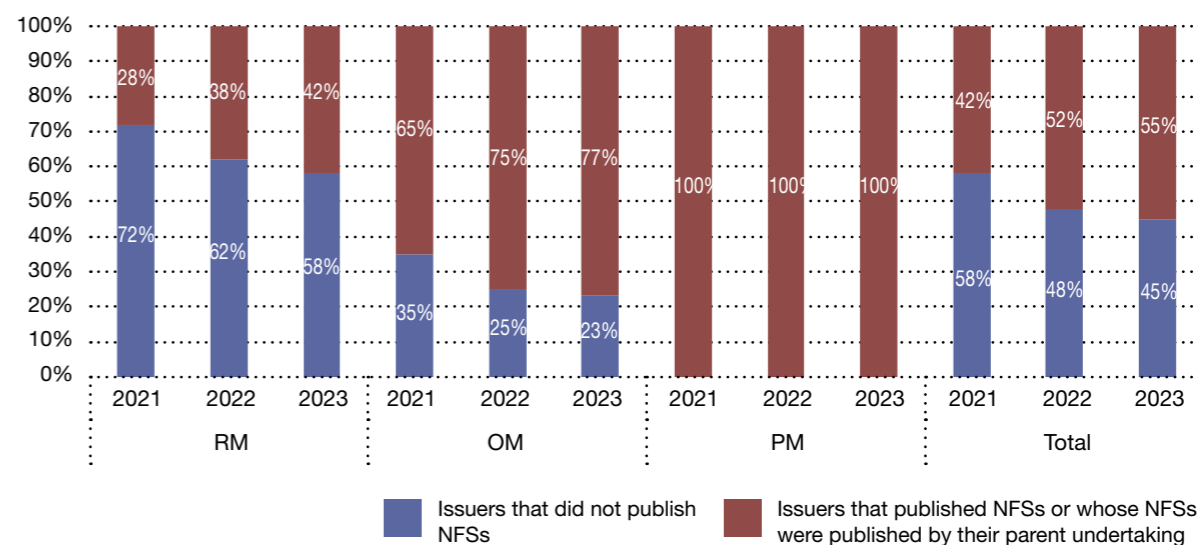
<sup>7</sup> Available at: ESMA32-992851010-1600 Final Report on Guidelines on Enforcement of Sustainability Information (GLESI) (europa.eu)

<sup>8</sup> Available at ESMA32-992851010-1597 - ESRS Statement (europa.eu)

In March 2021, Hanfa adopted and published the Guidelines for the preparation and disclosure of ESG relevant issuer information, with the aim of enabling uniform conduct of all issuers on the Croatian market in order to make that information comparable, reliable and understandable.

A review of the disclosures of all the issuers whose securities were listed on the regulated market of the ZSE at the time of preparation of this analysis (14 August 2024) showed that non-financial statements for 2023 were published by 47 issuers (55%) or by their parent undertaking. This number rose compared to the preceding year, when 52% of the issuers (or their parent undertakings) published their non-financial statements.

Chart 16 Overview of disclosed non-financial statements for 2021, 2022 and 2023 by segments of the regulated market



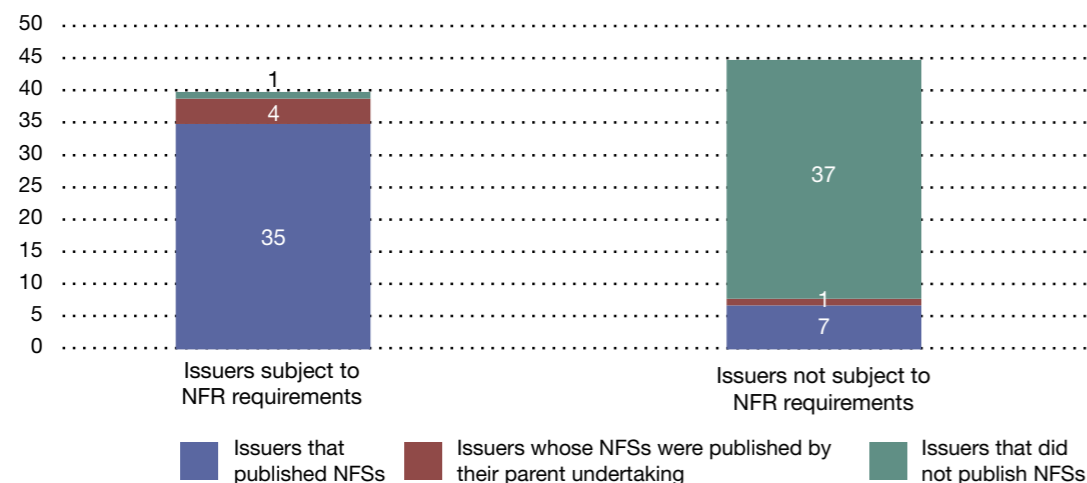
Source: Issuers' non-financial statements for 2021, 2022 and 2023

All issuers on the Prime Market published their non-financial statement for 2021, 2022 and 2023.

77% of issuers (or their parent undertakings) on the Official Market (65% in 2021, 75% in 2022) and 42% of issuers (or their parent undertakings) on the Regular Market (28% in 2021, 38% in 2022) published their non-financial statements for 2023.

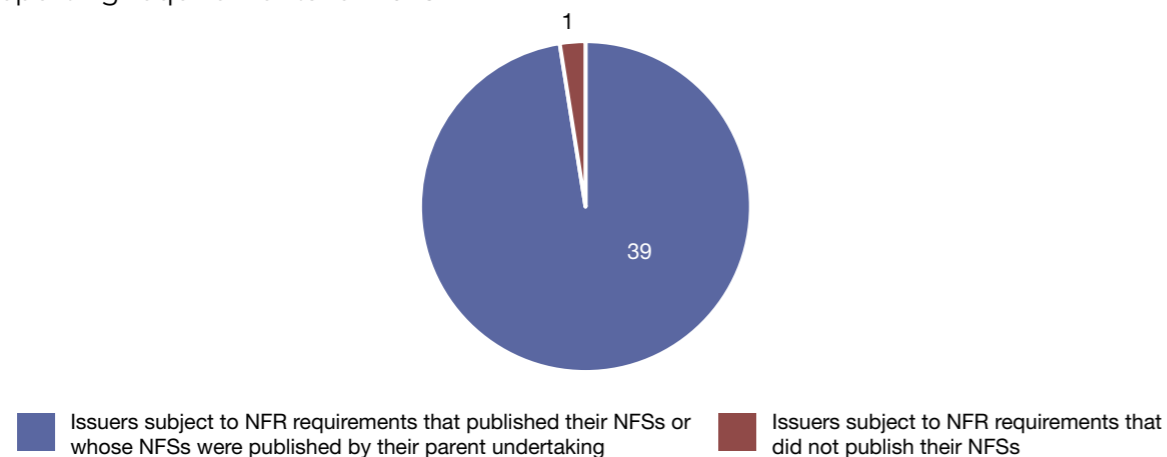
According to data on the average number of issuers' employees during 2022, received by Hanfa through the governance practices questionnaire and annual reports for 2022, and pursuant to Article 61 of the Accounting Act, 40 issuers were obliged to publish their non-financial statements, which represents 47% of the total number of issuers. One of these issuers failed to comply with the obligation to draw up its non-financial statement for 2023, while non-financial statements of 4 issuers were published by their parent undertakings. Out of the 45 issuers not subject to non-financial reporting requirements, 8 (18%) published their non-financial statements.

Chart 17 Number of the issuers that published their 2023 non-financial statement according to the disclosure obligation criterion



Source: Issuers' non-financial statements for 2023

Chart 18 Publication of non-financial statements by entities subject to non-financial reporting requirements for 2023



Source: Issuers' non-financial statements for 2023

Table 4 Overview of issuers subject to non-financial reporting requirements by segments of the regulated market and by published non-financial statements for 2023

	Issuers subject to NFR requirements	Issuers that published their NFSs or whose NFSs were published by their parent undertakings	% of disclosures
PM	6	6	100%
OM	15	15	100%
RM	19	18	95%
Total	40	39	98%

Source: Issuers' non-financial statements for 2023

All issuers on the Prime Market are subject to non-financial reporting requirements and all of them complied with this obligation. There were 15 issuers subject to non-financial reporting requirements on the Official Market, and all of them complied with this obligation. There were 19 issuers subject to non-financial reporting requirements on the Regular Market, and one of them failed to comply with this obligation.

Table 5 Overview of the issuers that published their non-financial statements for 2023 without being subject to non-financial reporting requirements, by segments of the regulated market

	Issuers not subject to NFR requirements	Issuers that published their NFSs voluntarily	% of voluntary disclosures
OM	7	2	29%
RM	38	6	16%
Total	45	8	18%

Source: Issuers' non-financial statements for 2023

All issuers on the Prime Market are subject to non-financial reporting requirements and are therefore not included in the table above. Of the 7 issuers on the Official Market not subject to non-financial reporting requirements, 2 (29%) published their non-financial statements. Of the 38 issuers on the Regular Market not subject to non-financial reporting requirements, 6 (16%) published their non-financial statements. The total number of the issuers that published their non-financial statements voluntarily amounts to 8.

The total number of the issuers that published their non-financial statements or whose non-financial statements were published by their parent undertakings is 47, while this review focuses on non-financial statements of 42 issuers (issuers whose non-financial statements were published by their parent undertakings were excluded).

- Out of a total of 42 non-financial statements, 26 were published within 2023 annual reports, while 16 issuers published a separate non-financial statement or a sustainability statement.
- A total of 25 non-financial statements (out of 42, 60%) were prepared (according to the issuers) pursuant to the GRI (Global Reporting Initiative) standards. The GRI standards are the most widely represented non-financial reporting standards in Europe, which promote the practice of public reporting on ESG factors, provide guidance in identifying significant positive or negative contributions to the sustainable development objective and ensure global comparability and quality of non-financial information.
- Two issuers reported having partially applied the new ESRS reporting requirements in addition to the GRI standards.
- Out of the 22 issuers that used the GRI standards, 20 (91%) also published the GRI Standards Content Index, which provides a reference for each GRI standard to the page of the non-financial statement which explains it, thus ensuring the integrity and transparency of reporting on ESG factors.
- Most of the issuers that published their non-financial statements also referred to the United Nations Sustainable Development Goals (SDGs). Of 17 such goals, the issuers mainly emphasised 8 goals to which their business activities contribute most.

- The Expert Committee on Sustainability Reporting at the Croatian Business Council for Sustainable Development (HR PSOR) gave its opinion on non-financial statements of 5 issuers. The opinion on all the 5 non-financial statements confirmed that these issuers report on sustainability in a detailed and comprehensive manner.
- 6 issuers reported being members of the HR PSOR.
- Audit firms drew up independent limited assurance reports on indicators presented in sustainability reports with respect to non-financial statements of 2 issuers.

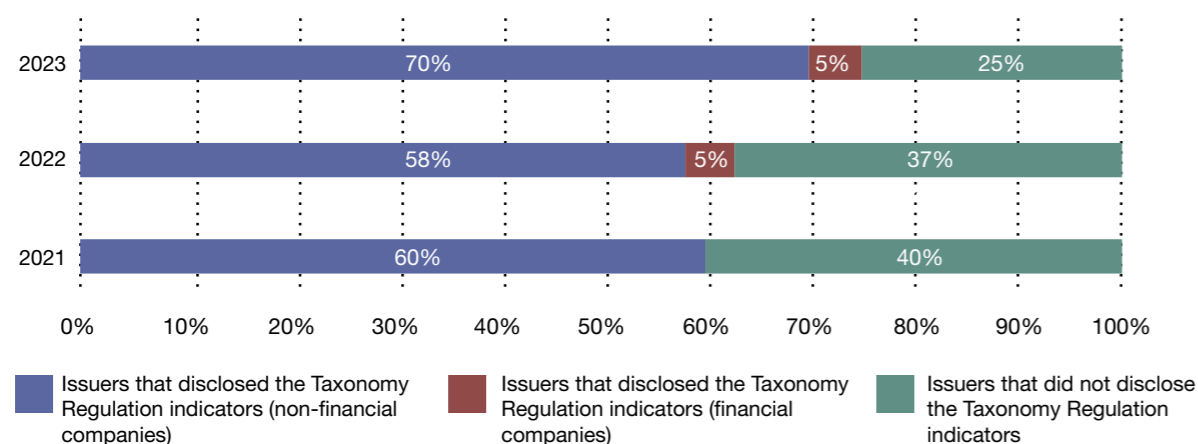
### Reporting pursuant to the Taxonomy Regulation

All the issuers that are subject to non-financial reporting (40) are also subject to reporting under the Taxonomy Regulation. Non-financial reports of 4 of them were published by their parent undertakings, which leaves them out of the scope of this review, while one issuer failed to publish its non-financial report. The final number of issuers subject to reporting under the Taxonomy Regulation that fall within the scope of this review is therefore 35. Out of these 35 issuers, 28 (80%) disclosed indicators under the Taxonomy Regulation, while 7 issuers (20%) failed to comply with their obligation. Of the 28 issuers that disclosed indicators under the Taxonomy Regulation, 26 disclosed indicators for non-financial undertakings and 2 disclosed indicators for financial undertakings.

Of the remaining 45 issuers, 7 voluntarily published their non-financial statements for 2023, while the non-financial statement of one issuer was published by its parent undertaking, thus leaving it out of the scope of further review. Of the issuers that voluntarily published their non-financial statements, 2 disclosed indicators under the Taxonomy Regulation (both of them for non-financial undertakings).

Taken together, of the 42 issuers whose non-financial statements are subject to this review, 30 (75%) disclosed indicators under the Taxonomy Regulation, of which 28 for non-financial undertakings and 2 for financial undertakings. In the preceding year, the Taxonomy Regulation indicators were disclosed by 63% of the issuers that drew up their non-financial statements for 2022.

Chart 19 Overview of issuers by the Taxonomy Regulation indicators disclosure in 2021, 2022 and 2023



Source: Issuers' non-financial statements for 2021, 2022 and 2023

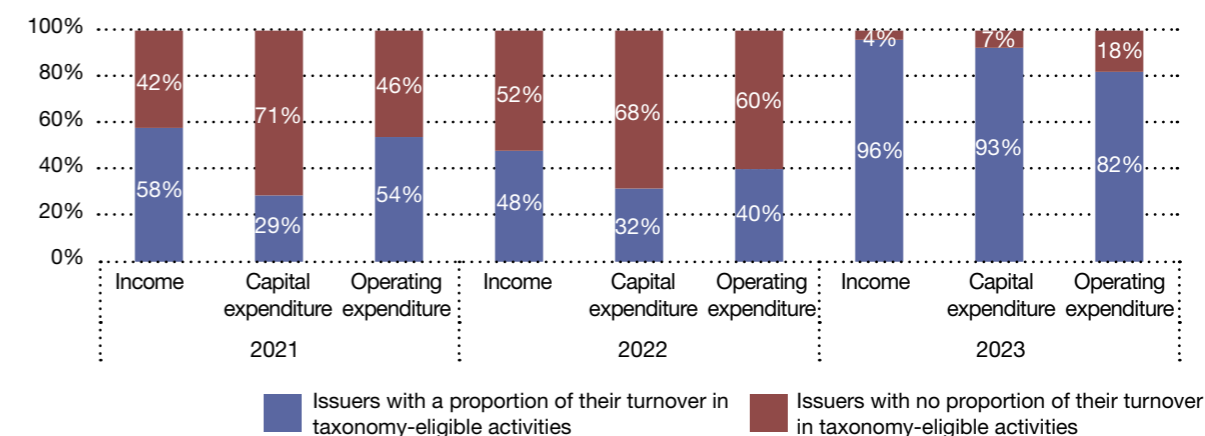
Of the 28 issuers that disclosed non-financial undertakings indicators, 26 were subject to the disclosure obligation, and 2 issuers disclosed the indicators on a voluntary basis.

Under the Taxonomy Regulation, the issuer must indicate the proportion of the turnover, capital expenditure and operating expenditure associated with economic activities that qualify as environmentally sustainable (taxonomy-eligible activities).

Of the 28 issuers that disclosed the Taxonomy Regulation indicators, one reported having no turnover, capital expenditure or operating expenditure related to economic activities qualifying as environmentally sustainable.

The following chart provides a consolidated overview of issuers' disclosures according to each key indicator, followed by an analysis of each individual indicator.

Chart 20 Overview of the number of issuers according to whether they have a proportion of their turnover, capital expenditure and operating expenditure in taxonomy-eligible activities



Source: Issuers' non-financial statements for 2021, 2022 and 2023

### 1. Turnover

- One issuer does not have a proportion in turnover arising from products or services related to taxonomy-eligible activities.
- Of 27 issuers with a proportion of turnover in taxonomy-eligible activities, 12 reported that this proportion reached 10% or less, while the remaining 15 issuers reported a proportion of the turnover higher than 10%.
- The average proportion of the turnover in taxonomy-eligible activities reported by the 27 issuers concerned amounted to 33%.
- Examples of taxonomy-eligible activities in which issuers generated their turnover are the manufacture of low carbon technologies for transport, transmission and distribution of electricity, electricity generation from renewable sources, collection and transport of non-hazardous waste in source segregated fractions, sale of non-hazardous waste, computer programming, consultancy and related activities, manufacture of energy efficiency equipment for buildings, data processing, hosting and related activities, manufacture of pharmaceuticals, income from the sale of by-products, etc.

## 2. Capital expenditure

- 2 issuers do not have any capital expenditure linked to taxonomy-eligible activities.
- Of 26 issuers with capital expenditure linked to taxonomy-eligible activities, 15 reported that this proportion was higher than 25%.
- The average proportion of capital expenditure in taxonomy-eligible activities amounted to 41%.
- Examples of taxonomy-eligible activities in which issuers had capital expenditure are the renovation of existing buildings, construction of new buildings, installation, maintenance and repair of energy efficiency equipment, close to market research, development and innovation (contributing to climate mitigation), collection and transport of non-hazardous waste, electricity generation using solar photovoltaic technology, construction, extension and operation of waste water collection and treatment, installation, maintenance and repair of charging stations for electric vehicles, installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings, etc.

## 3. Operating expenditure

- 5 issuers did not have any operating expenditure linked to taxonomy-eligible activities.
- Of 23 issuers with operating expenditure linked to taxonomy-eligible activities, 15 reported that this proportion was higher than 25%.
- The average proportion of operating expenditure in taxonomy-eligible activities amounted to 44%.
- Taxonomy-eligible activities relate to the renovation of existing buildings, engineering activities and related technical consultancy dedicated to adaptation to climate change, installation, maintenance and repair of energy efficiency equipment, electricity generation from renewable sources, manufacture of batteries, collection and transport of non-hazardous waste in source segregated fractions, installation and operation of electric heat pumps, current maintenance linked to capital expenditure associated with eligible activities, etc.

The following text provides information on the content of non-financial statements for 2023.

### Environmental factors

- All the issuers that published their non-financial statements referred to environmental protection and described the activities they undertook in this regard.
- Most issuers reported holding certificates related to environmental protection (e.g. ISO 14001 – Environmental management systems, ISO 50001 – Energy management systems, ISO 90001 – Quality management systems).
- A number of issuers also reported holding sustainability certificates related to their operating area.
- Most issuers disclosed information on the annual consumption of energy, such as electricity, fuel, fuel oil, gas, etc.

- Some issuers disclosed information on annual water consumption.
- Most issuers disclosed carbon dioxide (CO<sub>2</sub>) emission data, which showed either a decreasing or an increasing trend in direct and indirect greenhouse gas emissions, depending on the issuer.
- Most issuers disclosed information on waste management and disposal.

### Governance factors

- Anti-corruption disclosures mainly contain information about the implementation of the highest ethical standards relating to corporate governance and individual employee behaviour, as well as about adopted policies for preventing and sanctioning bribery and corruption.
- 36 issuers published anti-corruption information.
- Some issuers reported holding the ISO 37001 certificate – Anti-bribery management systems.
- All the issuers that published their non-financial statements described their governance structure.
- Some issuers reported having set up a special organisational unit for monitoring sustainable business practices.
- Issuers indicated that they complied with the Code and some of them reported having adopted internal codes of conduct and/or ethical codes that all employees were required to comply with.
- Issuers also provided information on their core values and mission and vision.

### Social factors

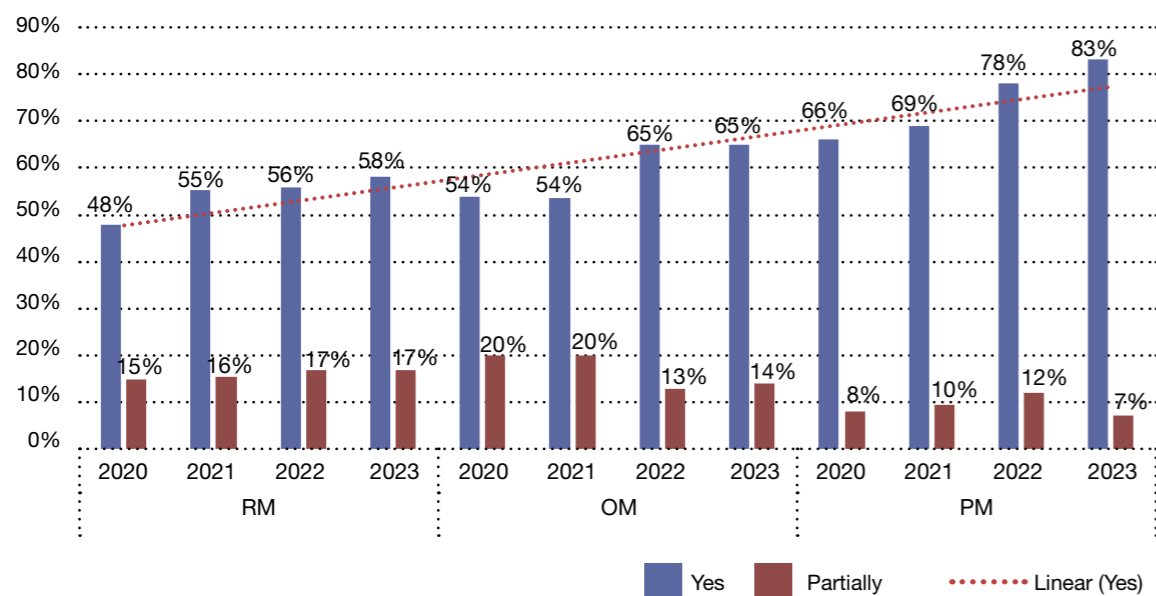
- All the issuers that published their non-financial statements disclosed information on their staff.
- The disclosures mainly referred to the number of employees, age structure, qualifications, gender, training and education, and remuneration of employees.
- Some issuers mentioned employee turnover and retention rate.
- The disclosures often emphasised the importance of workplace health and safety.
- Some issuers reported holding the ISO 45001 certificate – Occupational health and safety management systems, including the promotion/protection of physical and mental health.
- Issuers mostly stated that they were actively involved in helping the communities in which they operate.
- 20 issuers published information on their participation in humanitarian actions (monetary or in-kind donations) as well as on sponsorship of various sport and cultural associations and conferences.

### Compliance of the 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.

Chart 21 Share issuers’ compliance with the section “Stakeholders and corporate social responsibility” in 2020, 2021, 2022 and 2023, by segments of the regulated market

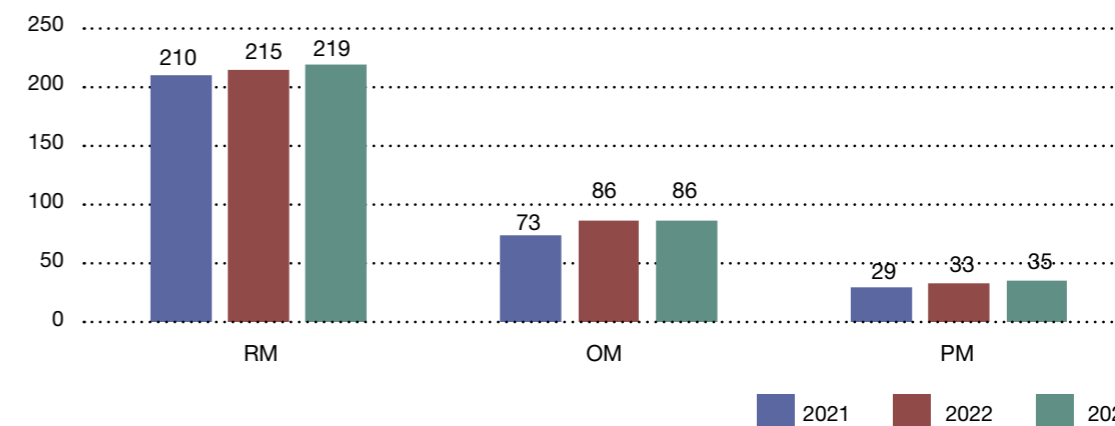


Source: Compliance questionnaire 2020, 2021, 2022 and 2023, internal calculation

Data provided in the compliance questionnaire for 2023 show an increase in share issuers’ compliance with the section “Stakeholders and corporate social responsibility” in all segments of the regulated market compared to 2020, 2021 and 2022. The issuers that failed to comply or complied partially justified this on the grounds of internal procedures, i.e. the fact that the policies had been adopted by the management board but still not by the supervisory board. They also explained that the policies were covered by the Ordinance on conduct and ethics, the Accounting Act and other applicable laws, that they were available upon request, prescribed by the articles of association, etc. A significant number of issuers explained that they planned to adopt these policies in the following reporting period.

In 2023, issuers’ compliance with the section “Stakeholders and corporate social responsibility” on the Prime Market, Official Market and Regular Market stood at 83%, 65% and 58% respectively.

Chart 22 Share issuers’ progress in compliance (number of “YES” answers) with the section “Stakeholders and corporate social responsibility” in 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2021, 2022 and 2023, internal calculation

There is increased progress in share issuers’ compliance with the section “Stakeholders and corporate social responsibility” across all the segments of the regulated market in the observed period. The share issuers that were included in the database for processing data on the progress in compliance with the Code provided more “YES” answers in 2023 than in 2021 and 2022 (in 2023, the total number of “YES” answers reached 340, while in 2022 and 2021 it stood at 334 and 312 respectively).

In 2023, the progress in issuers’ compliance with the section “Stakeholders and corporate social responsibility” on the Prime Market and Regular Market reached 5% and 2% respectively, while the Official Market saw no changes in this regard compared to the preceding year.

# SHARE ISSUERS' COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

## SHARE ISSUERS' COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

This Annual Report on Corporate Governance provides for the fourth time Hanfa's information on the compliance of companies whose shares are admitted to trading on the regulated market of the ZSE (hereinafter: issuers) with the new Code. The Code is applicable to the periods starting from 1 January 2020; however, the 2019 Annual Report on Corporate Governance report provided an overview of issuers' compliance with the Code for 2019 as well, enabling the initial level of their compliance with the Code to be determined and further improvement of actions taken regarding the Code to be monitored in the forthcoming period.

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 issuers. The Code is applicable to all companies whose shares are admitted to trading on the regulated market of the ZSE, except for closed-ended investment fund shares; they are therefore not obliged to submit the compliance questionnaire. As at 31 December 2023, there were 83 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which two were closed-ended investment funds. A total of 81 share issuers were therefore obliged to submit their compliance questionnaire for 2023 (86 share issuers in 2022).

The compliance questionnaire was submitted to Hanfa by all of the companies (81 issuers, or 100%) subject to the submission obligation. For the purpose of presenting the actual state of play regarding the compliance with the Code and its individual sections, the total number of the share issuers that had submitted their compliance questionnaires did not cover share issuers whose answers provided in the compliance questionnaire were not correct, consistent or consistent with publicly available data (2 share issuers). The sample serving as the basis for calculating overall compliance covered therefore 79 share issuers.

The calculation of issuers' compliance with the new 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 issuers to explain whether they comply (fully or partially) or fail to comply with each of the recommendations of the Code. If 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 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 they intend to comply with the Code provision in the future, they should specify when they will start doing so.

Issuers' compliance with the Code was calculated for each section of the Code separately and as overall compliance with the Code. It was 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 was 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 was used:

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

The sum of compliance scores by individual sections determined the overall compliance of issuers with the Code for the year 2023.

In 2021, Hanfa assessed the progress in issuers' compliance with the Code for the first time. This Annual Report on Corporate Governance provides Hanfa's assessment of this progress as well. The compliance scores were assigned on the basis of the compliance questionnaires for 2022 and 2023.

All the issuers comprising the sample for the calculation of overall compliance in 2023 (79 issuers) were also taken into account for the calculation of compliance progress in 2023.

The model for assessing progress in issuers' compliance in 2023 relative to 2022 involved two criteria against which individual issuers were observed, namely:

#### I. Progress in comparison with the market

The absolute change in the score assigned to each issuer per section was calculated first. The changes in absolute scores were the basis for the calculation of the standard deviation of the change in the score per section. In order to determine issuers that are

at least by 50% better or worse than the market, the standard deviation obtained was multiplied by 1.5 and observed along with the average change recorded by all issuers.

The following scores were used to determine the progress:

- Issuers whose absolute change in the score was higher than the average change recorded by all issuers added to the standard deviation multiplied by 1.5 were assigned a score of 1 (they were better than 50% of the market).
- Issuers whose absolute change in the score was lower than the average change recorded by all issuers decreased by the standard deviation multiplied by 1.5 were assigned a score of -1 (they were worse than 50% of the market).
- Other changes resulted in issuers being assigned a score of 0.

#### II. Progress made by individual issuers in 2023 compared with 2022 by individual sections

Progress made by individual issuers was observed through a relative change in the number of questions responded to with "YES" in comparison with 2022 for each section. As the number of questions differs from section to section, weights were defined with respect to the importance of each section by the number of questions, as follows:

- Sections with the proportion of the number of questions exceeding 25% of the total number of questions were assigned a weight of 10%.
- Sections with the proportion of the number of questions ranging between 10% and 24% of the total number of questions were assigned a weight of 20%.
- Sections with the proportion of the number of questions ranging between 6% and 9% of the total number of questions were assigned a weight of 33%.
- Sections with the proportion of the number of questions being lower than 5% of the total number of questions were assigned a weight of 51%.

The following scores were used to determine the progress:

- Where the relative change in the number of "YES" answers was equal to or higher than the weight assigned, the issuer was assigned a score of 1 (a positive change).
- Where the relative change in the number of "YES" answers was equal to or lower than the negative weight assigned, the issuer was assigned a score of -1 (a negative change).
- Other changes resulted in issuers being assigned a score of 0 (no change).

After the scores were assigned in the two manners described above, they were added together, representing the final score showing progress in compliance with the Code assigned to an individual issuer per section.

## LIST OF ISSUERS ACCORDING TO THEIR COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Tables 6, 7 and 8 show share issuers' compliance with individual sections of the Code by segments of the regulated market in 2023. The list of issuers according to their compliance with individual sections was determined on the basis of the sum of scores relating to each section.

- In 2019, none of the issuers on the Official Market and Prime Market complied fully with the Code; 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).
- Pursuant to answers provided in questionnaires related to compliance with the Code, 9 issuers complied fully with the Code in 2021 (3 issuers whose shares are admitted on the Prime Market and 6 issuers whose shares are admitted on the Regular Market). In the year observed, there were no issuers on the Official Market that complied fully with the Code.
- Pursuant to answers provided in questionnaires related to compliance with the Code, 10 issuers complied fully with the Code in 2022 (2 issuers whose shares are admitted on the Prime Market, 2 issuers whose shares are admitted on the Official Market and 6 issuers whose shares are admitted on the Regular Market).
- Pursuant to answers provided in questionnaires related to corporate governance, in 2023, 13 issuers complied fully with the Code (3 issuers whose shares are admitted on the Prime Market, 4 issuers whose shares are admitted on the Official Market and 6 issuers whose shares are admitted on the Regular Market).
- This points to an improvement as regards the compliance of share issuers with the Code in 2023.

Table 6 Prime Market issuers' compliance scores by individual sections of the Code for the year 2023

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
Podravka 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	2	2	2	2	2	2	2	1
Arena Hospitality Group d.d.	1	1	2	2	2	2	2	2	2	2
AD Plastik d.d.	2	1	2	2	2	2	2	1	1	2

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

Table 7 Official Market issuers' compliance scores by individual sections of the Code for the year 2023

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
BOSQAR d.d.	2	2	2	2	2	2	2	2	2	2
Končar - Elektroindustrija d.d.	2	2	2	2	2	2	2	2	2	2
SPAN d.d.	2	2	2	2	2	2	2	2	2	2
CROATIA osiguranje d.d.	2	2	2	2	1	2	2	2	2	2
Dalekovod d.d.	2	2	2	2	2	1	2	2	2	2
Hrvatska poštanska banka d.d.	1	2	2	2	2	2	2	2	2	2
Luka Ploče d.d.	2	2	2	2	2	2	2	2	2	1
Zagrebačka burza d.d.	1	2	2	2	2	2	2	2	2	2
Institut IGH d.d.	2	1	2	2	2	-1	2	2	2	2
JADRAN d.d.	2	2	-1	2	2	2	2	2	2	0
SUNCE HOTELI d.d. za turizam i ugostiteljstvo	2	1	2	1	1	1	1	2	2	2
CIAK Grupa d.d. za upravljanje društvima	1	0	0	2	2	1	2	2	2	2
MON PERIN d.d.	1	1	2	1	2	1	1	0	2	2
Ilirija d.d.	1	2	-1	1	2	1	2	0	2	2
INA - Industrija nafte d.d.	1	0	0	1	1	0	2	2	2	1
Varteks d.d.	1	1	0	1	2	2	0	1	1	0
GRANOLIO D.D.	1	2	0	0	1	-1	1	0	1	1
Medika d.d.	2	1	-1	1	1	0	0	1	1	-1
Luka Rijeka d.d.	2	-1	-1	-1	1	-1	-1	1	1	-1

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

Table 8 Regular Market issuers' compliance scores by individual sections of the Code for the year 2023

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Croatia Airlines d.d.	2	2	2	2	2	2	2	2	2	2
MODRA ŠPILJA d.d.	2	2	2	2	2	2	2	2	2	2
Podravska banka d.d.	2	2	2	2	2	2	2	2	2	2
Terra Firma 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
BRODOGRADILIŠTE VIKTOR LENAC d.d.	2	2	2	2	1	2	2	2	2	2
Ericsson Nikola Tesla d.d.	2	2	2	2	2	1	2	2	2	2
HELIOS FAROS d.d.	2	2	2	2	2	1	2	2	2	2
Končar - Distributivni i specijalni transformatori d.d.	2	2	2	2	2	2	2	1	2	2
Kutjevo d.d.	2	2	2	2	2	2	2	2	1	2
Slatinska banka d.d.	2	2	2	2	1	2	2	2	2	2

ADRIATIC OSIGURANJE d.d.	1	2	2	2	2	2	2	1	2	2
Adris Grupa d.d.	2	2	2	2	2	2	2	0	2	2
Jadroagent d.d.	2	2	2	2	1	1	2	2	2	2
Tehnika d.d.	2	1	2	2	2	2	2	2	1	2
Istarska kreditna banka Umag d.d.	1	1	2	2	2	2	2	2	2	0
Ingra d.d.	2	2	0	2	2	1	2	1	1	2
Solaris d.d.	1	2	0	2	2	2	2	0	2	2
Adriatic Croatia International Club d.d.	2	2	-1	2	1	2	2	2	2	0
Imperial Riviera d.d.	1	1	2	2	2	2	2	0	1	0
Maistra d.d.	2	2	0	2	1	1	2	0	1	2
THE GARDEN BREWERY d.d.	2	1	-1	2	2	2	2	1	1	1
Jadroplov d.d.	2	2	-1	1	1	1	2	1	1	2
Kraš d.d.	1	1	-1	2	2	-1	2	2	2	2
Stanovi Jadran d.d. za poslovanje nekretnima	1	-1	2	1	1	1	1	2	2	2
AGRAM BANKA d.d.	1	2	0	1	2	1	2	1	1	0
Čateks d.d.	1	2	2	1	-1	-1	2	2	1	2
Primo Real Estate d.d.	2	1	2	2	2	1	1	1	0	-1
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	1	1	0	1	1	2	2	2	1	0
Tekstilpromet d.d.	1	1	-1	1	2	1	2	0	1	2
3. MAJ brodogradilište d.d.	2	1	2	2	0	0	0	0	0	2
ALPHA ADRIATIC pomorski promet dioničko društvo	1	1	-1	2	0	1	1	0	2	2
HTP Korčula d.d.	1	1	0	1	2	1	1	0	2	0
HTP Orebić d.d.	1	1	0	1	2	1	1	0	2	0
Plava laguna d.d.	1	1	-1	1	2	2	1	1	1	0
Jadranski naftovod d.d.	1	2	-1	2	0	0	2	1	1	0
VILLA DUBROVNIK HOTELSKO - TURISTIČKO DIONIČKO DRUŠTVO	2	2	-1	1	1	-1	2	0	1	1
Atlantska plovidba d.d.	2	1	-1	-1	1	1	1	2	1	-1
MEDORA HOTELI I LJETOVALIŠTA d.d.	1	1	0	1	-1	0	1	1	2	0
Bilokalnik - IPA d.d.	1	0	0	1	2	-1	0	1	1	0
Saponia d.d.	1	1	0	-1	-1	-1	1	2	2	1
Quattro logistika d.d.	1	0	0	1	1	1	1	1	0	-1
Čakovečki mlinovi d.d.	0	0	0	1	0	2	0	0	1	0
AUTO HRVATSKA d.d.	1	1	-1	-1	2	0	1	0	1	-1
ĐURO ĐAKOVIĆ GRUPA d.d.	1	0	-1	0	-1	1	1	1	1	-1
Zagrebačke pekarne Klara d.d.	1	0	-1	0	-1	1	0	0	0	2

PROFESSIO ENERGIA d.d.	-1	-1	-1	2	1	-1	0	1	1	0
Lošinjska plovidba - Holding d.d.	1	-1	-1	1	1	-1	-1	1	1	-1
Jadran tvornica čarapa d.d.	1	-1	-1	1	-1	0	-1	-1	0	2
Vodoprivreda Zagreb d.d.	1	1	-1	1	-1	-1	0	0	0	-1
Maraska d.d.	1	-1	-1	-1	-1	-1	1	0	2	-1
Liburnia riviera hoteli d.d.	1	-1	-1	1	0	-1	-1	0	0	-1
Viro tvornica šećera d.d.	-1	1	-1	-1	-1	1	-1	0	0	-1
Zvečevo d.d.	-1	1	-1	-1	-1	-1	-1	0	0	-1

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

Viewed by issuers' compliance by individual sections, and taking account of the highest level of compliance with the Code, the largest number of provisions fully complied with by individual issuers and the number of issuers' employees, the following issuers showed the highest level of compliance by segments of the regulated market:

Table 9 List of issuers according to their compliance scores for 2023

Issuer	Regulated market segment	Total	Number of provisions the issuer fully complies with	Number of employees
Atlantic Grupa d.d.	PM	20	138	173
Končar - Elektroindustrija d.d.	OM	20	129	78
MODRA ŠPILJA d.d.	RM	20	131	29

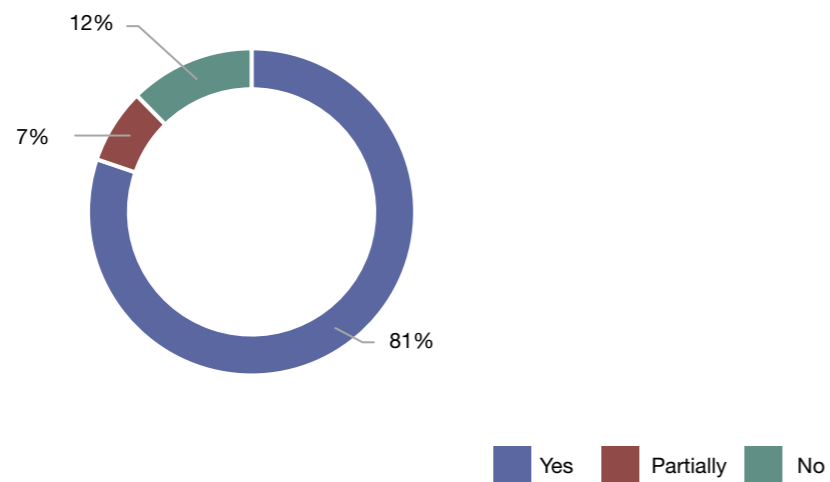
Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

The highest level of compliance with the Code in 2023 was reached by Atlantic Grupa d.d. on the Prime Market, by Končar – Elektroindustrija d.d. on the Official Market, and by MODRA ŠPILJA d.d. on the Regular Market.

Charts 23 – 43 show the percentage of share issuers' compliance by individual sections and their overall compliance with the Code in 2023.

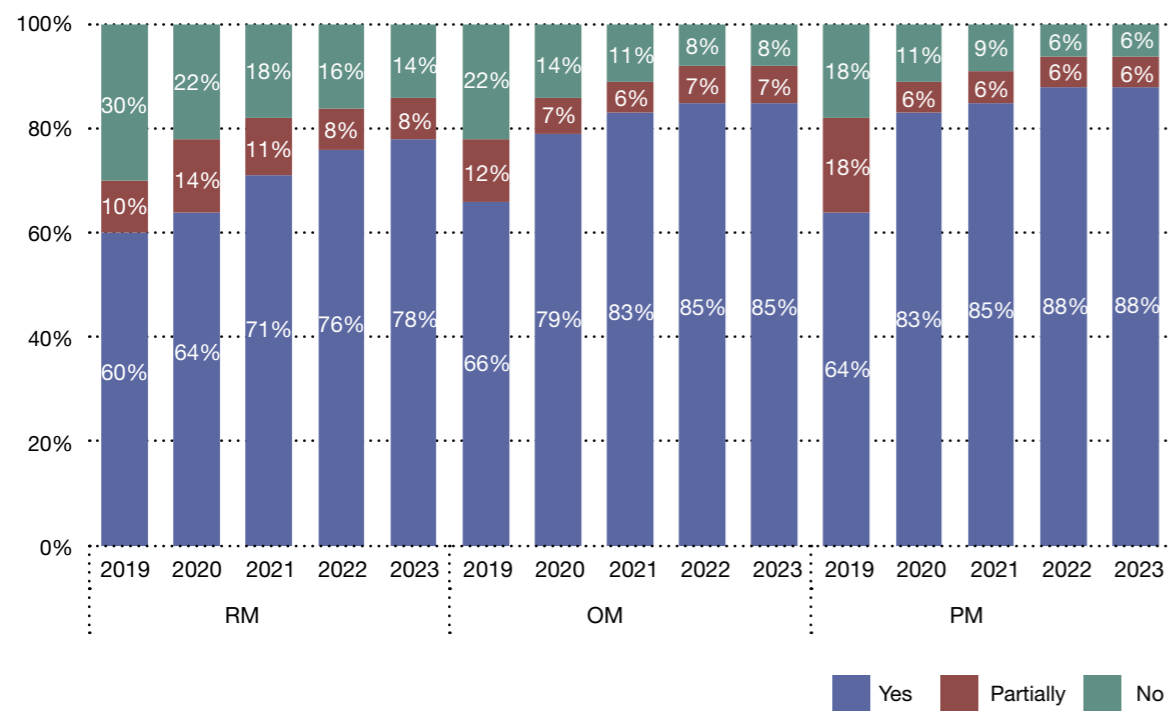
### Issuers' compliance by sections of the Code

Chart 23 Share issuers' compliance with the section "Leadership" in 2023



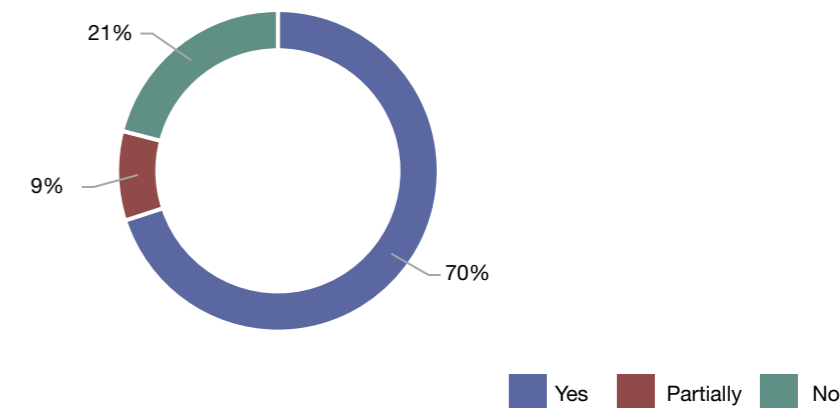
Source: Compliance questionnaire 2023, internal calculation

Chart 24 Share issuers' compliance with the section "Leadership" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



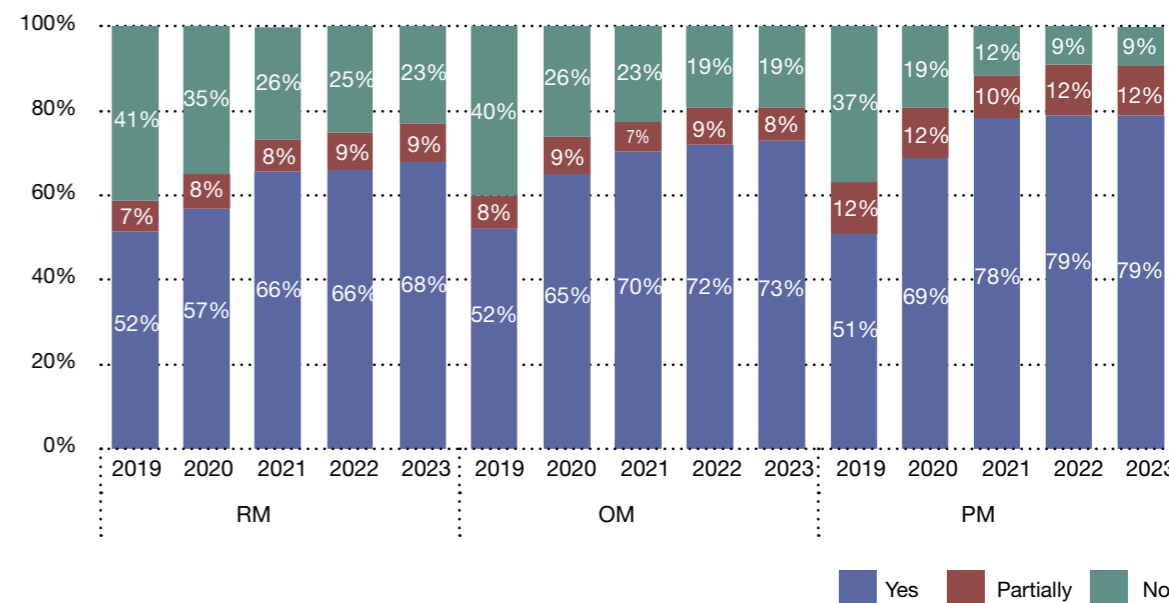
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 25 Share issuers' compliance with the section "Duties of board members" in 2023



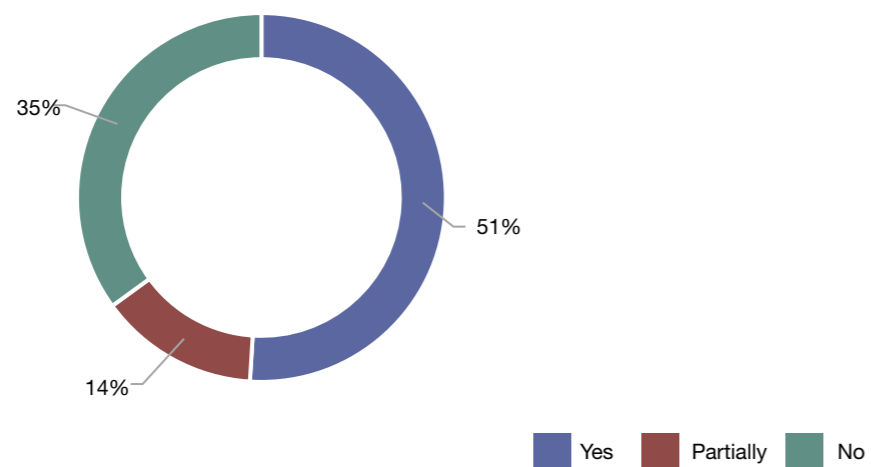
Source: Compliance questionnaire 2023, internal calculation

Chart 26 Share issuers' compliance with the section "Duties of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



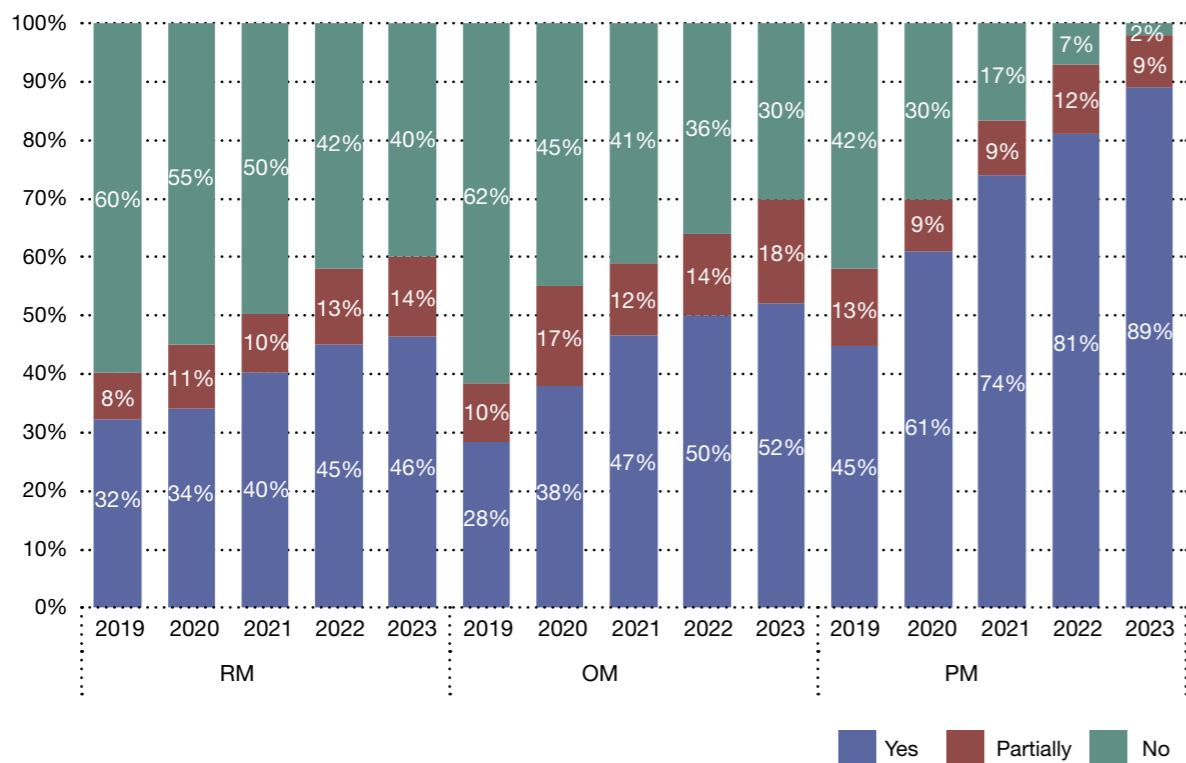
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 27 Share issuers' compliance with the section "Appointment of board members" in 2023



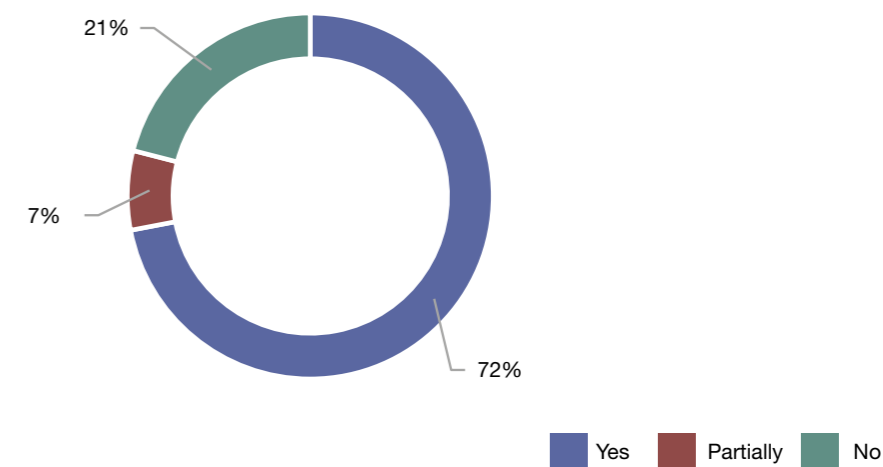
Source: Compliance questionnaire 2023, internal calculation

Chart 28 Share issuers' compliance with the section "Appointment of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



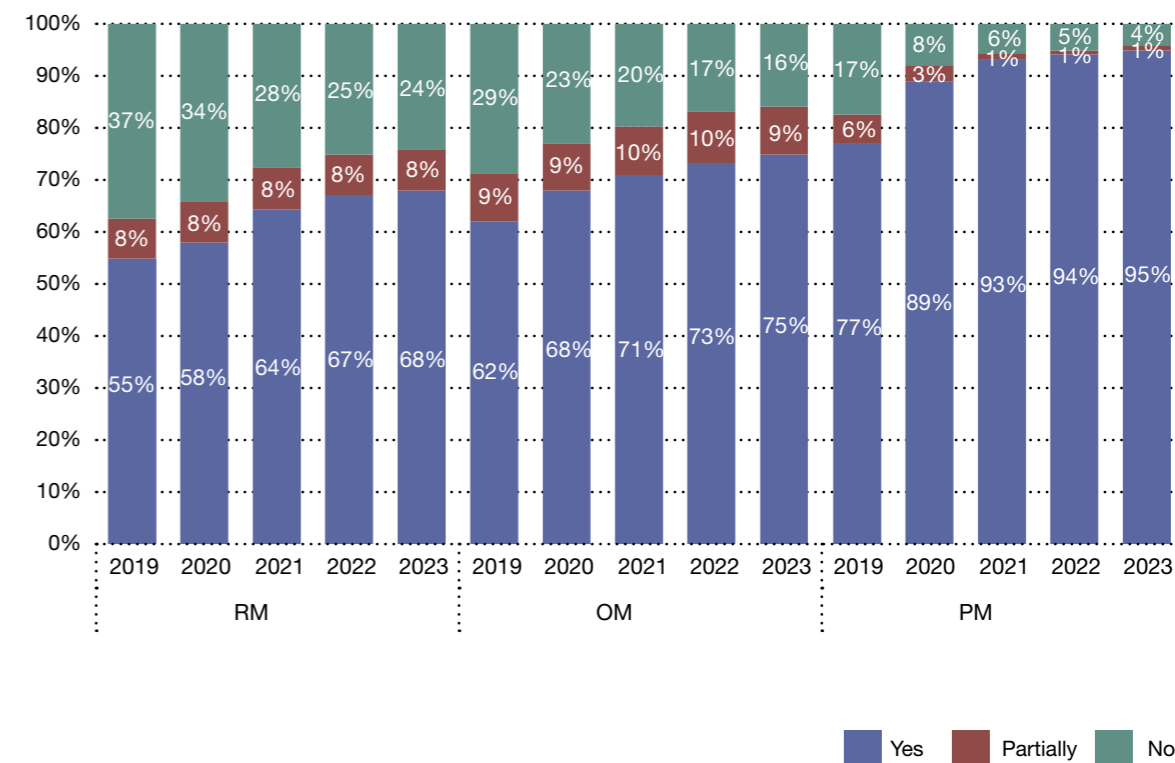
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 29 Share issuers' compliance with the section "Supervisory board and its committees" in 2023



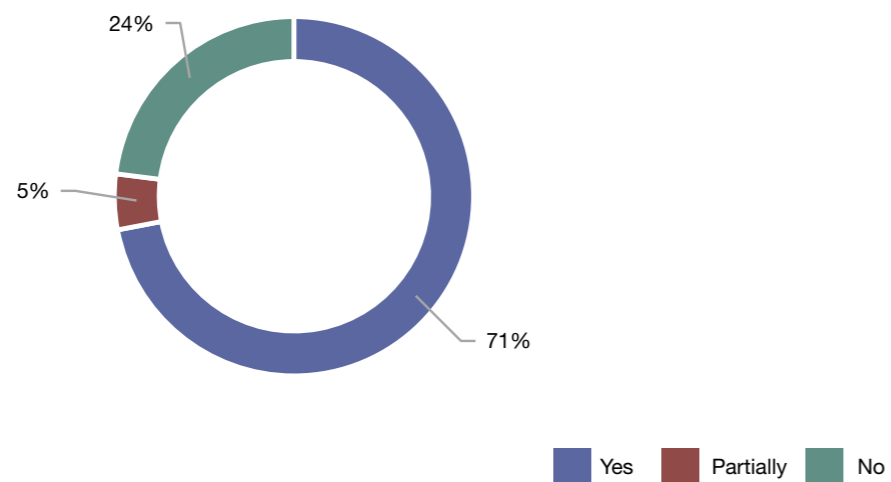
Source: Compliance questionnaire 2023, internal calculation

Chart 30 Share issuers' compliance with the section "Supervisory board and its committees" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



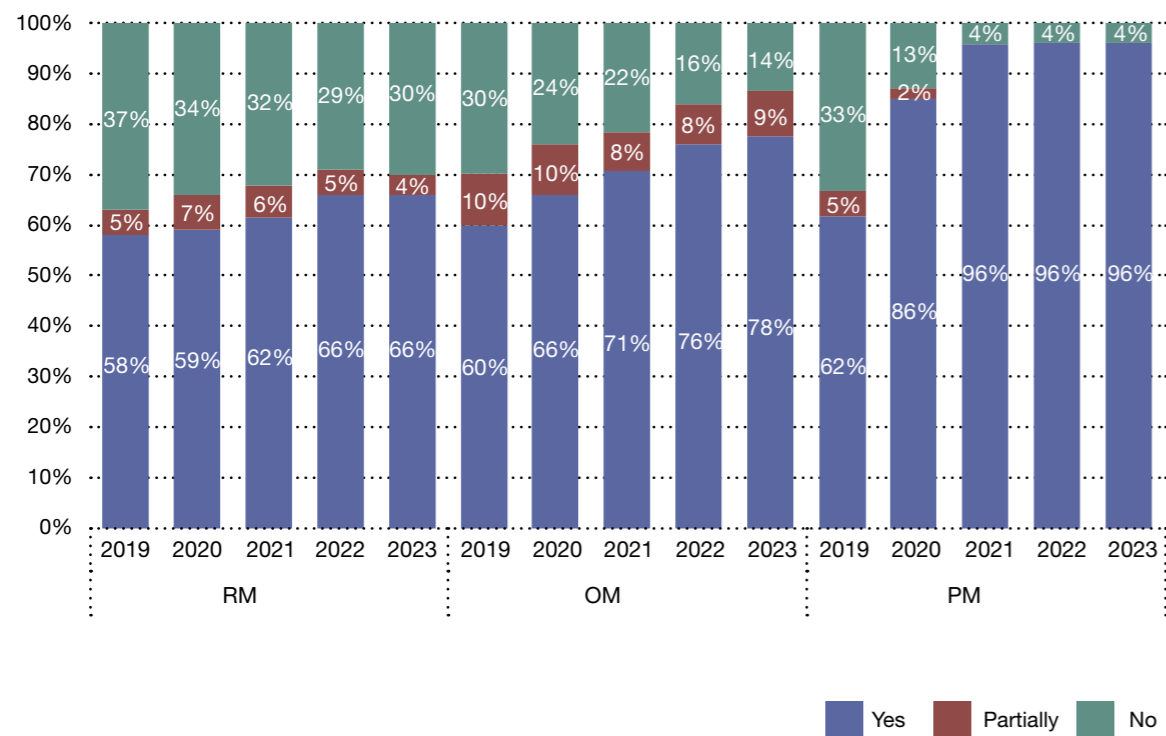
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 31 Share issuers' compliance with the section "Management board" in 2023



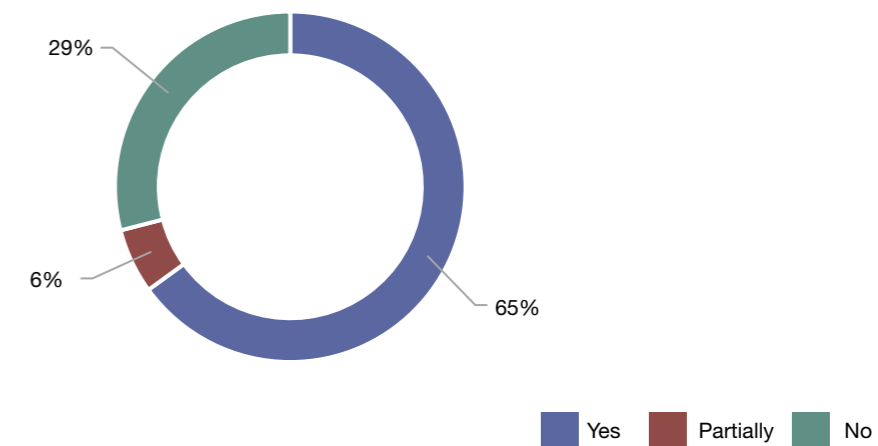
Source: Compliance questionnaire 2023, internal calculation

Chart 32 Share issuers' compliance with the section "Management board" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



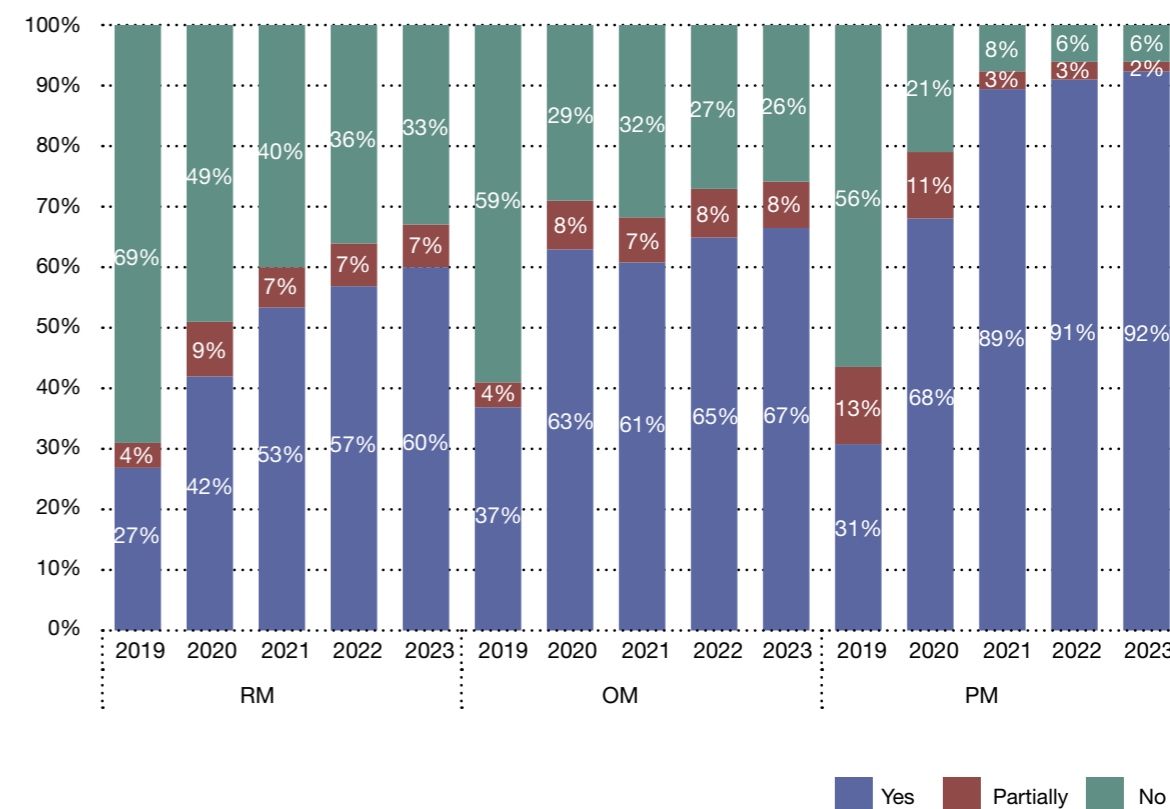
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 33 Share issuers' compliance with the section "Remuneration of board members" in 2023



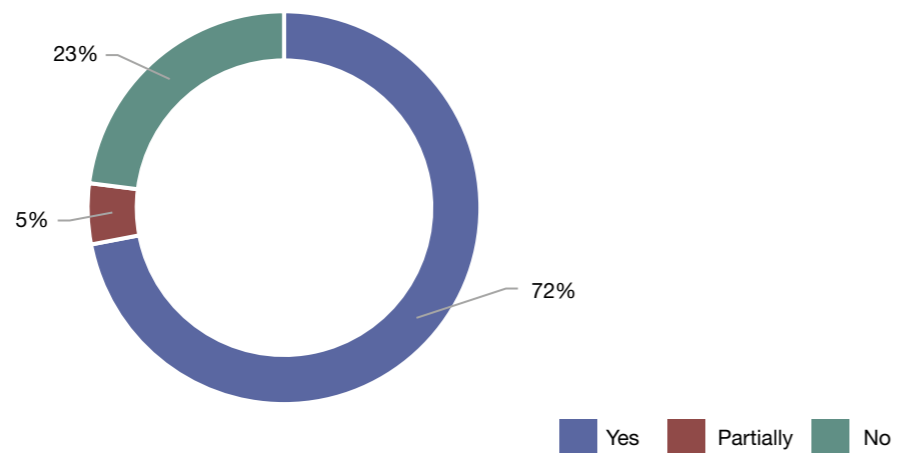
Source: Compliance questionnaire 2023, internal calculation

Chart 34 Share issuers' compliance with the section "Remuneration of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



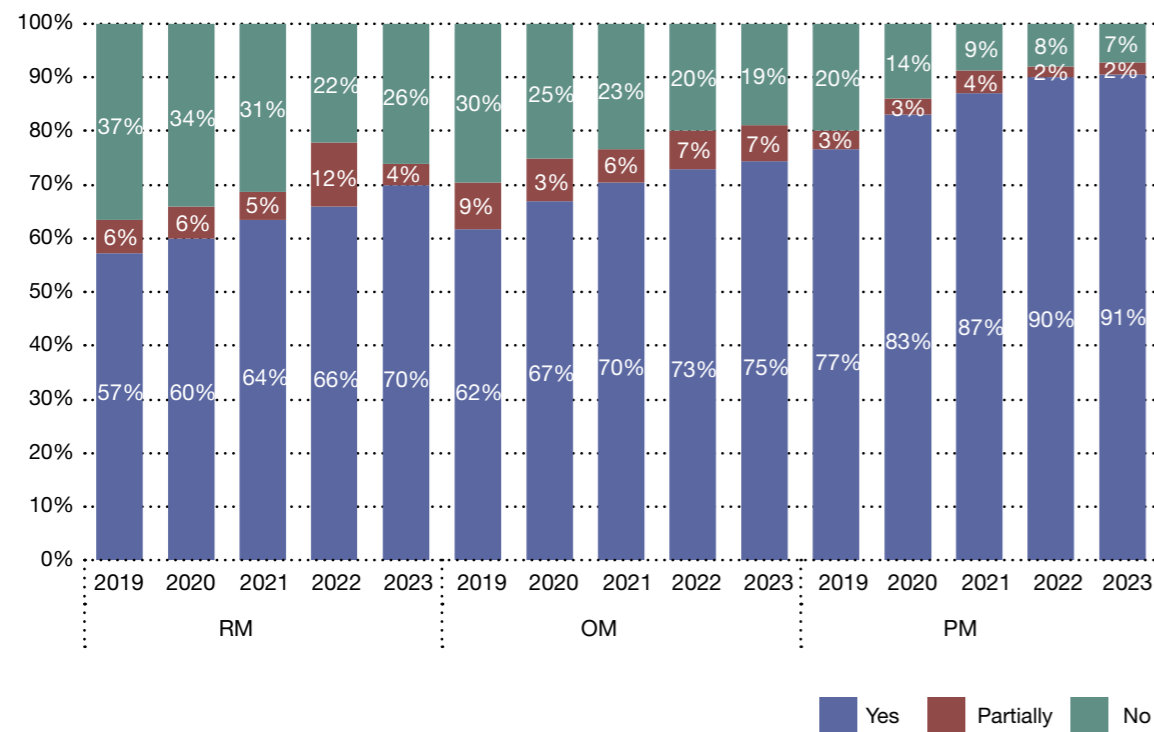
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 35 Share issuers' compliance with the section "Risks, internal control and audit" in 2023



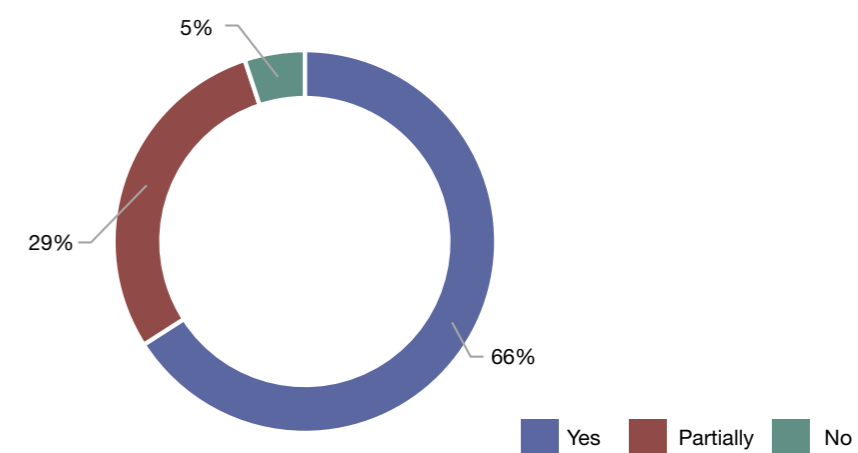
Source: Compliance questionnaire 2023, internal calculation

Chart 36 Share issuers' compliance with the section "Risks, internal control and audit" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



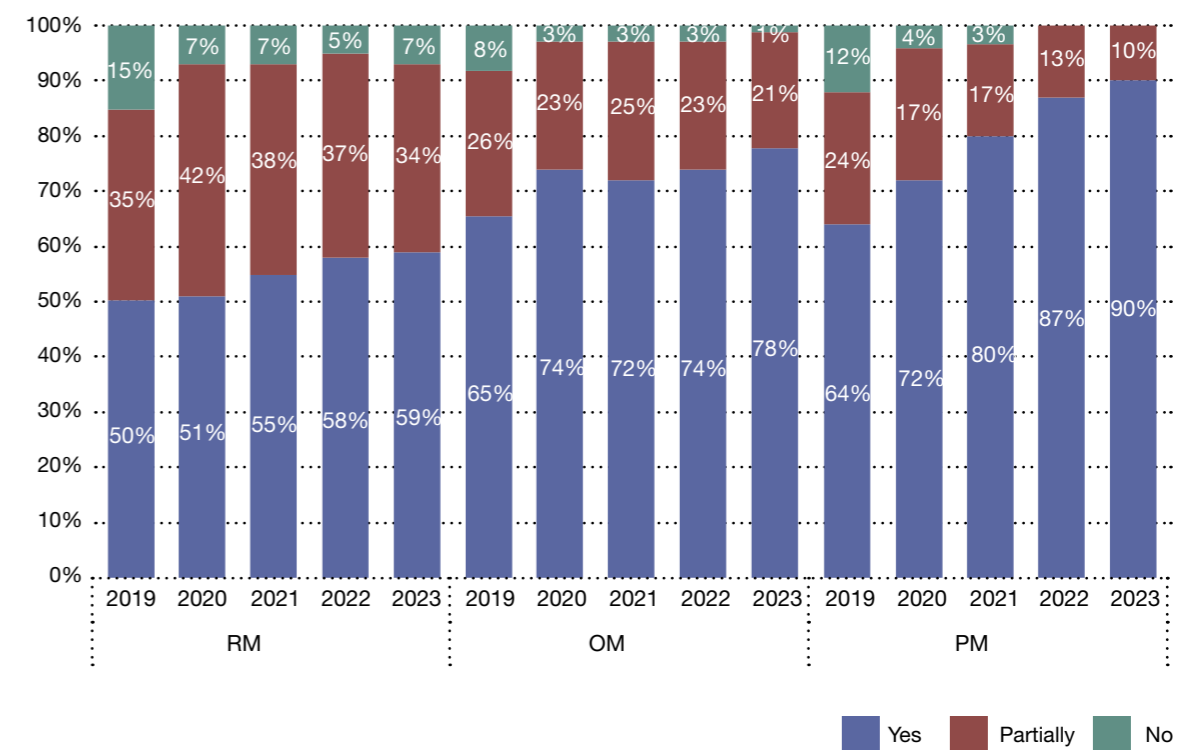
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 37 Share issuers' compliance with the section "Disclosure and transparency" in 2023



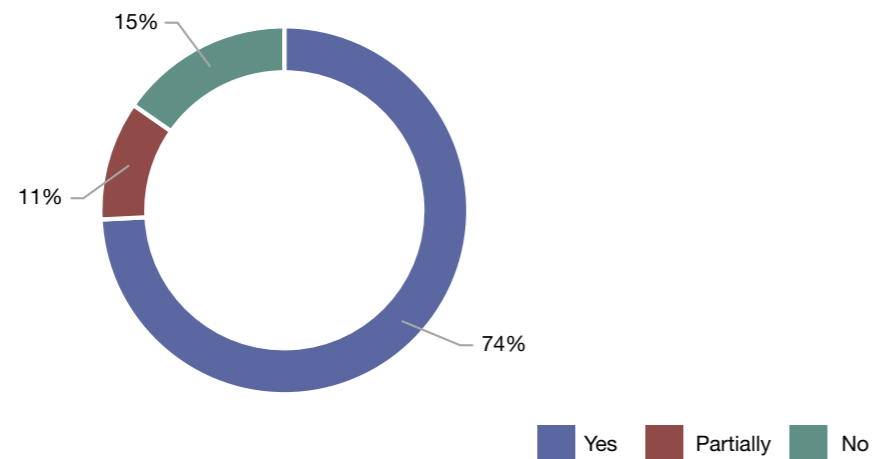
Source: Compliance questionnaire 2023, internal calculation

Chart 38 Share issuers' compliance with the section "Disclosure and transparency" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



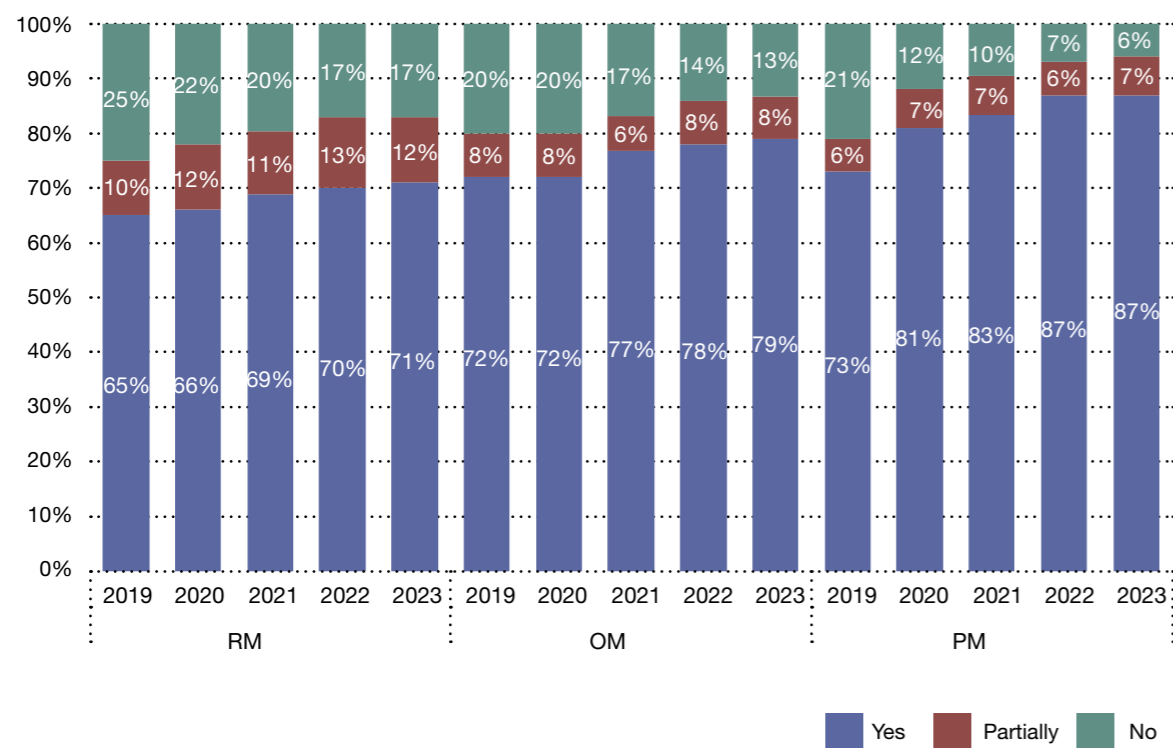
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 39 Share issuers' compliance with the section "Shareholders and the general meeting" in 2023



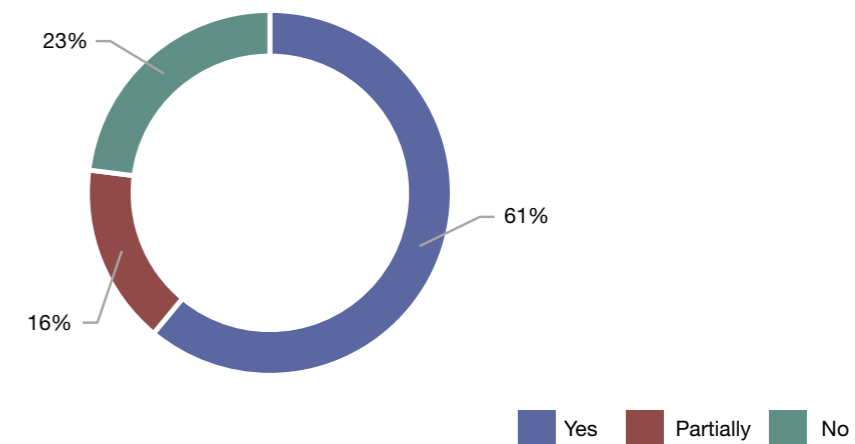
Source: Compliance questionnaire 2023, internal calculation

Chart 40 Share issuers' compliance with the section "Shareholders and the general meeting" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



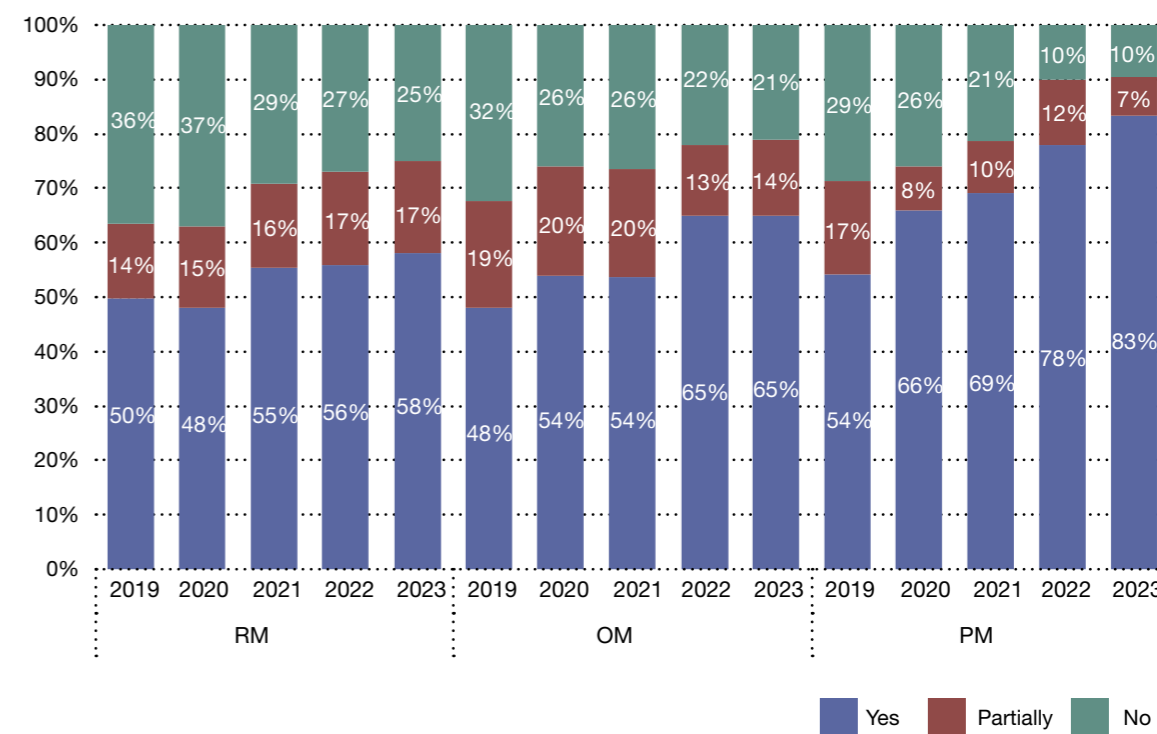
Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

Chart 41 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2023



Source: Compliance questionnaire 2023, internal calculation

Chart 42 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019, 2020, 2021, 2022 and 2023, by segments of the regulated market

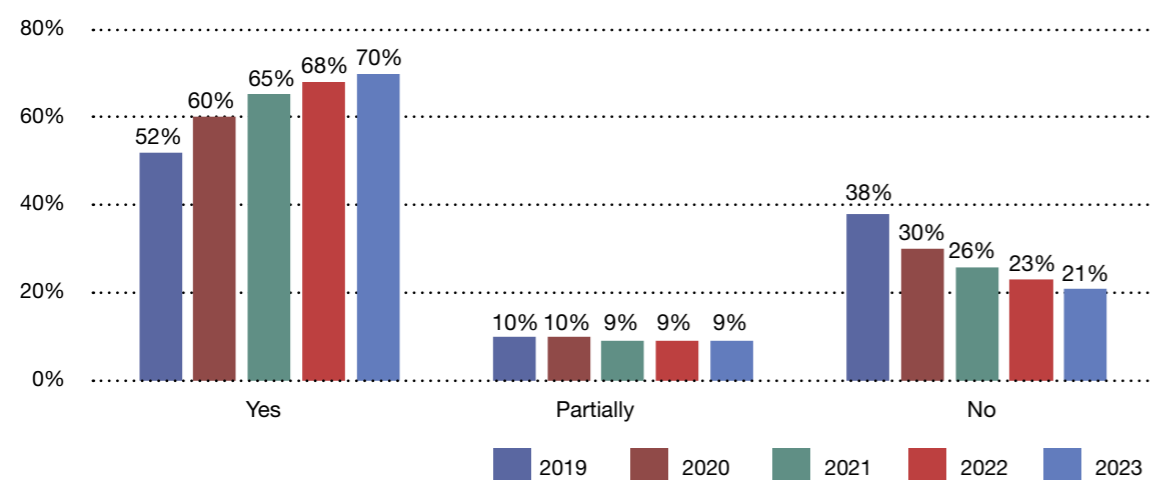


Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

## Share issuers' overall compliance with the Code in 2023

The following chart provides a comparative overview of share issuers' compliance with the Code in 2023 compared to 2019, 2020, 2021 and 2022.

Chart 43 Share issuers' overall compliance with the Code in 2023



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

A total of 70% of all the questions in the 2023 compliance questionnaire were answered "YES" and 21% of the questions were answered "NO" (in 2022, 68% of all the questions in the compliance questionnaire were answered "YES" and 23% of the questions were answered "NO").

- According to data submitted in the 2023 compliance questionnaire, issuers comply most with the sections "Leadership" and "Shareholders and the general meeting".
- Issuers comply least with the sections "Appointment of board members" and "Stakeholders and corporate social responsibility".
- The compliance analysis showed improvement as regards all the sections of the Code. The most significant increase in issuers' compliance compared with the preceding year was recorded with respect to the section "Remuneration of board members" (the section "Appointment of board members" in 2022). A significant rise in the level of issuers' compliance in 2023 relative to 2022 was also recorded with respect to the sections "Leadership", "Appointment of board members", Supervisory board and its committees" and "Disclosure and transparency" (a 2% rise compared to the preceding year with respect to each section).
- Taking account of the sharpest increase in the level of share issuers' compliance in 2023 relating to Section 6 of the Code "Remuneration of board members", the following text highlights provisions of the Code relating to the remuneration of board members and reporting on remuneration that received "YES" answers from more than 70% issuers:
  - Levels of remuneration for management board members take account of the agreed strategy, risk appetite, economic environment the company operates in, and pay and working conditions of the company's employees.

- The company's remuneration policy was approved by shareholders at the general meeting.
- The annual remuneration report includes data on the remuneration of individual supervisory board members and other information referred to in Provision 57 of the Code.
- The company's approved remuneration policy is available on the website of the company free of charge.
- Levels of remuneration for the chair and other members of the supervisory board reflect the time commitment and responsibilities involved, including on board committees.
- As regards the section "Supervisory board and its committees", there was an increase in compliance with the following provisions:
  - The company's annual report includes a record of each supervisory board member's attendance at board and committee meetings.
  - The supervisory board includes members with different genders, ages, backgrounds and experience to ensure it brings different perspectives to its decision-making.
  - The company's annual report includes a report on the work of each supervisory board committee and information on the number of meetings held and members of the committee.
  - The terms of reference of each supervisory board committee are available on the company's website free of charge.
  - Either chair or deputy chair of the supervisory board are independent.
  - The majority of the members of each supervisory board committee are independent in accordance with the definition referred to in Appendix A to the Code.
  - The majority of supervisory board members are independent in accordance with the definition referred to in Appendix A to the Code.
  - The supervisory board has evaluated the performance of its individual members in the last 12 months.
- The largest share of issuers (79, or 100%) complied 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; persons who are not supervisory board committee members should participate in committee meetings only at the invitation of the committee);
  - the general meeting (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);
  - relations with shareholders (the articles of association and/or other internal regulations provide shareholders with the opportunity to exercise their voting rights by proxy without any restrictions).
- The smallest share of issuers (13, or 16%) complied with the provision of the Code relating to the role of the supervisory board (the supervisory board has defined a target percentage of female supervisory board and management board members, that needs to be reached within the next five years, and has adopted a plan for achieving that goal; all of which has been published on the company's website).

## LIST OF ISSUERS ACCORDING TO THE PROGRESS IN THEIR COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Tables 10, 11 and 12 show share issuers' progress in compliance with individual sections of the Code by segments of the regulated market in 2023 compared to 2022. The list of issuers according to their progress in compliance with individual sections of the Code was determined on the basis of the sum of progress scores relating to each section.

The analysis showed that the largest portion of issuers made progress in compliance with Section 9 "Shareholders and the general meeting" (7 issuers or 9%).

Table 10 Prime Market issuers' compliance progress scores by individual sections of the Code for the year 2023.

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

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

Table 11 Official Market issuers' compliance progress scores by individual sections of the Code for the year 2023.

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
BOSQAR d.d.	0	0	0	0	0	0	0	0	0	0
CIAK Grupa d.d. za upravljanje društvima	0	0	0	0	0	-1	0	0	0	0
CROATIA osiguranje d.d.	0	0	0	0	0	0	0	0	0	0
Dalekovod d.d.	0	0	2	1	1	-1	0	0	0	0
GRANOLIO D.D.	0	0	-1	0	0	0	0	0	1	0
Hrvatska poštanska banka d.d.	0	0	0	0	0	0	0	0	0	0
Ilirija d.d.	0	0	0	0	0	0	2	0	0	0
INA - Industrija nafte d.d.	0	0	0	0	0	0	0	0	0	0
Institut IGH d.d.	0	0	0	0	0	0	0	0	0	0
JADRAN d.d.	0	0	0	0	0	0	0	0	0	0
Končar - Elektroindustrija d.d.	0	0	0	0	0	0	0	0	0	0
Luka Ploče d.d.	0	0	0	0	0	0	0	0	1	0
Luka Rijeka d.d.	0	0	0	-2	0	0	1	0	0	0
Medika d.d.	0	-1	0	0	0	0	-1	0	0	0

MON PERIN d.d.	0	-1	0	0	0	0	0	0	0	0
SPAN d.d.	0	0	2	0	0	0	0	0	0	0
SUNCE HOTELI d.d. za turizam i ugostiteljstvo	0	0	0	0	0	0	0	0	0	0
Varteks d.d.	0	0	0	0	0	0	0	0	0	0
Zagrebačka burza d.d.	0	0	0	1	0	0	0	1	1	0

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

Table 12 Regular Market issuers' compliance progress scores by individual sections of the Code for the year 2023.

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
3. MAJ brodogradilište d.d.	0	-1	0	0	-1	0	0	0	0	0
Adriatic Croatia International Club d.d.	0	0	0	0	0	0	0	0	0	0
ADRIATIC OSIGURANJE d.d.	0	0	0	0	0	0	0	0	0	0
Adris Grupa d.d.	0	0	0	0	0	0	0	0	0	0
AGRAM BANKA d.d.	0	0	0	0	0	0	0	0	0	0
ALPHA ADRIATIC pomorski promet dioničko društvo	0	0	1	0	0	2	0	1	2	0
Atlantska plovidba d.d.	0	0	-2	-1	-1	0	-2	0	-2	-2
AUTO HRVATSKA d.d.	0	-1	0	0	0	0	1	0	0	0
Bilokalnik - IPA d.d.	0	0	0	0	0	0	0	0	0	0
BRODOGRADILIŠTE VIKTOR LENAC d.d.	0	0	0	0	0	0	0	0	0	0
Croatia Airlines d.d.	0	0	0	0	0	0	0	0	0	0
Čakovečki mlinovi d.d.	0	0	0	0	0	0	0	0	0	0
Čateks d.d.	0	0	0	0	0	0	0	0	0	0
ĐURO ĐAKOVIĆ GRUPA d.d.	0	0	0	-1	-1	2	0	-1	0	-1
Ericsson Nikola Tesla d.d.	0	0	0	0	0	-1	0	0	0	0
HELIOS FAROS d.d.	0	0	0	0	0	0	0	0	0	0
HTP Korčula d.d.	0	-1	0	0	0	0	0	0	0	0
HTP Orebić d.d.	0	-1	0	0	0	0	0	0	0	0
Imperial Riviera d.d.	0	0	0	0	0	0	0	0	0	0
Ingra d.d.	0	0	-2	0	0	-1	0	0	0	0
Istarska kreditna banka Umag d.d.	0	0	0	0	0	0	0	0	0	0
Jadran tvornica čarapa d.d.	0	0	0	0	0	0	0	0	0	0
Jadranski naftovod d.d.	0	0	0	2	0	1	2	0	0	1
Jadroagent d.d.	0	0	0	0	0	-1	0	0	2	0
Jadroplov d.d.	2	2	0	0	2	2	0	0	-1	0
Končar - Distributivni i specijalni transformatori d.d.	0	0	0	0	0	0	0	0	0	0
Kraš d.d.	0	-1	0	0	0	0	0	0	0	0
Kutjevo d.d.	0	0	2	1	0	0	0	2	2	0
Liburnia riviera hoteli d.d.	0	1	0	0	2	0	0	0	0	0
Lošinjska plovidba - Holding d.d.	0	0	0	0	0	0	0	0	0	0

Maistra d.d.	0	0	0	0	0	-1	0	0	0	0
Maraska d.d.	0	0	0	0	0	0	0	0	0	0
MEDORA HOTELI I LJETOVALIŠTA d.d.	0	-1	0	0	0	0	0	0	0	0
MODRA ŠPILJA d.d.	0	0	0	0	0	0	0	0	0	0
Plava laguna d.d.	0	0	0	0	0	0	0	0	0	0
Podravska banka d.d.	0	0	0	0	0	0	0	0	0	0
Primo Real Estate d.d.	0	-1	0	0	0	0	0	0	0	0
PROFESSIO ENERGIA d.d.	0	0	0	0	0	0	0	0	0	0
Saponia d.d.	0	-1	0	0	0	0	0	0	0	0
Slatinska banka d.d.	0	0	0	0	0	0	0	0	0	0
Solaris d.d.	0	0	0	0	0	0	0	0	0	0
Stanovi Jadran d.d. za poslovanje nekretninama	0	0	0	0	0	-1	0	0	0	0
Tehnika d.d.	0	-1	1	0	0	0	0	0	0	0
Tekstilpromet d.d.	0	0	0	0	0	0	0	0	0	0
Terra Firma d.d.	0	0	0	0	0	0	0	0	0	0
THE GARDEN BREWERY d.d.	0	-1	0	0	0	2	0	1	0	0
VILLA DUBROVNIK HOTELSKO - TURISTIČKO DIONIČKO DRUŠTVO	1	2	0	0	0	0	2	0	0	0
Viro tvornica šećera d.d.	0	0	0	0	0	-1	0	0	0	0
Vis d.d.	0	0	0	0	0	0	0	0	0	0
Vodoprivreda Zagreb d.d.	0	0	0	0	0	0	0	0	0	0
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	0	0	0	0	0	0	0	0	0	0
Zagrebačke pekarnice Klara d.d.	2	-1	0	2	0	2	2	-1	1	2
Zvečevo d.d.	0	0	0	0	0	0	0	0	0	0
Quattro logistika d.d.	0	0	0	0	0	-1	0	0	0	0

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

The calculation model showed that the highest level of compliance with the Code by segments of the regulated market was reached by the following issuers:

Issuer	Regulated market segment	Total	Number of provisions the issuer fully complies with
Hrvatski Telekom d.d.	PM	1	126
Dalekovod d.d.	OM	3	122
Zagrebačke pekarnice Klara d.d.	RM	9	56

Source: Hanfa's internal calculation based on the compliance questionnaire for 2023

The highest level of compliance with the Code in 2023 was reached by Hrvatski Telekom d.d. on the Prime Market, by Dalekovod d.d. on the Official Market, and by Zagrebačke pekarnice Klara d.d. on the Regular Market. Taking into account the above in accordance with the methodology for assessing issuers' progress in compliance with the Code and the criterion relating to the highest number of "YES" answers as regards all market segments, Hrvatski Telekom d.d. was selected as the issuer with the greatest progress in compliance with the Code on the regulated market for 2023.

## RECOMMENDATIONS FOR IMPROVING THE QUALITY OF CORPORATE GOVERNANCE REPORTING

Hanfa received compliance questionnaires from issuers for the first time for the year 2019. Questions from the compliance questionnaire are answered "YES", "NO" or "Partially", which was the case in 2023 as well.

In accordance with the Code, 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 2023.

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 rules of conduct of employees and others acting on behalf of the Company are regulated by various internal regulations that have not been publicly disclosed.	It is not disclosed publicly. The internal regulation is accessible to the persons concerned.
The company's conflict of interest management policy is available on the website of the company free of charge.	There is no written conflict of interest management policy; specific cases are discussed at Supervisory Board meetings.  Conflicts of interest are regulated by the Ethical Code adopted by the Management Board of the Company and by other internal regulations.	There is no such obligation. There was no such need.

<p>The information referred to in Article 17 of the Code is available free of charge on the company's website also when appointing workforce representatives or other Supervisory Board members not elected by shareholders at the General Meeting.</p>	<p>The data are not published on the Company's website, but are available in the materials for the General Assembly.</p> <p>The Company makes available the information laid down by Article 281 of the Companies Act.</p>	<p>There is not such need.</p> <p>No, as there is no legal obligation in relation thereto.</p> <p>Not our practice.</p>
<p>The terms of reference of each supervisory board committee are available on the Company's website free of charge.</p>	<p>The Company plans to establish a Nomination and Remuneration Committee in the forthcoming period, and to publish the terms of reference of all Supervisory Board committees on its website.</p>	<p>Not considered necessary.</p> <p>It has not been formalised.</p>
<p>The management board has evaluated its own effectiveness and the effectiveness of its individual members in the last 12 months.</p>	<p>It has not been implemented. By granting discharge, the General Assembly evaluates the functioning of the Management Board and the Supervisory Board.</p>	<p>Not in formal form.</p> <p>Not our practice.</p> <p>The Management Board has not carried out such an evaluation.</p>
<p>Remuneration policies and/or internal acts of prohibit the inclusion of variable or other performance-related elements in the remuneration of supervisory board members.</p>	<p>The Company intends to draw up a remuneration policy within a reasonable time period.</p> <p>The Supervisory Board receives no remuneration, except for workers' representatives whose remuneration is fixed.</p>	<p>There is no such policy.</p> <p>There are no such restrictions.</p>
<p>The company has established an internal audit function with responsibility for supervising the effectiveness of the internal control system, including the management of risks.</p>	<p>The Company plans to establish an internal audit function with supervisory responsibility.</p> <p>The Company has an internal control function, and part of the internal audit work is carried out through certain support functions.</p>	<p>There is no internal audit plan.</p> <p>There is no such obligation.</p> <p>There has been no need for an internal audit.</p>
<p>The annual report contains all the information referred to in Article 74 of the Code.</p>	<p>The annual report is planned to be updated.</p> <p>Data on all contracts and agreements between the members of the Management Board or the Supervisory Board and the Company have been disclosed in total and the report of the Audit Committee has not been published; the Company plans to disclose this information in its Annual Report for 2024.</p>	<p>Not our practice</p> <p>Given that the Supervisory Board did not put it on the agenda.</p> <p>There is no internal regulation laying down such obligation.</p>
<p>The company has designated an individual as the investor relations contact for all shareholders, whose contact details are freely available on the company's website.</p>	<p>The website provides the contact details of the person in charge of investor relations; allowing shareholders, investors and other interested entities to make contact.</p> <p>The Company plans to make contact persons available on its website in 2024.</p>	<p>Not our practice.</p> <p>Contact details are not available on the website.</p>

<p>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.</p>	<p>The Management Board of the Company has adopted the Code of Ethical and Professional Behaviour and the Conflicts of Interest Management policy, which also contain the rules for making the described decisions; upon the approval of the Supervisory Board, they will be published on the Company's website.</p>	<p>Not applicable to all decisions.</p> <p>There are no documents accompanying the approval.</p> <p>The policies have not been developed.</p>
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Source: Compliance questionnaire 2023

The explanation provided for “NO” or “Partially” answers is extremely important as it offers issuers an opportunity to provide their own reasons that led to non-compliance or partial compliance. The 2023 compliance questionnaire, just as the compliance questionnaires for 2021 and 2022, shows that issuers are not willing to provide detailed explanations for their non-compliance or partial compliance, stating very often that a certain requirement is not prescribed by the law, their statute or another internal act.

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 issuer intends to comply with the relevant provision of the Code in future, in order for compliance progress to be shown in future reporting periods. Issuers need to make sure they obey the deadlines for and manner of compliance they specified as regards the compliance with a certain provision of the Code. Actions taken in accordance with the manner and deadlines defined and specified by issuers in the questionnaire may be subject to verification by Hanfa.

In addition, issuers always need to take account of the accuracy of data (answers and explanations for “NO” and “Partially” answers) provided in their compliance questionnaires as these data are subject to verification during the data processing procedure. Where an answer or explanation provided in an issuer's compliance questionnaire proves to be differing from the actual state of play, the issuer will be excluded from the data processing procedure aimed at determining the overall compliance of share issuers with the Code.

# ANNUAL REPORT ON CORPORATE GOVERNANCE FOR SHARE ISSUERS



## INTRODUCTION

Data shown in this Annual Report on Corporate Governance for the 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, namely 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 83 issuers whose shares were admitted to trading on the regulated market on 31 December 2023, 81 were obliged to submit to Hanfa their governance practices questionnaire and compliance questionnaire for 2023, while 2 were obliged to submit only their governance practices questionnaire.

All the issuers (81) obliged to submit their governance practices questionnaire and compliance questionnaire met their obligation to submit their governance practices questionnaire within the prescribed deadline. Both share issuers obliged to submit to Hanfa only their governance practices questionnaire for 2023 fulfilled this requirement (100% of the submitters).

Data shown in this Chapter cover the data from the 2023 governance practices questionnaire and compliance questionnaire for all the share issuers that submitted their questionnaires to Hanfa (data from the governance practices questionnaire for 83 issuers and data from the compliance questionnaire for 81 issuers that submitted their 2023 compliance questionnaire).

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 2023, the ZSE turnover amounted to EUR 372m, decreasing by 6% compared with the preceding year. The share turnover reached EUR 267m, 17% more in comparison with 2022. At end-2023, there were 83 share issuers admitted to the regulated market of the ZSE (5 share issuers fewer compared with 31 December 2022). The number of share issuers has been decreasing continuously since 2015. In 2023, shares of 5 issuers were removed from the Regular Market, and no new shares were admitted to trading.

In 2023, more than half of the total securities turnover in the amount of EUR 372m was accounted for by trading in shares (EUR 267m, or 72%). The largest turnover was generated by trading in shares admitted on the Regular Market (38.82% of the total share turnover), but it decreased relative to the previous year, when this share stood at 40.68%. Trading in shares admitted to the Prime Market and Official Market accounted for 38.57% and 22.61% of the total share turnover in 2023 respectively. In 2023, the share turnover on the Regular Market amounted to EUR 103.7m, an increase of about 12% relative to the preceding year, when it reached EUR 92.5m.

Market capitalisation rose by about 27% compared to 2022, amounting to EUR 22.9bn at the end of 2023. The market value measured by market capitalisation was higher than in the previous year on all segments of the regulated market: by 29% on the Prime Market, by 16.6% on the Official Market and by 35% on the Regular Market.

The CROBEX stock index concluded the year 2023 at the level of 2,533.92 points, by 28% higher relative to the previous year. All stock indices grew in 2023 relative to 2022, except for CROBEXkonstrukt (it fell by 6%) and CROBIS (it declined by 1%).

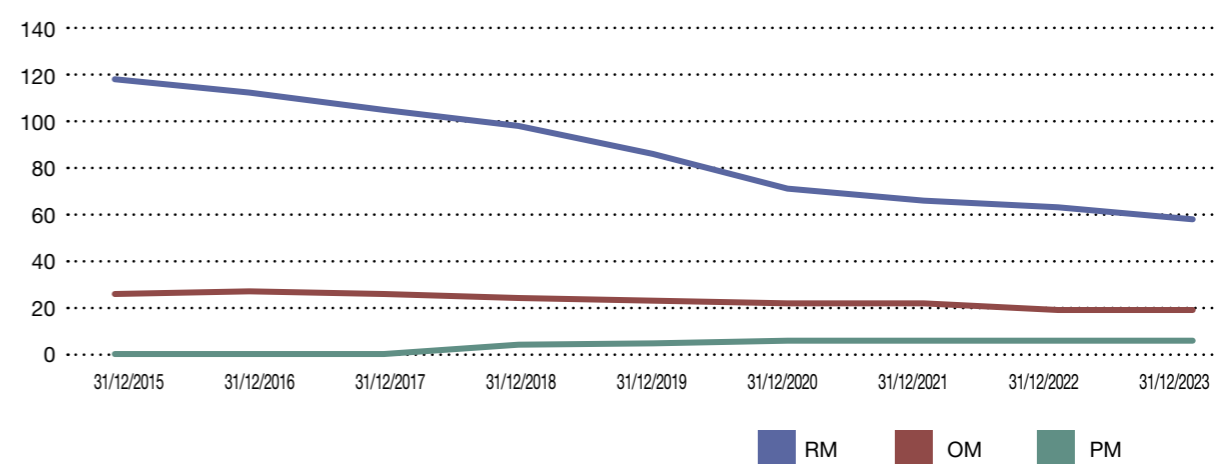
Most traded shares were those of Podravka d.d., SPAN d.d., Valamar Riviera d.d., Zagrebačka banka d.d. and Hrvatski Telekom d.d.; their total turnover reached EUR 135,671,053, accounting for 51% of the total share turnover in 2023.

## SHORT OVERVIEW ON SHARE ISSUERS

### Number of share issuers

The 2015 – 2023 period was marked by a **decreasing trend in the number of issuers** on the regulated market of the ZSE. In 2023, a total of 5 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 changes in the number of issuers by segments on the regulated market of the ZSE.

Chart 44 Number of issuers per segments of the regulated market, 2015 – 2023



Source: ZSE, internal calculation

There was a significant decrease in the total number of the issuers whose shares are admitted to the regulated market of the ZSE, mostly due to a continued decline in the number of the issuers whose shares are admitted to the Regular Market. The number of issuers on the Prime Market (6) and Official Market (19) remained the same as in the preceding year.

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 2023, as at 31 December

Regulated market	2015		2016		2017		2018		2019		2020		2021		2022		2023	
	Number	Change	Number	Change	Number	Change	Number	Change	Number	Change	Number	Change	Number	Change	Number	Change	Number	Change
PM	0	-	0	-	0	-	4	-	5	25	6	20	6	-	6	-	6	-
OM	26	-18,2	27	3,7	26	-3,7	24	-7,7	23	-4,2	22	-4,3	22	-	19	-13,6	19	-
RM	118	-9,2	112	-5,1	105	-6,3	98	-6,7	86	-12,2	71	-17,4	66	-7	63	-4,5	58	-7,9
<b>Total</b>	<b>144</b>	<b>-5,3</b>	<b>139</b>	<b>-9</b>	<b>131</b>	<b>-5,8</b>	<b>126</b>	<b>-3,8</b>	<b>114</b>	<b>-9,5</b>	<b>99</b>	<b>-13,2</b>	<b>94</b>	<b>-5,1</b>	<b>88</b>	<b>-6,4</b>	<b>83</b>	<b>-5,7</b>

Source: ZSE, internal calculation

At the end of 2023, there were 83 share issuers, 5.68% fewer compared to 31 December 2022, when there were 5 issuers more with their shares admitted to the regulated market. Broken down by regulated market segments, a larger decrease in the number of issuers was recorded on the Regular Market compared to 2022. The Official Market recorded the same number of issuers as in 2022; however, two issuers transferred from one market segment to another (from the Official Market to the Regular Market and vice versa).

### Shares not traded at all

The following shares were not traded at all in the period from their admission to trading on the regulated market of the ZSE to 31 December 2023:

- ordinary share issued by Professio Energia d.d., bearing the symbol DLPR-R-A (admitted in 2019)
- preferential share issued by Plava laguna d.d., bearing the symbol PLAG-P-A (admitted in 2003)
- ordinary share issued by Stanovi Jadran d.d., bearing the symbol STJD-R-A (admitted in 2018)
- ordinary share issued by The Garden Brewery d.d., bearing the symbol GARB-R-A (admitted in 2020)
- ordinary share issued by Quattro logistika d.d., bearing the symbol QTLG-R-A (admitted in 2022).

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

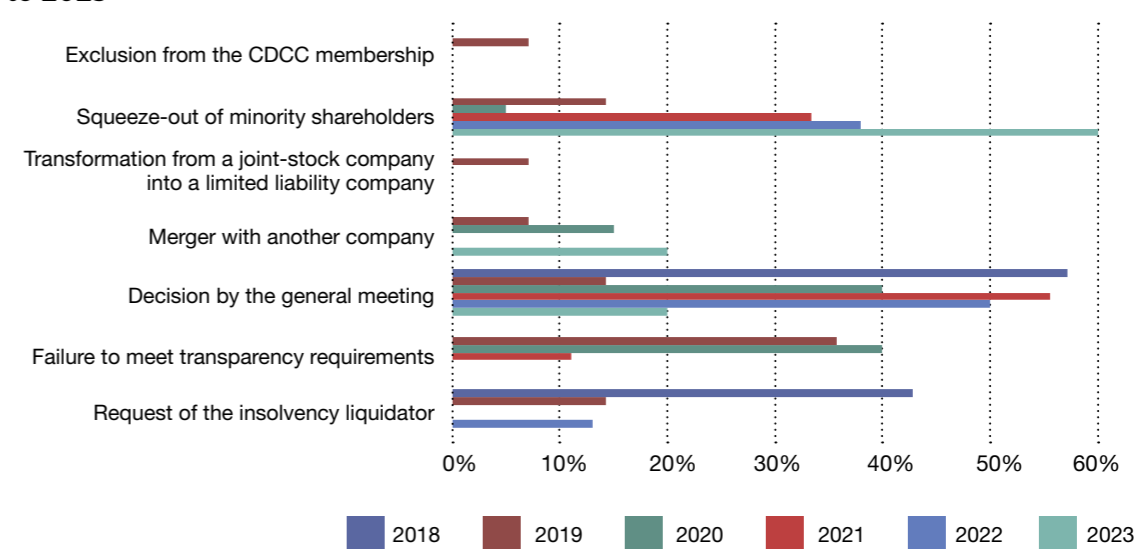
- In 2022, shares of two issuers were admitted to trading on the regulated market of the ZSE:
  - ordinary shares issued by the company Mon Perin d.d. were admitted to trading on the Official Market on 28 March 2022;
  - ordinary shares issued by the company Quattro logistika d.d. were admitted to trading on the Regular Market on 9 June 2022.
- In 2021, shares of three issuers were admitted to trading on the regulated market of the ZSE:
  - ordinary shares issued by the company Villa Dubrovnik d.d. were admitted to trading on the Regular Market on 21 June 2021;
  - ordinary shares issued by the company Primo Real Estate d.d. were admitted to trading on the Regular Market on 20 July 2021;
  - ordinary shares issued by the company SPAN d.d. were admitted to trading on the Official Market on 21 September 2021.
- In 2020, shares of five issuers were admitted to trading on the regulated market of the ZSE:
  - ordinary shares issued by the company Helios Faros d.d. were admitted to trading on the Regular Market on 30 April 2020;
  - ordinary shares issued by the company The Garden Brewery d.d. were admitted to trading on the Regular Market on 9 June 2020;
  - ordinary shares issued by the company Modra Šplja d.d. were admitted to trading on the Regular Market on 1 October 2020;
  - ordinary shares issued by the company Vis d.d. were admitted to trading on the Regular Market on 1 October 2020;
  - ordinary shares issued by the company Ciak Grupa d.d. were admitted to trading on the Official Market on 29 December 2020.

Despite the continuous listing of shares in the previous years, no shares were admitted to trading on the regulated market in 2023.

On the other hand, 5 issuers removed their shares from trading on the Regular Market during 2023, and no shares were removed from trading on the Official Market and Prime Market (in 2022, 5 issuers removed their shares from trading on the Regular Market, 3 issuers removed their shares from trading on the Official Market, while no issuers removed their shares from trading on the Prime Market; in 2021, 8 issuers removed their shares from trading on the Regular Market (20 issuers in 2020), while no issuers did so on the Official Market in 2020 and 2021).

The shares were removed from trading in 2023 due to the squeeze-out of minority shareholders (3 issuers), the decision of the general meeting (1 issuer) and merger with another company (1 issuer).

Chart 45 Reasons for removing shares from trading on the regulated market from 2015 to 2023



Source: ZSE

In the period between 2015 and 2023, the largest number of shares were removed from trading on the regulated market on the basis of a decision of the general meeting. Three shares were removed from trading on the regulated market in 2023 (3 shares as well in 2022) due to the squeeze-out of minority shareholders. No shares were removed from trading on the regulated market in 2023 (and in 2022) due to failure to meet transparency requirements.

In the period observed, out of 90 shares that were removed from trading on the regulated market, 4 were removed from the Official Market, and the remaining 86 from the Regular Market. Since 2018, when the Prime Market was established, no shares have been removed from trading on that segment of the regulated market.

### Classification of issuers by sectors

Issuers are classified into the financial and non-financial sector with respect to activities they carry out. The financial sector is comprised of financial institutions and closed-end-

ed alternative investment funds, while the non-financial sector covers other activities. The classification of issuers by sectors in the period from 2015 to 2023 is shown in the following table.

Table 15 Classification of issuers by sectors in the period from 2015 to 2023, as at 31 December

Sectors	2015		2016		2017		2018		2019		2020		2021		2022		2023	
	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)	Num-ber	Share (%)
Financial sector	17	11.8	15	10.8	14	10.7	12	9.5	12	10.5	12	12.1	11	11.7	11	12.5	11	13.3
Non-financial sector	127	88.2	124	89.2	117	89.3	114	90.5	102	89.5	87	87.9	83	88.3	77	87.5	72	86.7
<b>Total</b>	<b>144</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>131</b>	<b>100</b>	<b>126</b>	<b>100</b>	<b>114</b>	<b>100</b>	<b>99</b>	<b>100</b>	<b>94</b>	<b>100</b>	<b>88</b>	<b>100</b>	<b>83</b>	<b>100</b>

Source: ZSE

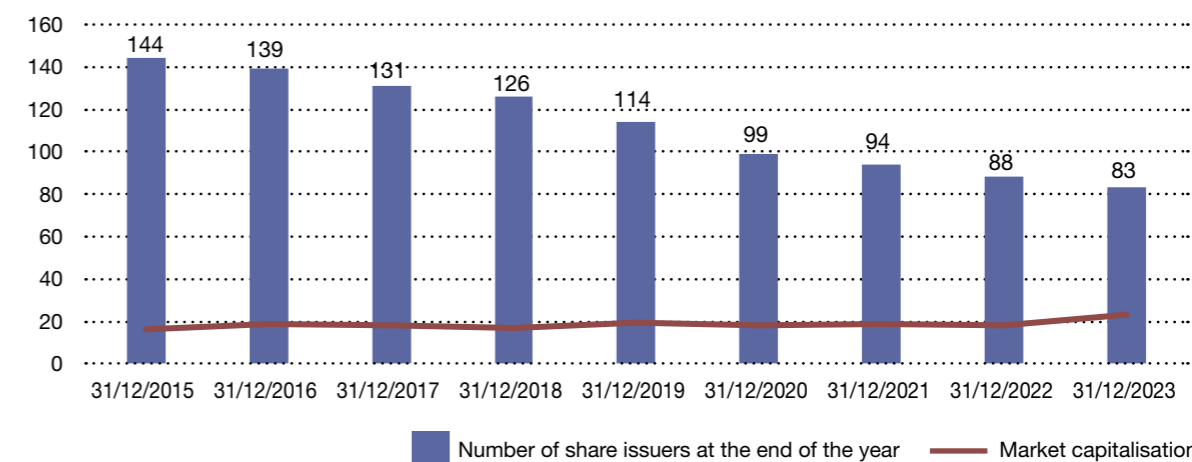
According to the publicly available data provided by the ZSE, as at 31 December 2023, the largest number of share issuers came from the tourism industry (22 issuers; 21 issuers at the end of 2022). They were followed by share issuers engaged in financial and insurance activities (14 issuers; 13 issuers in 2022), from the transportation and storage sector (9 issuers, as in 2022) and from the food industry and beverages and tobacco product manufacturing industry (8 issuers; 9 issuers in 2022). The sector comprising legal, accounting, management, architectural, engineering, technical testing and analysis activities also had 8 issuers at the end of 2023. Other industries/activities counted less than 8 share issuers per industry/activity as at 31 December 2023.

### Market capitalisation

- At the end of 2023, market capitalisation of shares admitted to trading on the Prime Market amounted to EUR 4,872,990,193.04 increasing by 29% compared to 31 December 2022 (when it reached EUR 3,776,765,393), as a result of a rise in share prices.
- Market capitalisation of shares admitted to trading on the Official Market reached EUR 7,560,463,835.75 at the end of 2023, growing by 17% relative to 31 December 2022, when it stood at EUR 6,480,465,545. This increase was due to the admission of an issuer to the Official Market, but also to a rise in share prices.
- As at 31 December 2023, the total market capitalisation of shares admitted to the Regular Market (excluding closed-ended alternative investment funds) amounted to EUR 10,488,188,667.23, rising by around 35% compared to the end of the previous year, when it reached EUR 7,748,661,959, partly due to a change of the market segment (an issuer transferred from the Official Market to the Regular Market) and rising share prices.
- The market capitalisation of shares of the 83 issuers that submitted their 2023 governance practices questionnaire amounted to EUR 22,921,642,696.02.

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

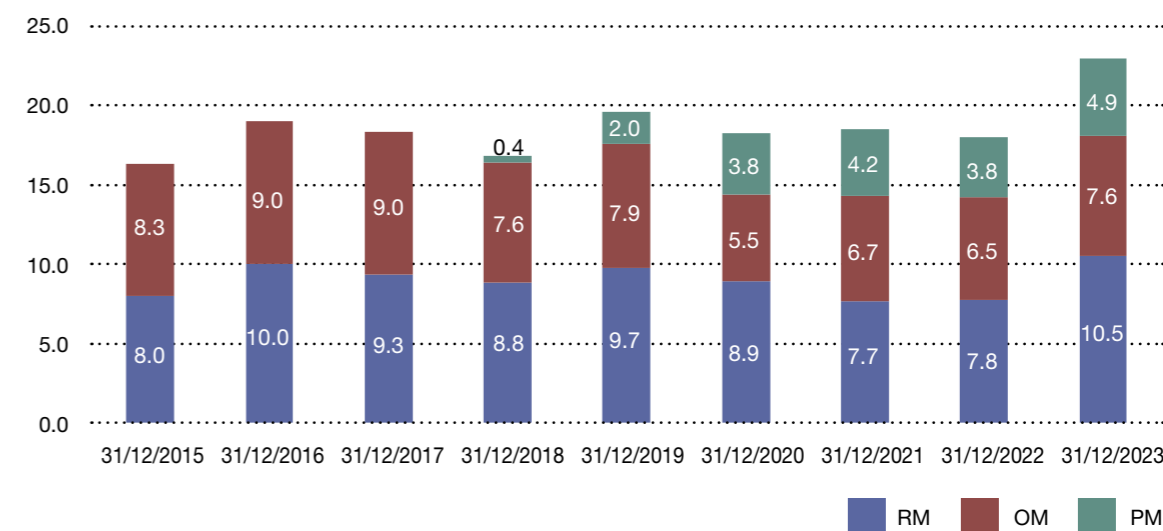
Chart 46 Market capitalisation of shares (in EUR bn) admitted to trading on the regulated market and the number of issuers at the end of each year, from 2015 to 2023



Source: ZSE

The market capitalisation of shares in the period from 31 December 2015 to 31 December 2023 by segments of the regulated market to which they are admitted is shown in the chart below.

Chart 47 Market capitalisation of shares (in EUR bn) by segments of the regulated market from 2015 to 2023

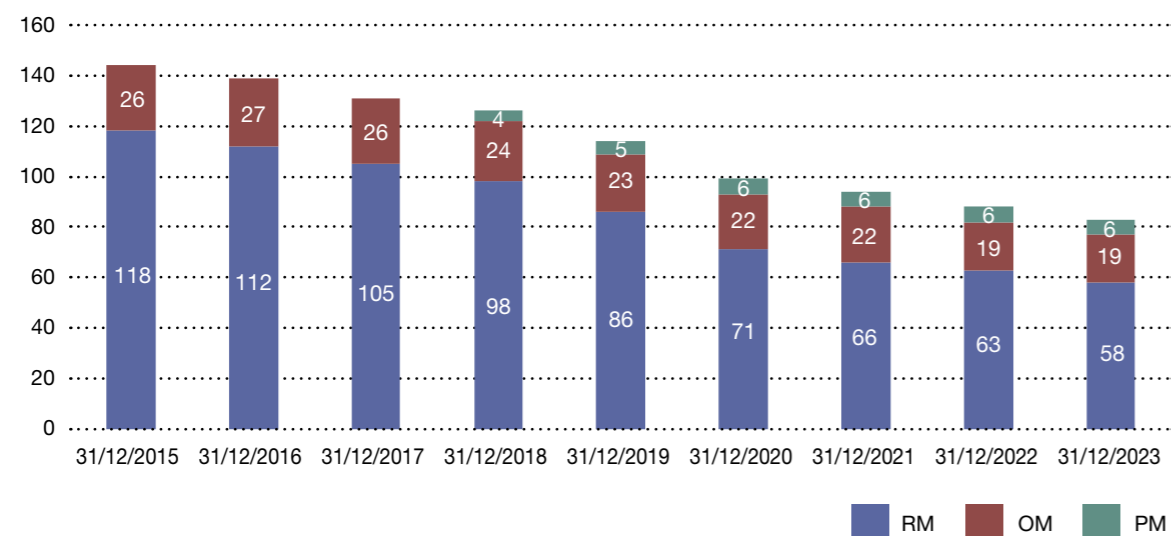


Source: ZSE

The market capitalisation of shares admitted to the Regular Market rose significantly compared to 2022, due to growing share prices.

The increase in the market capitalisation of shares admitted to the Official Market was primarily driven by a rise in share prices and by the transfer of an issuer from the Regular Market to the Official Market.

Chart 48 Number of share issuers by segments of the regulated market from 2015 to 2023



Source: ZSE

The number of share issuers on the regulated market of the ZSE, primarily those whose shares are admitted to the Regular Market, has been declining continuously for the last nine years. The number of issuers whose shares are admitted to the Official Market remained the same as in 2022, but it declined compared to the other years. The Prime Market, that has existed since 2018, shows a slight increase in the number of issuers, but their number has held steady since 2020. At the end of 2023, there were 58 issuers on the Regular Market, 19 issuers on the Official Market and 6 issuers on the Prime Market.

## CAPITAL AND ITS ORIGIN

The following text provides an overview of share issuers' initial capital, ownership structure and capital origin.

### Initial capital

- At end-2023, the initial capital of 83 share issuers reached EUR 7,080,369,902.13, ranging between EUR 1m and EUR 1.36bn (the initial capital of 88 share issuers at end-2022 amounted to EUR 7,075,182,988, ranging from EUR 478m to EUR 1.36bn).
- According to data from the court register, 7 issuers increased their initial capital during 2023 (9 issuers did so in 2022), and 7 issuers reduced their initial capital (2 issuers in 2022).
- Net change in the capital of share issuers amounted to EUR 18,434,394.12 in 2023.

Table 16 Number of the issuers whose shares are admitted to trading on the regulated market of the ZSE, initial capital and market capitalisation (in EUR bn) from 2015 to 2023.

Number of issuers										Initial capital and market capitalisation	2015	2016	2017	2018	2019	2020	2021	2022	2023
2015	2016	2017	2018	2019	2020	2021	2022	2023											
144	139	131	126	114	99	94	88	83		Initial capital (EUR bn)	8.1	8.0	8.0	8.1	8.6	7.4	7.2	7.1	7.1
										Market capitalisation (EUR bn)	16.3	19.0	18.3	16.8	19.6	18.2	18.5	18	22.9

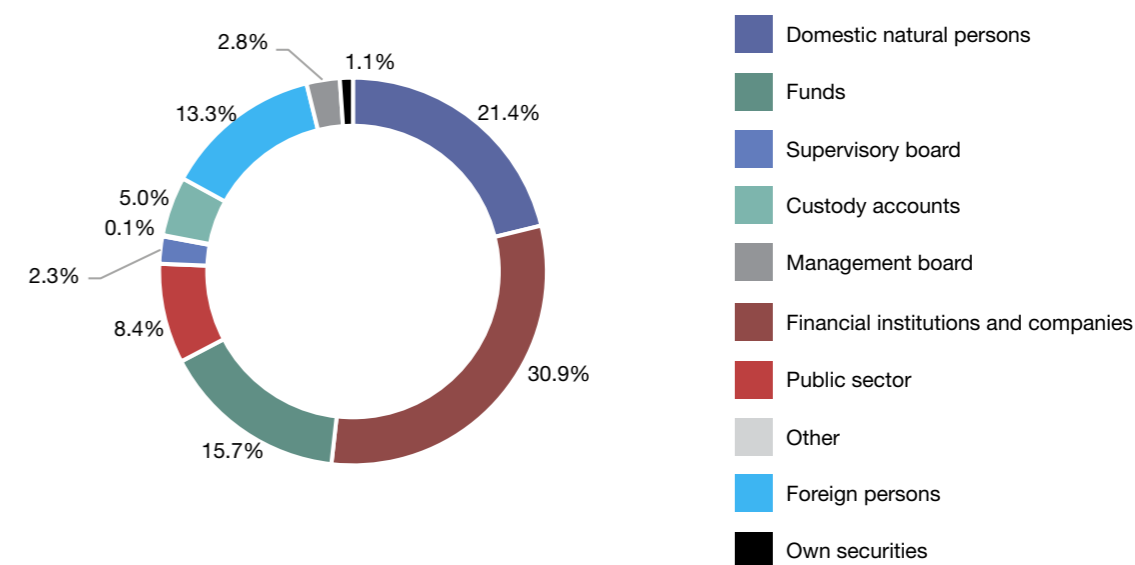
Source: court register, ZSE

## Ownership structure

The ownership structure of share issuers has been developed on the basis of information received from the Central Depository and Clearing Company (hereinafter: CDCC). It has been analysed by groups of shareholders, with the sum of all groups making up 100% 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 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 charts show the ownership structure of share issuers as at 31 December 2023 and in the period from 2015 to 2023 by the above-mentioned categories.

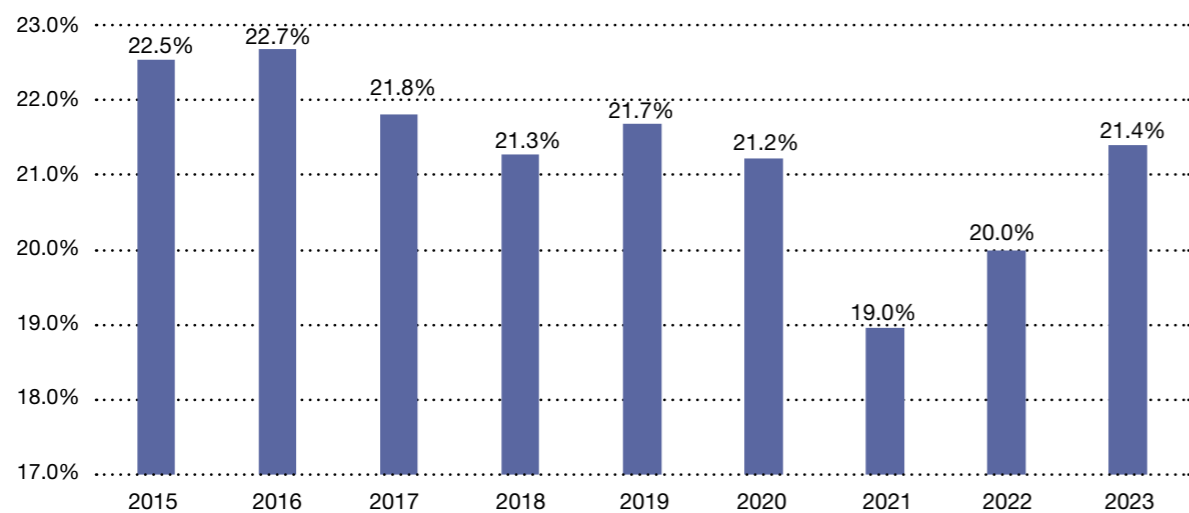
Chart 49 Share issuers' ownership structure as at 31/12/2023



Source: CDCC

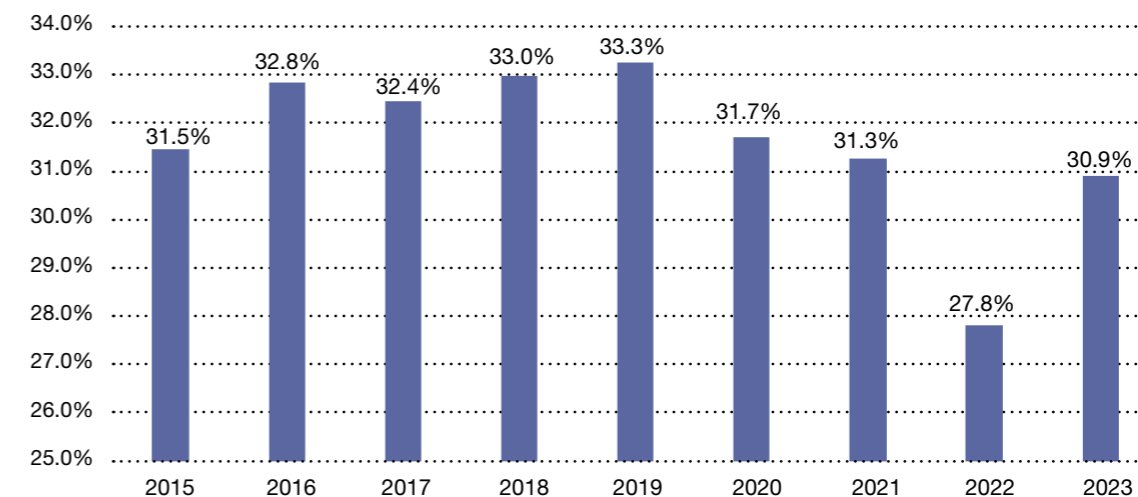
- As at 31 December 2023, the share issuers' ownership structure was dominated (as in the previous years) by financial institutions and companies with a 30.9% share, followed by domestic natural persons with a 21.4% share and funds with a 15.7% share, while own securities, management board members and custody accounts made up the smallest shares in this structure (1.1%, 2.8% and 5% respectively).
- Compared to 2015, the share of the public sector in the issuers' ownership structure showed the largest drop (4.2 p.p.; from 12.6% to 8.4%), followed by custody accounts with a 1.6 p.p. decline (from 6.6 % to 5%), supervisory board with a 1.2 p.p. fall (from 3.5% to 2.3%), financial institutions and companies with a 0.6 p.p. drop (from 31.5% to 30.9%) and management board with a 0.4 p.p. drop (from 3.2% to 2.8%). The largest share increase (of 10.5 p.p.; from 5.2% to 15.7%) was recorded by funds, followed by domestic natural persons with a 1.1 p.p. rise (from 21.4% to 22.5%), while the share of foreign persons and own securities remained almost the same (a change ranging from 0.1 to 0.2 p.p.).

Chart 50 Share of domestic natural persons in the share issuers' ownership structure from 2015 to 2023



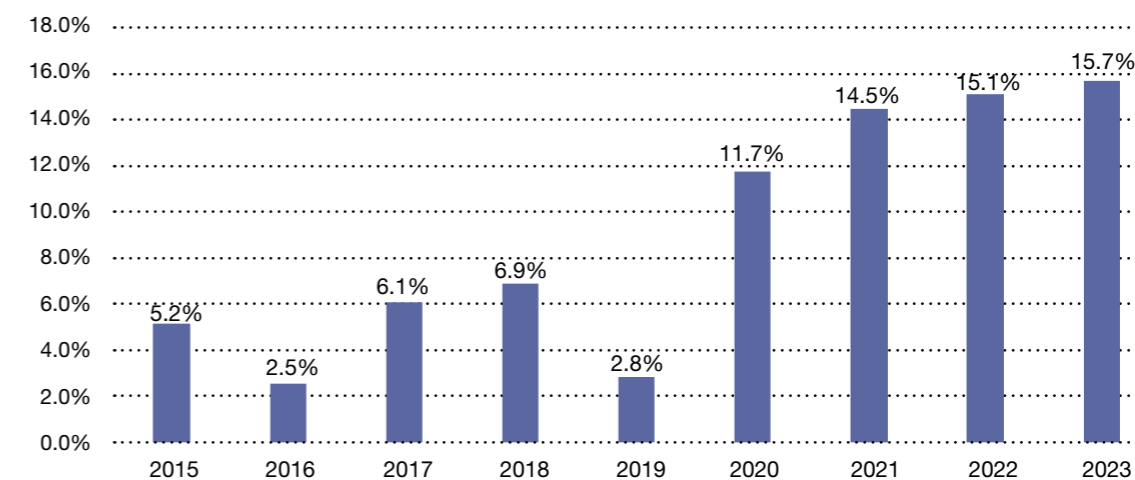
Source: CDCC

Chart 51 Share of financial institutions and companies in the share issuers' ownership structure from 2015 to 2023



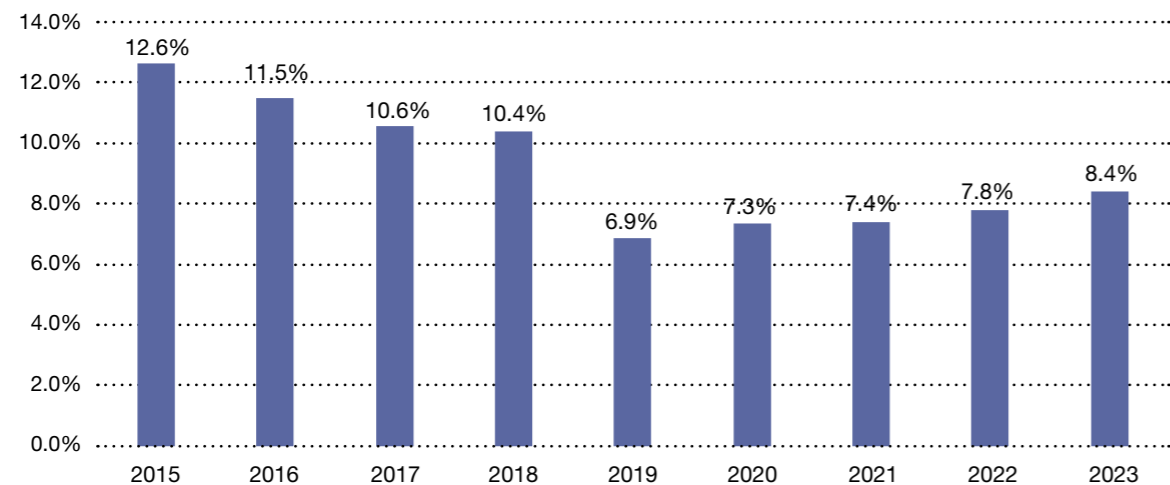
Source: CDCC

Chart 52 Share of funds in the share issuers' ownership structure from 2015 to 2023



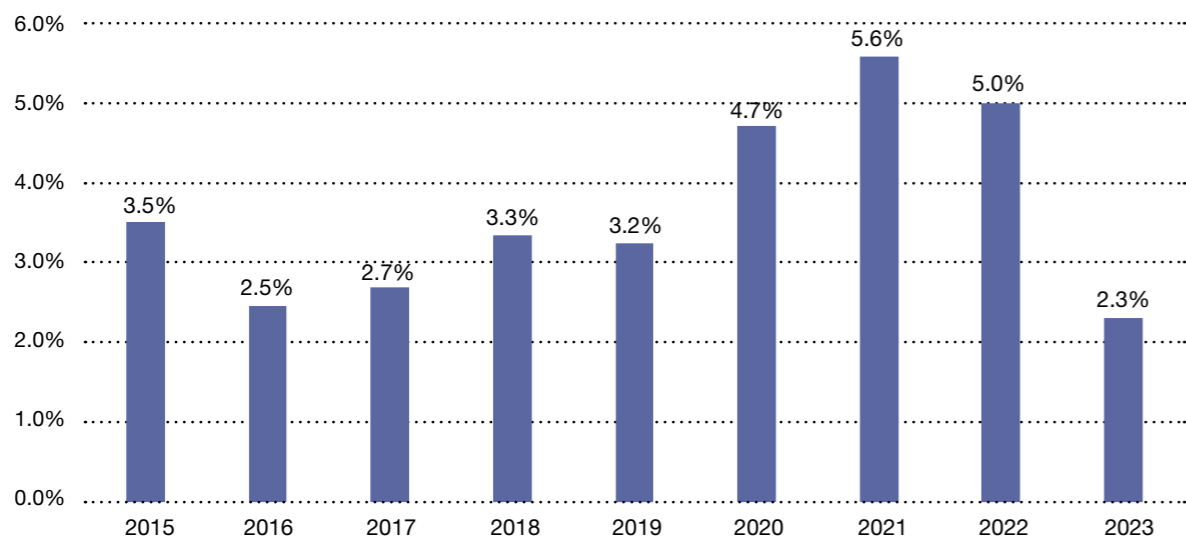
Source: CDCC

Chart 53 Share of the public sector in the share issuers' ownership structure from 2015 to 2023



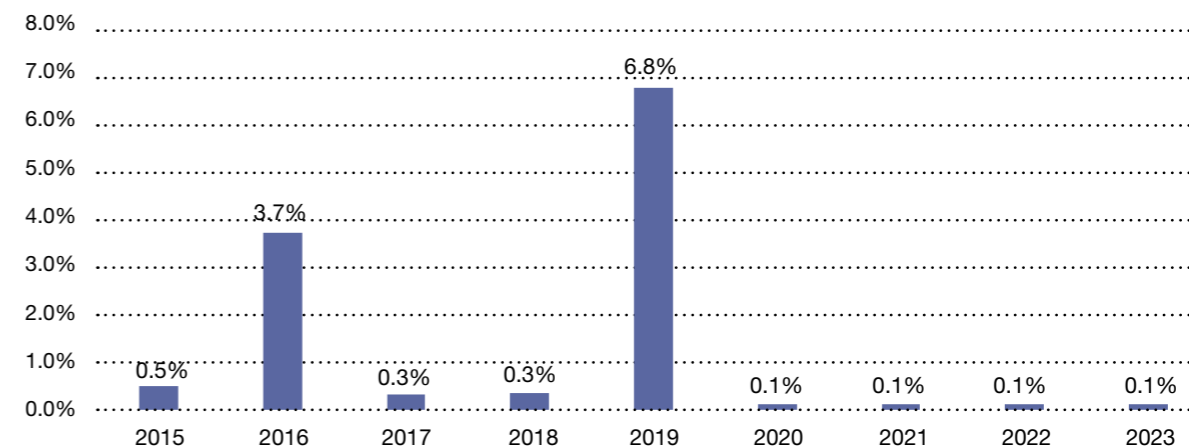
Source: CDCC

Chart 54 Share of supervisory boards in the share issuers' ownership structure from 2015 to 2023



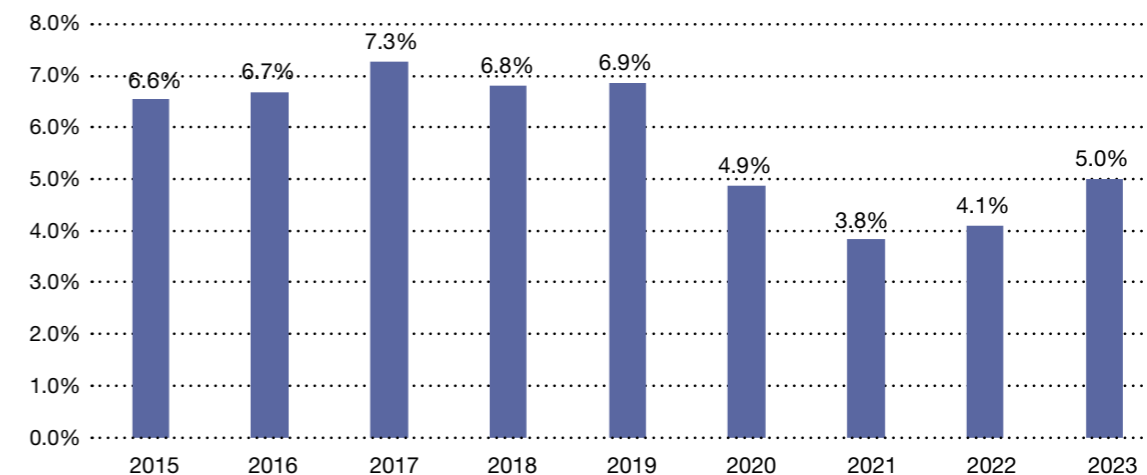
Source: CDCC

Chart 55 Share of other owners in the share issuers' ownership structure from 2015 to 2023



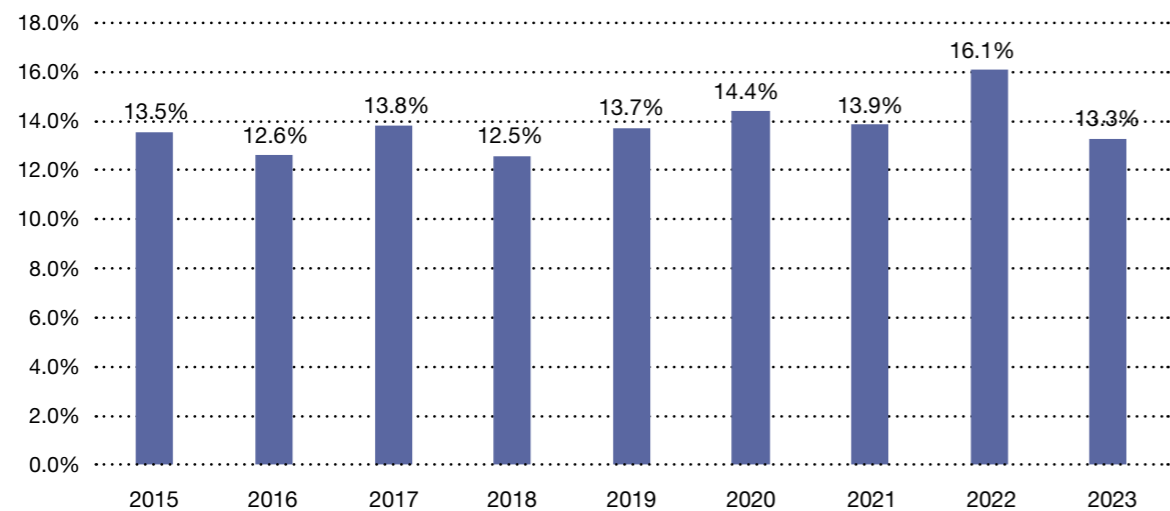
Source: CDCC

Chart 56 Share of custody accounts in the share issuers' ownership structure from 2015 to 2023



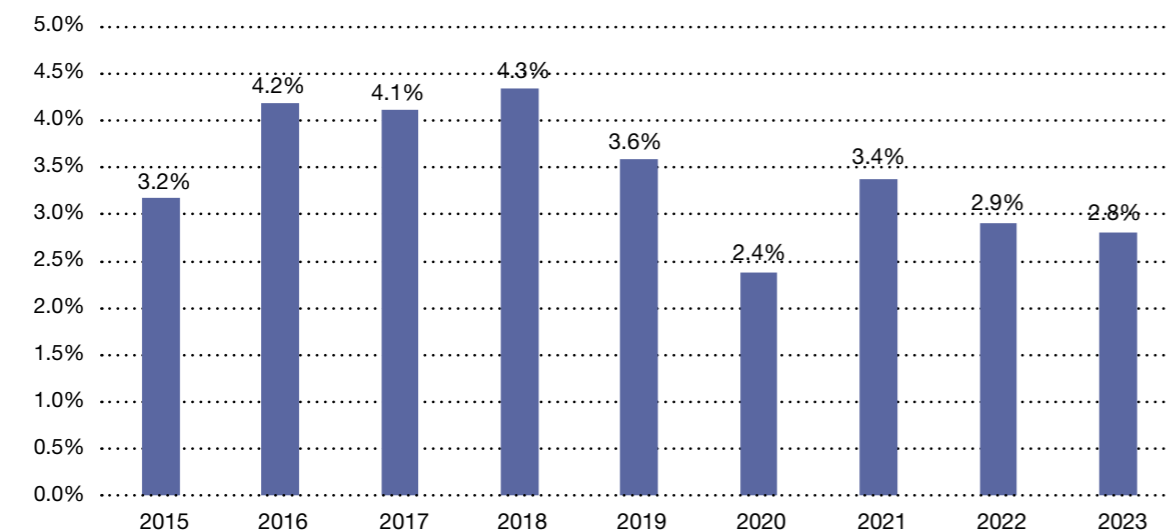
Source: CDCC

Chart 57 Share of foreign persons in the share issuers' ownership structure from 2015 to 2023



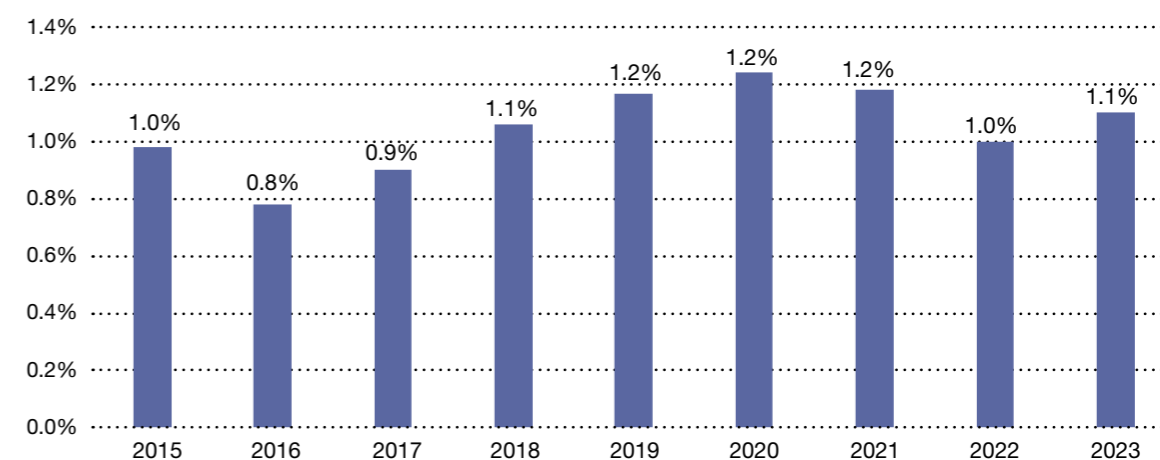
Source: CDCC

Chart 58 Share of management boards in the share issuers' ownership structure from 2015 to 2023



Source: CDCC

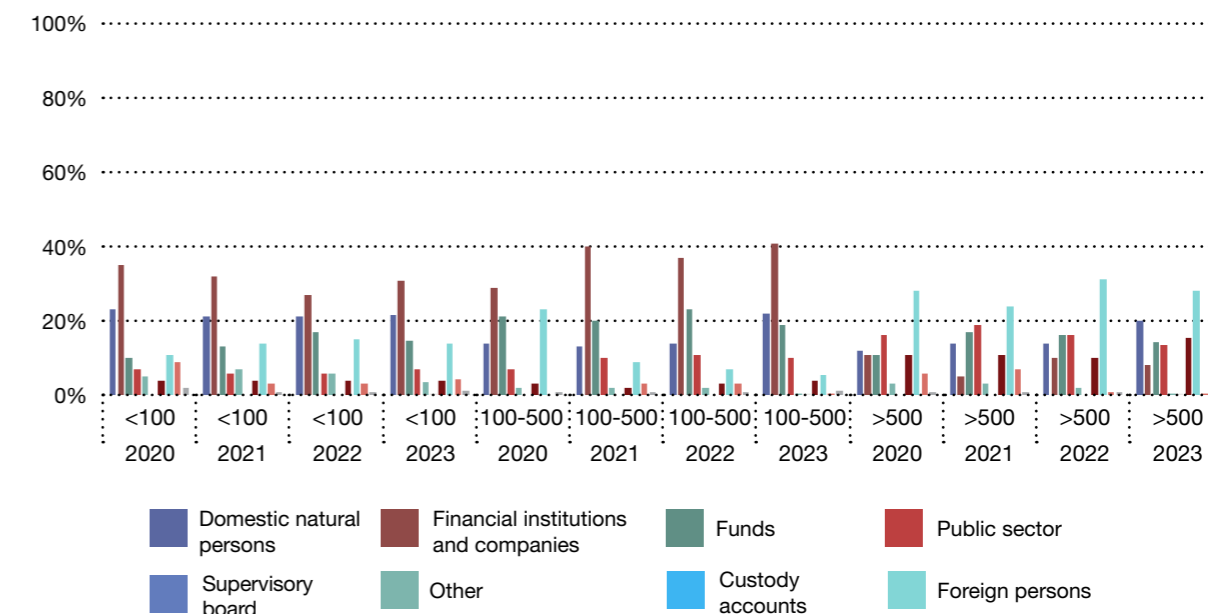
Chart 59 Share of own securities in the share issuers' ownership structure from 2015 to 2023



Source: CDCC

Chart 60 shows the share issuers' ownership structure at the end of 2020, 2021, 2022 and 2023, with respect to market capitalisation.

Chart 60 Share issuers' ownership structure in relation to market capitalisation (in EUR million) as at 31/12/2020, 31/12/2021, 31/12/2022 and 31/12/2023



Source: CDCC

Table 17 Share issuers' ownership structure in relation to market capitalisation (in EUR million) as at 31/12/2020, 31/12/2021, 31/12/2022 and 31/12/2023

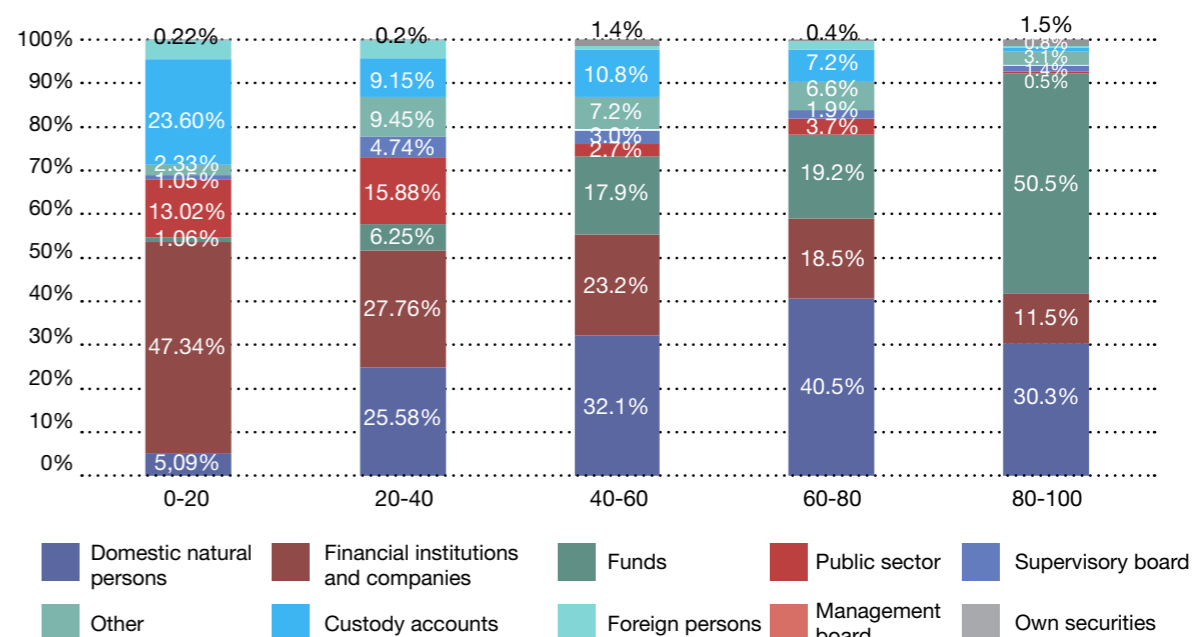
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
	<100	<100	<100	<100	100-500	100-500	100-500	100-500	>500	>500	>500	>500
Domestic natural persons	23%	21%	21%	22%	14%	13%	14%	22%	12%	14%	14%	20%
Financial institutions and companies	35%	32%	27%	31%	29%	40%	37%	41%	11%	5%	10%	8%
Funds	10%	13%	17%	15%	21%	20%	23%	19%	11%	17%	16%	14%
Public sector	7%	6%	6%	7%	7%	10%	11%	10%	16%	19%	16%	13%
Supervisory board	5%	7%	6%	4%	2%	2%	2%	0%	3%	3%	2%	0%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Custody accounts	4%	4%	4%	4%	3%	2%	3%	4%	11%	11%	10%	15%
Foreign persons	11%	14%	15%	14%	23%	9%	7%	5%	28%	24%	31%	28%
Management board	9%	3%	3%	4%	0%	3%	3%	0%	6%	7%	1%	0%
Own securities	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Source: CDCC

- As at 31 December 2023, the ownership structure of share issuers with a market capitalisation larger than EUR 500m changed compared to 31 December 2020, 31 December 2021 and 31 December 2022. Foreign persons still hold the largest share in the ownership structure (28%), however, unlike in the previous years when they were followed by funds and the public sector (16%), they are now followed by domestic natural persons with an increase of 8 percentage points (from 12% to 20%), custody accounts with an increase of 4 percentage points (from 11% to 15%) and by funds, with an increase of 3 percentage points (from 11% to 14%), while the share of public sector decreased by 3 percentage points (from 16% to 13%). The supervisory board, the management board, own securities and other still made up the smallest share, as in the previous years (from 0% to 2%).
- As at 31 December 2023, the ownership structure of share issuers with a market capitalisation between EUR 100m and 500m was dominated (just as in the previous years, but with a significant increase relative to 2020) by financial institutions and companies and funds (from 29% to 41%), followed by domestic natural persons (from 14% to 22%) and the public sector (from 7% to 10%), whereas a smaller share was accounted for by own securities, the supervisory board, the management board, custody accounts, foreign persons and other (from 0% to 7%).
- As in the previous years, the largest share (with a slight decrease of 4%) in the ownership structure of issuers with a market capitalisation of up to EUR 100m was accounted for by financial institutions and companies (31%) and domestic natural persons (22%), followed by funds (15%) and foreign persons (14%), which recorded an increase relative to 2015. The smallest share was made up by own securities, the management board, custody accounts, the public sector, the supervisory board and other (from 0% to 7%); this share did not change significantly compared to 31 December 2020, 31 December 2021 and 31 December 2022.

The following chart and table show the share issuers' ownership structure on the last day of 2020, 2021, 2022 and 2023, in relation to free float.

Chart 61 Share issuers' ownership structure in relation to free float as at 31/12/2023



Source: CDCC

- The ownership structure of share issuers in relation to free float is dominated by domestic natural persons and financial institutions and companies, followed by funds and foreign persons.
- As at 31 December 2023, the ownership structure of share issuers with a free float of up to 20% was dominated by financial institutions and companies (a 47% share), followed by foreign persons with a 24% share). Domestic natural persons dominated the ownership structure of share issuers with a free float ranging from 20% to 40% (a 26% share), from 40% to 60% (a 32% share) and from 60% to 80% (a 41% share), whereas funds dominated the ownership structure of share issuers with a free float ranging between 80% and 100% (a 51% share). The smallest share was accounted for by own securities, management board members and other (a share ranging from 0% to 7%).

Table 18 Share issuers' ownership structure in relation to free float as at 31/12/2020, 31/12/2021, 31/12/2022 and 31/12/2023

	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
	0-20	0-20	0-20	0-20	20-40	20-40	20-40	20-40	40-60	40-60	40-60	40-60	60-80	60-80	60-80	60-80	80-100	80-100	80-100	80-100
Domestic natural persons	7%	6%	5%	5%	22%	22%	23%	26%	29%	25%	30%	32%	40%	38%	39%	41%	35%	30%	23%	30%
Financial institutions and companies	51%	49%	44%	47%	29%	24%	20%	28%	21%	22%	20%	23%	15%	16%	13%	18%	10%	9%	7%	11%
Funds	1%	1%	1%	1%	9%	8%	6%	6%	15%	21%	18%	18%	23%	25%	26%	19%	42%	51%	62%	51%
Public sector	10%	10%	10%	13%	12%	15%	17%	16%	4%	2%	3%	3%	1%	1%	1%	4%	4%	2%	2%	0%
Supervisory board	4%	6%	3%	1%	4%	8%	12%	5%	7%	4%	4%	3%	6%	6%	5%	2%	2%	2%	2%	1%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	0%	0%	0%	0%	0%
Custody accounts	5%	4%	3%	2%	5%	4%	5%	9%	4%	5%	5%	7%	5%	4%	7%	7%	3%	3%	2%	3%
Foreign persons	21%	22%	28%	24%	14%	12%	13%	9%	13%	12%	12%	11%	5%	5%	5%	7%	1%	1%	1%	1%
Management board	1%	1%	1%	4%	3%	6%	4%	4%	5%	7%	6%	1%	3%	3%	3%	2%	1%	1%	0%	0%
Own securities	1%	1%	1%	0%	1%	1%	0%	0%	2%	1%	2%	1%	1%	2%	0%	0%	1%	1%	1%	2%

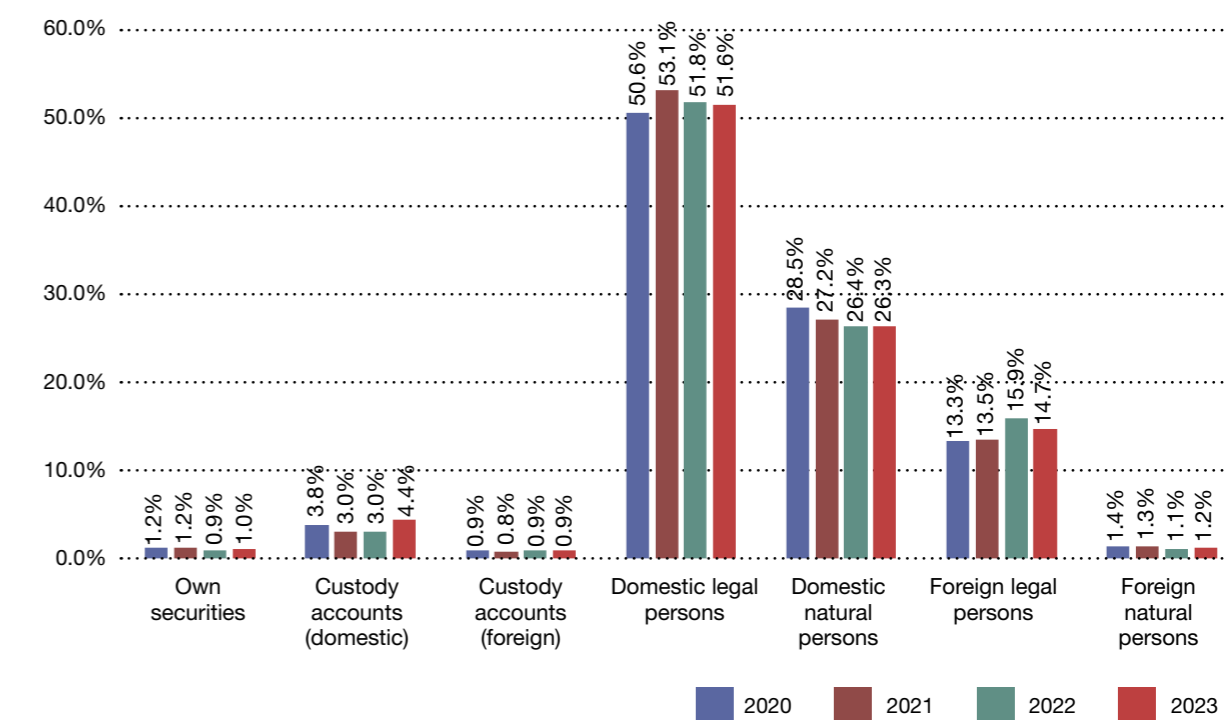
Source: CDCC

- In 2023, the ownership structure of share issuers showed some changes compared to previous years. The share of financial institutions and companies in the ownership structure of share issuers with a free float of up to 20% went from 51% to 47%. The share of funds in the ownership structure of share issuers with a free float from 80% to 100% also decreased, from 62% to 51%. At the same time, the share of foreign persons in the ownership structure of share issuers with a free float of up to 20% increased from 21% to 24%. As regards domestic natural persons, there were no significant changes between 2020 and 2022 in share issuers with a free float from 20% to 40%, where the share was stable, around 22%, while in 2023 this share rose to 26%. For issuers with a free float from 40% to 60%, the share of domestic natural persons increased from approximately 29% to 32% in 2023, while for those with a free float from 60% to 80% this share increased to around 41%.

### Origin of share issuers' capital

Chart 62 shows the ownership of shares in the period from 2020 to 2023 by capital origin according to the following categories: own securities, custody accounts (domestic), custody accounts (foreign), domestic legal persons, domestic natural persons, foreign legal persons and foreign natural persons.

Chart 62 Origin of share issuers' capital at the end of 2020, 2021, 2022 and 2023



Source: CDCC

- In the period from 2020 to 2023, the origin of capital and shares of individual capital categories in share ownership did not change significantly. As in the previous years, as at 31 December 2023, the largest proportion in the share ownership was accounted for by domestic legal persons (50.6% to 51.6%), while the smallest proportion was made up by foreign custody accounts (0.9%).
- The 2020 – 2023 period saw a slight decline in the proportion of domestic capital, namely domestic custody accounts (except in 2023), by 0.8 percentage points (from 3.8% to 3.0%), and domestic natural persons (a 2.2% fall, from 28.5% to 26.3%), and a rise in the proportion of foreign capital, namely foreign legal persons (a 1.4% increase, from 14.7% to 13.3%).

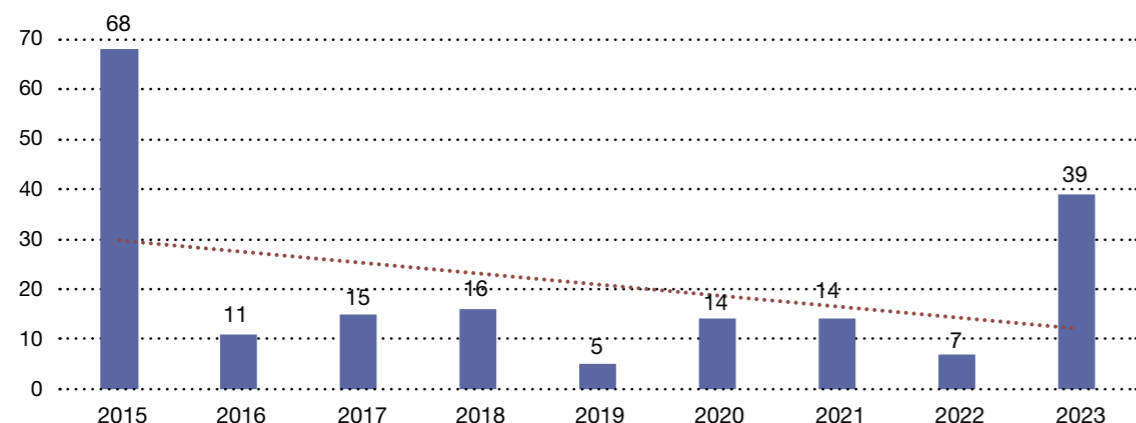
## DUTIES AND RESPONSIBILITIES OF BOARD MEMBERS

### 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 2023, 39 conflicts of interest were reported by 5 issuers whose shares are admitted on the Official Market and Regular Market, and the persons involved abstained from voting on entering related party transactions in all of these cases.
- In 2022, 7 conflicts of interest were reported by 4 issuers whose shares are admitted on the Official Market, and the persons involved abstained from voting on entering related party transactions in all of these cases.
- In 2021, there were 14 reported conflicts of interest: 8 of them were reported by 2 issuers admitted on the Official Market, 2 of them were reported by an issuer admitted on the Prime Market and 4 of them were reported by an issuer admitted on the Regular Market. All the persons involved abstained from voting on entering related party transactions.
- In 2020, 14 conflicts of interest were reported by 2 issuers whose shares are admitted on the Official Market, and the persons involved abstained from voting on entering related party transactions.
- Out of the 39 conflicts of interest reported in 2023, 4 were reported by the senior management, 12 by the management board and 23 by the supervisory board (7 conflicts of interest reported in 2022, 5 were reported by the senior management, while the management board and supervisory board reported 1 conflict of interest each).

Chart 63 Number of cases of conflicts of interest reported during the year in the period from 2015 to 2023



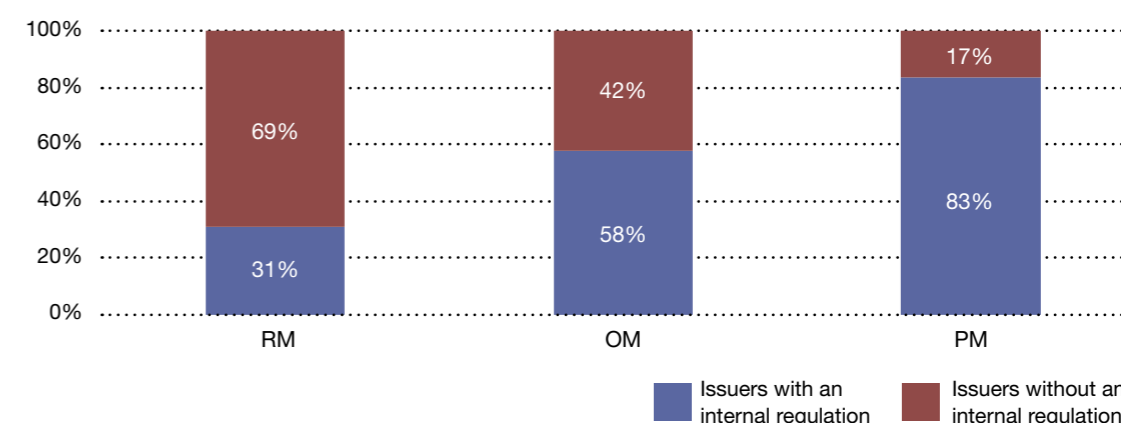
Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

## 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 2022, there was no significant difference as regards related party transactions (according to the data from the governance practices questionnaire), given that in 2023, 41% of issuers had internal rules of procedure in cases of related party transactions (40% of them in 2022), meaning that the majority of issuers (59%) still did not have internal rules of procedure in cases of related party transactions (60% in 2022).

Chart 64 Share issuers that reported having/not having an internal regulation for cases of related party transactions in 2023 by regulated market segments



Source: Governance practices questionnaire 2023

Table 19 sets out the average value of reported transactions concluded by the issuer in the period from 2015 to 2023 with the following stakeholders: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

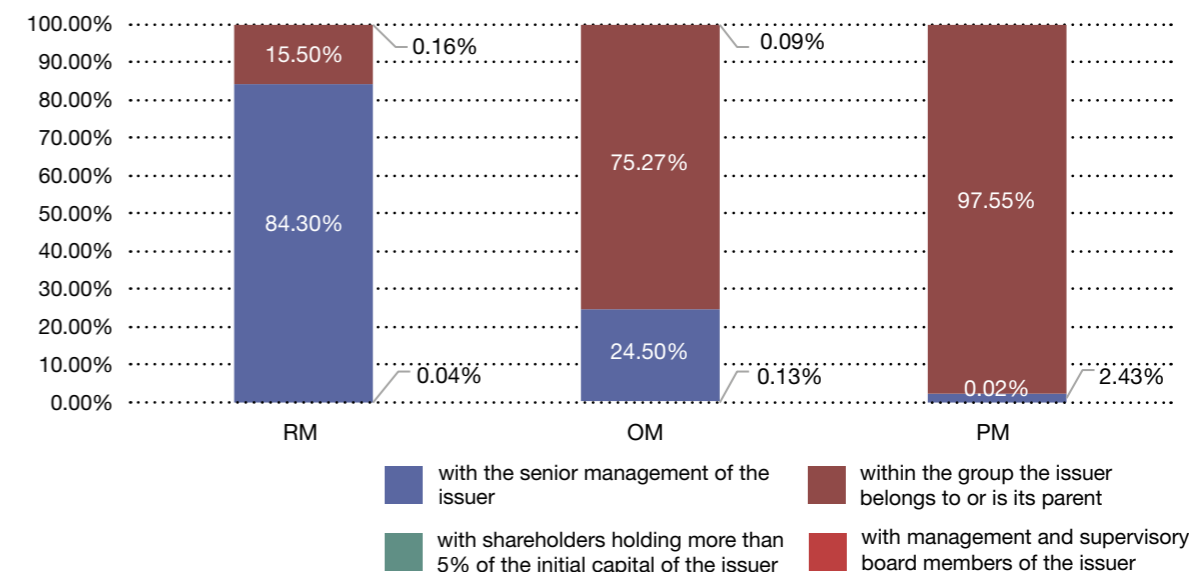
Table 19 Average value of reported related party transactions from 2015 to 2023

		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
2023	Number of issuers having reported the transaction	33	17	9	45
	Average transaction value per issuer	63,908,026	300,906	694,703	32,713,450
2022	Number of issuers having reported the transaction	34	18	10	46
	Average transaction value per issuer	47,840,196	300,184	668,130	62,387,482
2021	Number of issuers having reported the transaction	39	18	10	49
	Average transaction value per issuer	33,908,284	259,887	989,957	42,681,991
2020	Number of issuers having reported the transaction	38	22	13	46
	Average transaction value per issuer	26,133,415	371,151	1,244,512	36,809,514
2019	Number of issuers having reported the transaction	38	21	10	49
	Transaction value	30,703,956	431,451	906,840	42,459,888
2018	Number of issuers having reported the transaction	40	20	10	45
	Average transaction value per issuer	24,543,658	635,164	652,179	42,868,701
2017	Number of issuers having reported the transaction	34	19	8	45
	Average transaction value per issuer	21,394,758	651,797	1,174,796	31,199,719
2016	Number of issuers having reported the transaction	36	22	12	46
	Average transaction value per issuer	33,496,825	1,687,670	947,629	48,200,046
2015	Number of issuers having reported the transaction	37	19	9	50
	Average transaction value per issuer	36,042,364	1,346,344	746,340	54,238,055

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- The average gross value of transactions with shareholders holding more than 5% of the initial capital of the issuer, with management and supervisory board members of the issuer and with senior management was higher than in 2022, while the average gross value of related party transactions within the group the issuer belongs to or is its parent was lower compared to 2022.

Chart 65 Share of individual types of related party transactions in the total amount of related party transactions per regulated market segment in 2023



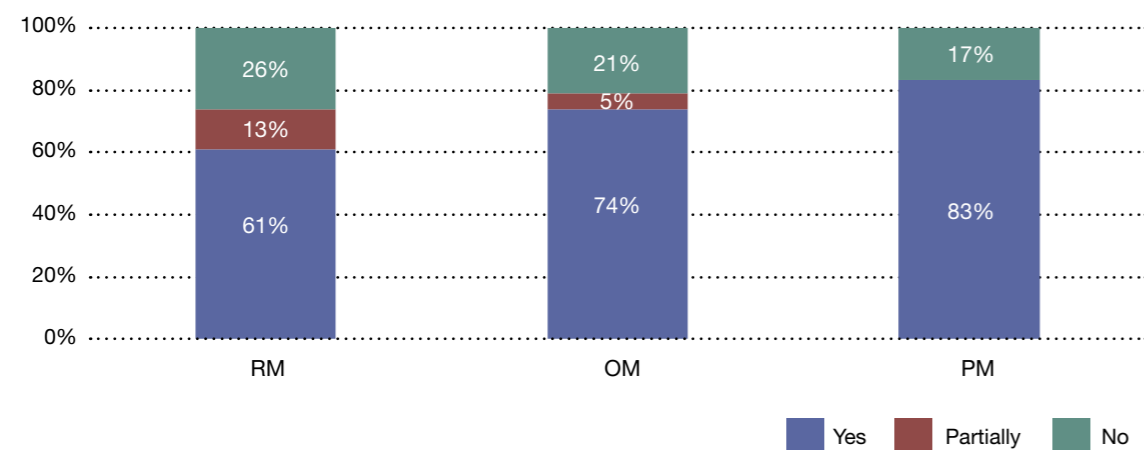
Source: Governance practices questionnaire 2023

- Issuers' transactions within the group the issuer belongs to or is its parent account for the largest share of related party transactions in each market segment (15.50% on the Regular Market, 75.27% on the Official Market and 97.55% on the Prime Market). They are followed by transactions with shareholders holding more than 5% of the initial capital of the issuer. Transactions with the senior management and transactions with management and supervisory board members of the issuer account for less than 0.4% of total transactions by market.

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

- Supervisory boards of 66% 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 (63% in 2022).

Chart 66 Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2023



Source: 2023 Compliance questionnaire

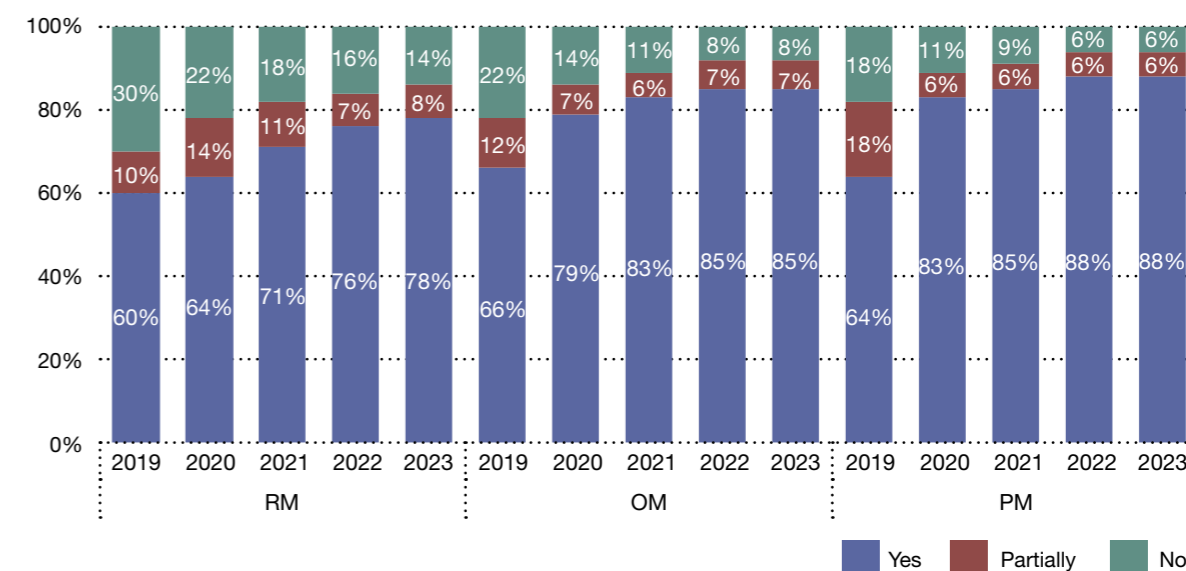
- A total of 61% of issuers published their codes of conduct for management and supervisory board members on their websites (56% in 2022).
- A total of 100% of issuers whose shares are admitted to trading on the Prime Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge (100% of issuers in 2022, as well).
- A total of 68% 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, employees and other persons acting on behalf of the company on their websites, available free of charge.
- A total of 54% 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 2022, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Regular Market (in 2022, 57% of issuers whose shares are admitted to trading on the Regular Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company available on their websites free of charge).

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.

### The issuers' compliance with the Code in the area relating to leadership

The following chart shows the issuers' compliance with the section *Leadership* in 2023 in comparison with 2019, 2020, 2021 and 2022.

Chart 67 Share issuers' compliance with the section "Leadership" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, 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 88%.
- The issuers whose shares are admitted to trading on the Official Market and Regular Market recorded compliance reaching 85% and 78% respectively.

In 2023, the issuers whose shares are admitted to trading on the Regular Market showed greater compliance with the provisions of the Code relating to the section "Leadership" in comparison with previous four years. As regards the Official Market and Prime Market, there has been a downward trend in the compliance of share issuers in the past four years.

## 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 a 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.

Pursuant to the Code, every five years the supervisory board should 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.

In addition, 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 its 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 83 issuers whose shares were admitted to trading on the regulated market as at 31 December 2023, all of them submitted the governance practices questionnaire. 2 of them reported having a one-tier governance system, while the remaining 81 issuers reported having a two-tier governance system.
- Out of 88 issuers whose shares were admitted to trading on the regulated market as at 31 December 2022, 87 issuers submitted the governance practices questionnaire. 2 of them reported having a one-tier governance system, while the remaining 85 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.

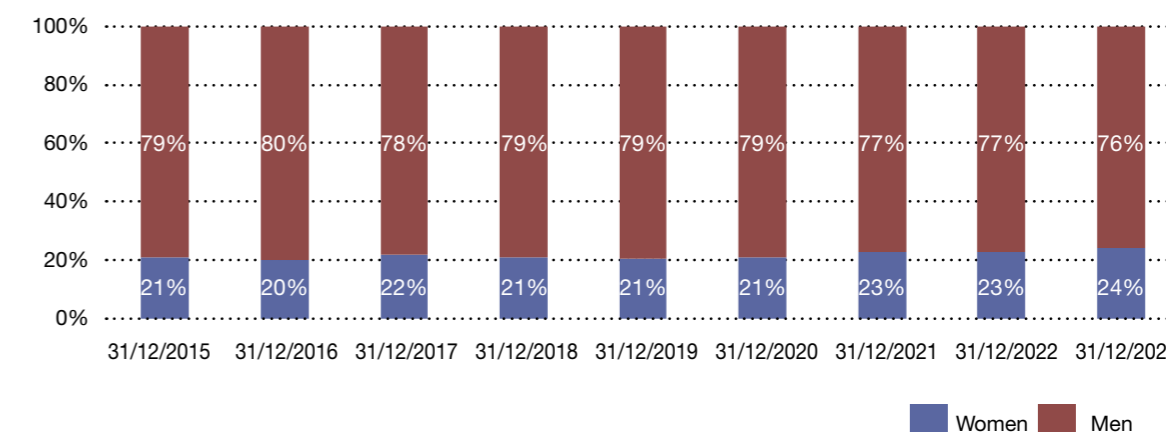
The following analysis covers all share issuers admitted to the regulated market of the ZSE as at 31 December 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022 and 2023 according to the data from the court register.

### Number of members and composition of the supervisory board

- At the end of 2023, supervisory boards of the share issuers consisted of 5 members on average (as in 2022).
- At end-2023, the proportion of women on supervisory boards (108 women) was about 3 times higher than the proportion of women on management boards (36 women). At end-2022, the proportion of women on supervisory boards was also about 3 times higher than the proportion of women on management boards.

The following chart shows the proportion of women and men on supervisory boards of share issuers in the period from 2015 to 2023.

Chart 68 Share issuers' supervisory board gender structure in the period from 2015 to 2023

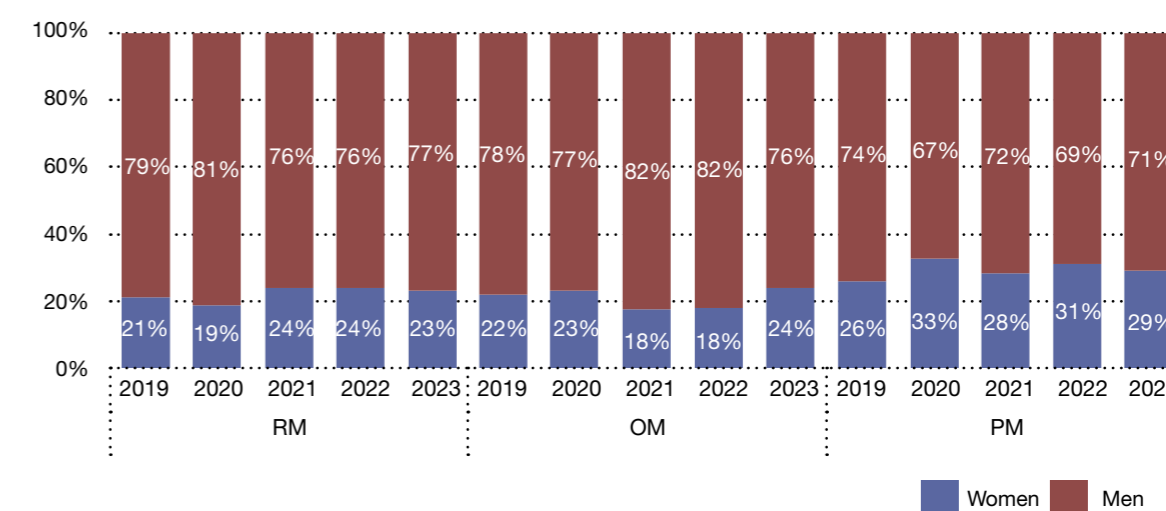


Source: court register<sup>9</sup>

- At the end of 2023, the share of women on supervisory boards of issuers increased by one percentage point (24%) compared to the previous year.
- Broken down by segments of the regulated market in 2023:
  - the share of women on supervisory boards of the issuers on the Regular Market was 23%;
  - the share of women on supervisory boards of the issuers on the Official Market was 24%;
  - the share of women on supervisory boards of the issuers on the Prime Market was 29%.

Chart 59 shows the representation of supervisory boards' female members in relation to the total number of the issuers' supervisory board members in 2023 by segments of the regulated market.

Chart 69 Share issuers' supervisory board gender structure by segments of the regulated market as at 31/12/2019, 31/12/2020, 31/12/2021, 31/12/2022 and 31/12/2023

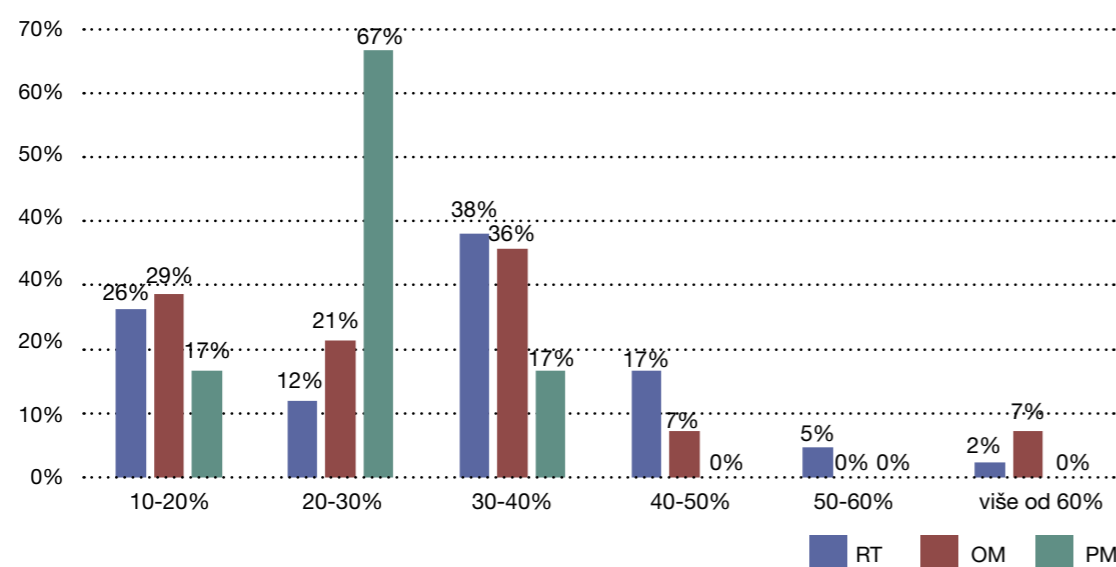


Source: court register

<sup>9</sup> 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.

- The chart shows a change in the shares relative to the previous year on the Prime Market, where the proportion of women decreased from 31% to 29%, while the proportion of men increased from 69% to 71%. The proportion of women on the Official Market increased from 18% to 24%. Regarding the Regular Market, there is a slight decline in the share of women in the overall composition from 24% to 23%.
- The average proportion of women on supervisory boards in the 2019 – 2023 period amounted to 22.6%.
- The governance practices questionnaire showed that 10.20% of female members had a PhD (11.40% in 2022).
- As at 31 December 2023, the majority of supervisory board members (40.45%) were over 56 years old (42% in 2022); 34.77% of them were between 46 and 55 years old (34% in 2022); 20.45% of them were between 36 and 45 years old (19% in 2022); while only 4.32% of supervisory board members were younger than 35 years of age (5% in 2022).
- As at 31 December 2023, the majority of supervisory board members (93%) had a university degree (71% in 2022), while 13% of supervisory board members had a PhD (12% in 2022).
- As at 31 December 2023, 19% of supervisory board members were foreign citizens (18% at the end of 2022).
- Supervisory boards of 65% of share issuers evaluated their effectiveness in the previous 12 months (59% of issuers in 2022), of which in 96% of share issuers the evaluation was led by the chair or deputy chair of the supervisory board (in 2022, this share reached 92%).
- At the end of 2023, the average duration of management board membership was 6 years (same as at the end of 2022).
- A total of 50 issuers (60%) had employee/trade union representatives in supervisory boards in 2023 (49 issuers, or 56%, in 2022).
- Supervisory boards of 69 issuers, i.e., 83%, set a target percentage of female supervisory board members (69 issuers, i.e., 78% in 2022).

Chart 70 Share issuers that set a target percentage of supervisory board female members in 2023



Source: Governance practices questionnaire 2023

Broken down by segments of the regulated market, the target percentage of female supervisory board members was set by 62 issuers (75%), i.e.:

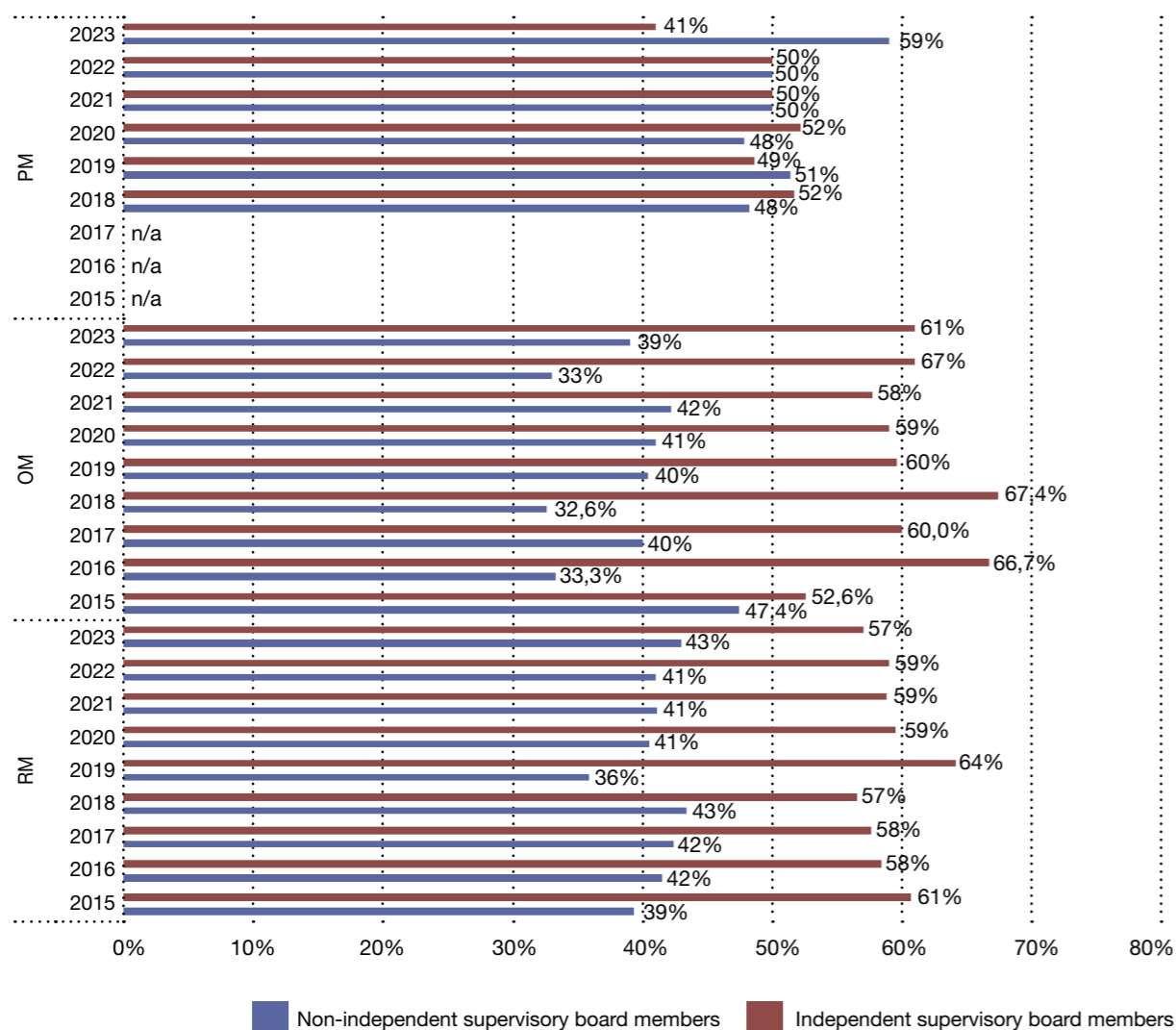
- 6 issuers on the Prime Market;
  - 14 issuers on the Official Market;
  - 42 issuers on the Regular Market.
- Out of the total number the issuers on the Prime Market that set a target percentage of female supervisory board members in 2023, 66% of them set a target percentage ranging between 20% and 30%, 17% set a target percentage ranging between 10% and 20%, and the remaining 17% set a target percentage between 30% and 40%.
  - In 2023, the issuers whose shares are admitted to trading on the Official Market, and that set a target percentage of female supervisory board members, distributed the percentages as follows:
    - 36% of the issuers set the target percentage between 30% and 40%;
    - 29% between 10% and 20%;
    - 21% between 20% and 30%;
    - 7% above 60%;
    - 7% between 40% and 50%;
    - no issuers set the target percentage between 50% and 60%.
  - In 2023, the issuers whose shares are admitted to trading on the Regular Market, and that set a target percentage of female supervisory board members, distributed the percentages as follows:
    - 38% of the issuers set the target percentage between 30% and 40%;
    - 26% between 10% and 20%;
    - 17% between 40% and 50%;
    - 12% between 20% and 30%;
    - 5% between 50% and 60%;
    - 2% above 60%.

### Independence of supervisory board members

- According to the data from the governance practices questionnaire, at end-2023 there were 44% of independent supervisory board members (41% of independent members at end-2022).
- In 2023, 51% of issuers had an independent chair or deputy chair of the supervisory board (in 2022, 47%).
- At the end of 2023, supervisory boards of each of the issuers had 2 independent members on average (same as in 2022).

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 71 Share of independent supervisory board members in the total number of supervisory board members by market segment, from 2019 to 2023



Source: Governance practices questionnaire for 2019, 2020, 2021, 2022 and 2023

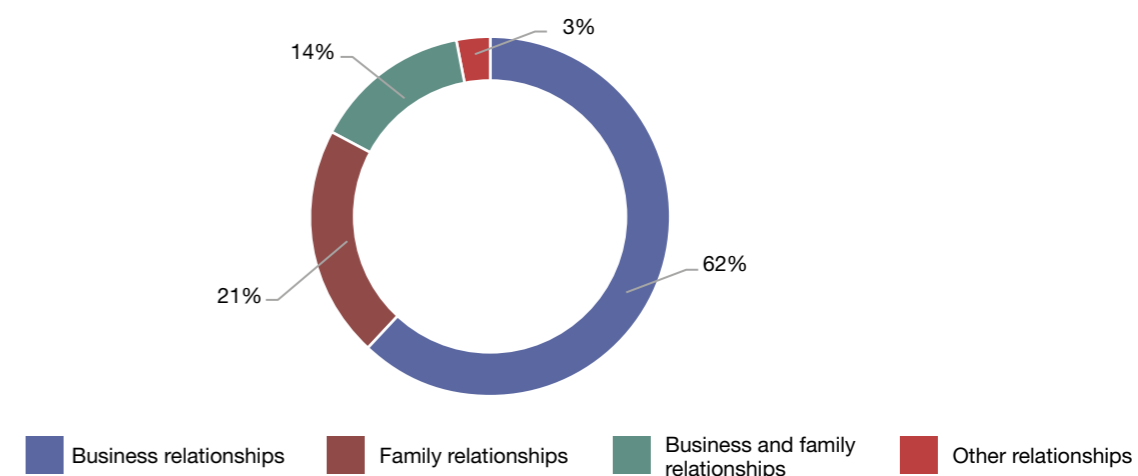
The average of independent supervisory board members in all segments of the regulated market from 2015 to 2023 amounted to 43%, while the average of supervisory board members who are not independent stood at 57%.

- 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 59% 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 39% were independent. Out of the total number of supervisory board members of issuers whose shares are admitted to trading on the Regular Market 43% were independent.
- Analysing each segment of the regulated market of the ZSE, it is evident that on 31 December 2023, 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 29 supervisory board members of 21 issuers were related to management board members in 2023 (39 supervisory board members and 23 issuers in 2022).
- The most common type of relationship was business relationship (62%), followed by family relationship (21%), business and family relationship (14%) and other types of relationships (3%) (in 2022, business relationships accounted for 54%, family relationships 28%, business and family relationships 15%, and other types of relationships 3%).

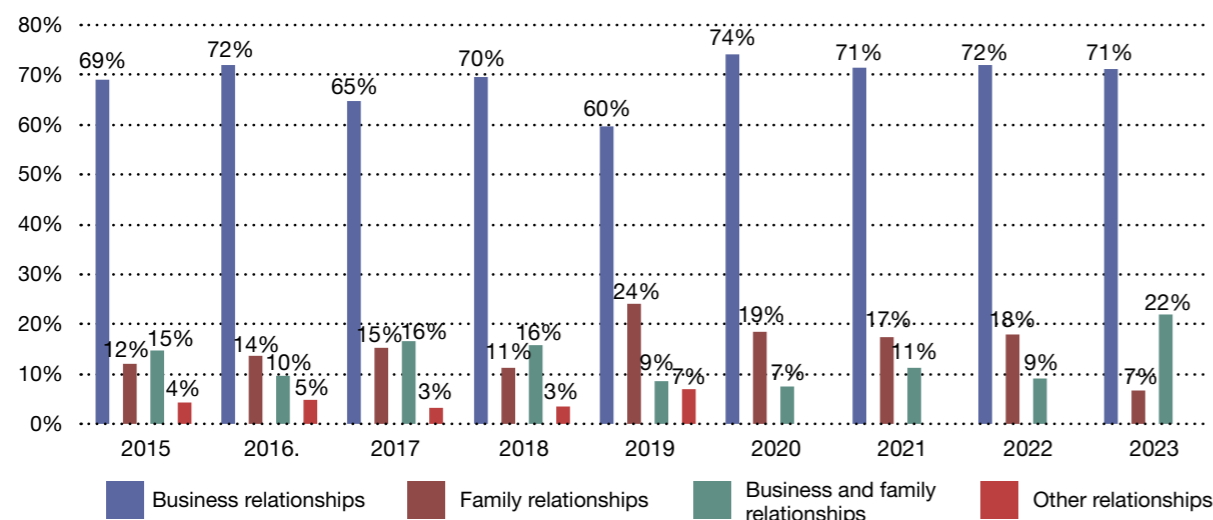
Chart 72 Relationship between the issuers' supervisory board members and management board members in 2023



Source: Governance practices questionnaire 2023

- In 2023, 59 supervisory board members of 22 issuers were related to other supervisory board members (76 supervisory board members of 26 issuers in 2022).
- The majority of them were related by business relationships (71%), followed by business and family relationships (22%) and family relationships (7%) (in 2022, business relationships accounted for 72%, family relationships 18%, and business and family relationships 9%).

Chart 73 Relationship between supervisory board members and other supervisory board members from 2015 to 2023



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

### Supervisory board meetings

- In 2023, the number of supervisory board meetings ranged between 1 and 79, with the average number of the issuers' supervisory board meetings held during the year amounting to 10 (9 meetings in 2022). All supervisory boards held at least 1 meeting in 2023 (during 2022, they held at least 2 meetings).
- Meetings of supervisory boards of 74 issuers (94%) were held at least once in three months (79 issuers (91%) in 2022).
- A total of 59 issuers (71%) reported having a schedule of meetings of supervisory board for 2023 (60 issuers, i.e., 69%, in 2022).
- A total of 74 issuers (89%) reported having an internal regulation on supervisory board activities (76 issuers, i.e., 87% in 2022); 14 issuers (17%) reported changes in the regulation during the year (12 issuers (16%) reported this in 2022).

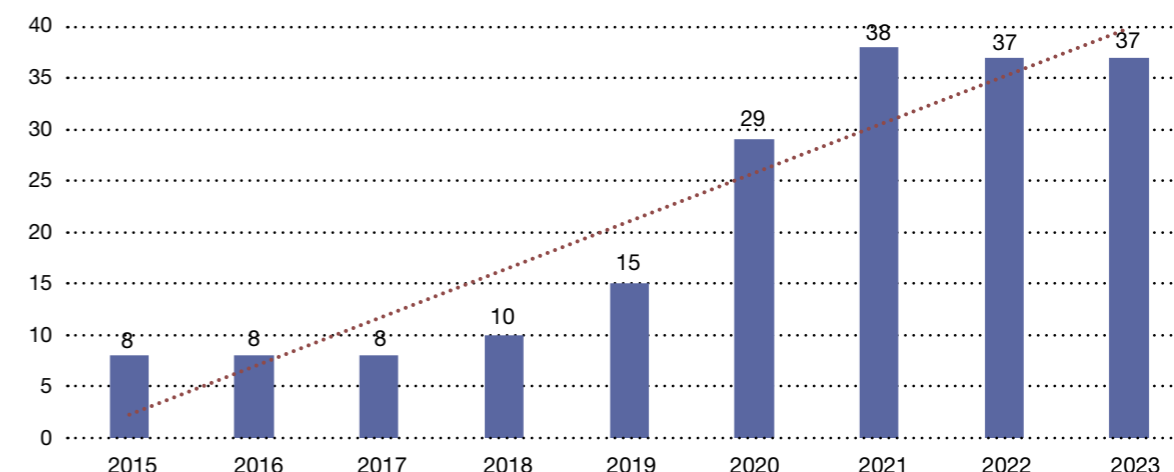
### Supervisory board committees

Pursuant to the Code, the supervisory board should establish at least an audit committee, a nomination committee and a remuneration committee. The supervisory committee 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. 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 2023, a total of 37 issuers (45%) reported having established all the three supervisory board committees: nomination committee, remuneration committee and audit committee (37 issuers or 43% in 2022).
- Broken down by segments of the regulated market, all the three supervisory board committees were established by:
  - 6 issuers (out of 6) on the Prime Market;
  - 9 issuers (out of 18) on the Official Market; and
  - 22 issuers (out of 59) 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 2023.

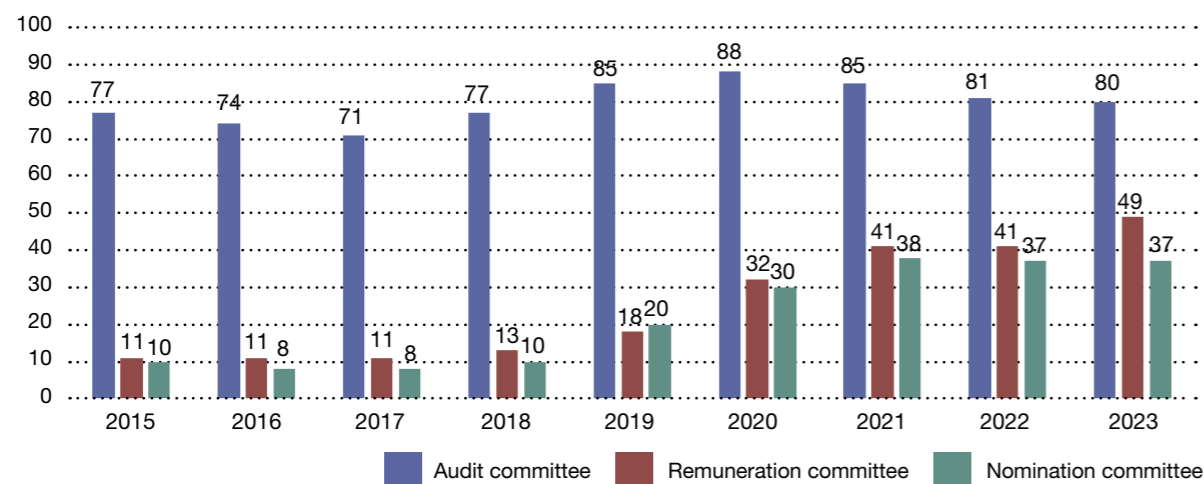
Chart 74 Number of share issuers with all the three supervisory board committees in place in the 2015 – 2023 period



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- Broken down by individual supervisory board committees, 80 issuers (96%) reported having established an audit committee, 49 issuers (47%) reported having established a remuneration committee, while 37 issuers (45%) reported having established a nomination committee (in 2022, 81 issuers (93%) had an audit committee, 41 issuers (47%) had a remuneration committee, while 37 issuers (43%) had a nomination committee).

Chart 75 Number of issuers with supervisory board committees in place in the 2015-2023 period



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

Broken down by individual supervisory board committees:

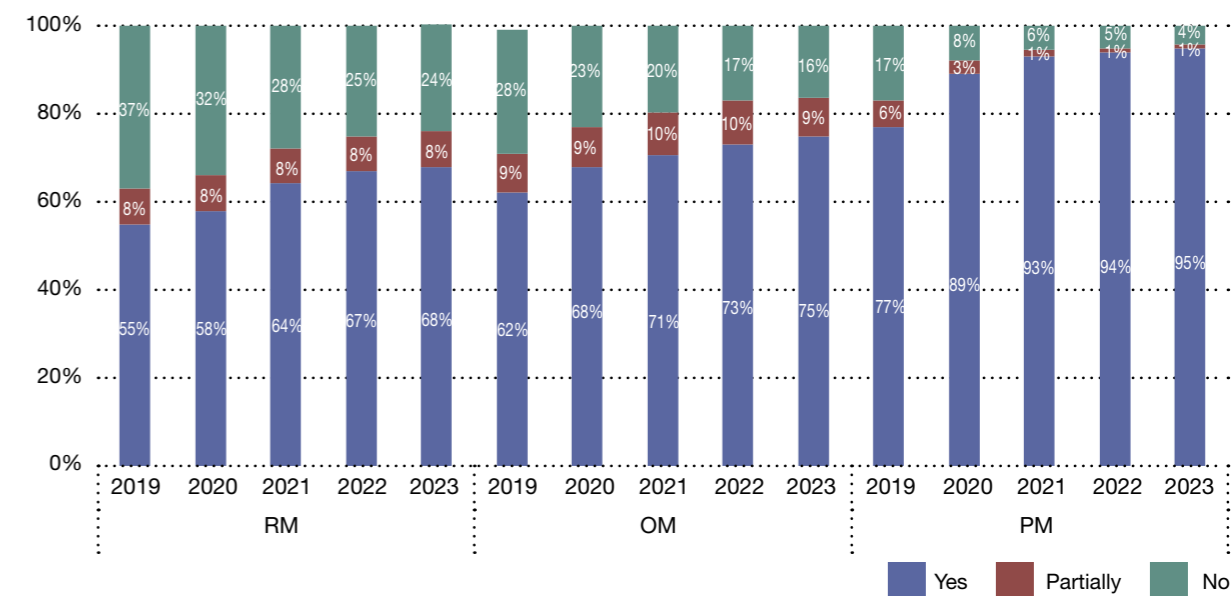
- 104 supervisory board members (24%) were audit committee members;
- 99 supervisory board members (23%) were remuneration committee members;
- 100 supervisory board members (23%) were nomination committee members;
- 137 supervisory board members (30%) were not members of any of the basic committees pursuant to the Code.
- In 2023, 12% of share issuers had an additional committee in place (17% in 2022).
- The three supervisory board committees had 3 members each on average (as in 2022). One member of each of the committees was independent on average (as in 2022).
- 59 issuers out of 80 (74%) that had an audit committee in place also reported having established its internal working procedures; all of them reported the preparation of reports on the work of the audit committee, with 26 (44%) of the reports being available to the public (in 2022, out of 81 issuers with the audit committee in place 59 of them reported having established its internal working procedures, while 57 issuers (70%) reported the preparation of reports on the work of the audit committee, with 44% of the reports being available to the public).
- A total of 33 issuers (of 39), i.e. 85%, that had a remuneration committee in place also reported having established its internal working procedures, while 29 of them (74%) reported the preparation of reports on the work of the remuneration committee, with 69% of the reports being available to the public (in 2022, out of 41 issuers with a remuneration committee in place 32 issuers reported having established its internal working procedures, while 24 issuers (59%) reported the preparation of reports on the work of the remuneration committee, with 67% of the reports being available to the public).
- A total of 32 issuers (of 37), i.e., 86%, with the nomination committee in place also reported having established its internal working procedures (in 2022, out of 37 issuers with the nomination committee in place 31 issuers (84%) reported having established its internal working procedures).
- In 2023, audit committees held 4 meetings on average (as in 2022), remuneration committees held 3 meetings on average (as in 2022) and nomination committees held 3 meetings on average (2 meetings in 2022).

- Supervisory boards of 89% 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 (91% in 2022).
- Supervisory board committees of 89% of share issuers met as often as necessary to perform their tasks effectively and reported to the supervisory board regularly on their activities (90% in 2022, 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 2019, 2020, 2021, 2022 and 2023.

Chart 76 Share issuers' compliance with the section "Supervisory board and its committees" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- In 2023, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Supervisory board and its committees" amounting to 95% on average.
- The issuers whose shares are admitted to the Official Market reached the level of compliance with the section "Supervisory board and its committees" amounting to 75% on average.
- The issuers whose shares are admitted to the Regular Market reached the level of compliance with the section "Supervisory board and its committees" amounting to 68% on average.

The issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with section "Supervisory board and its committees" relative to the observed period.

## MANAGEMENT BOARD

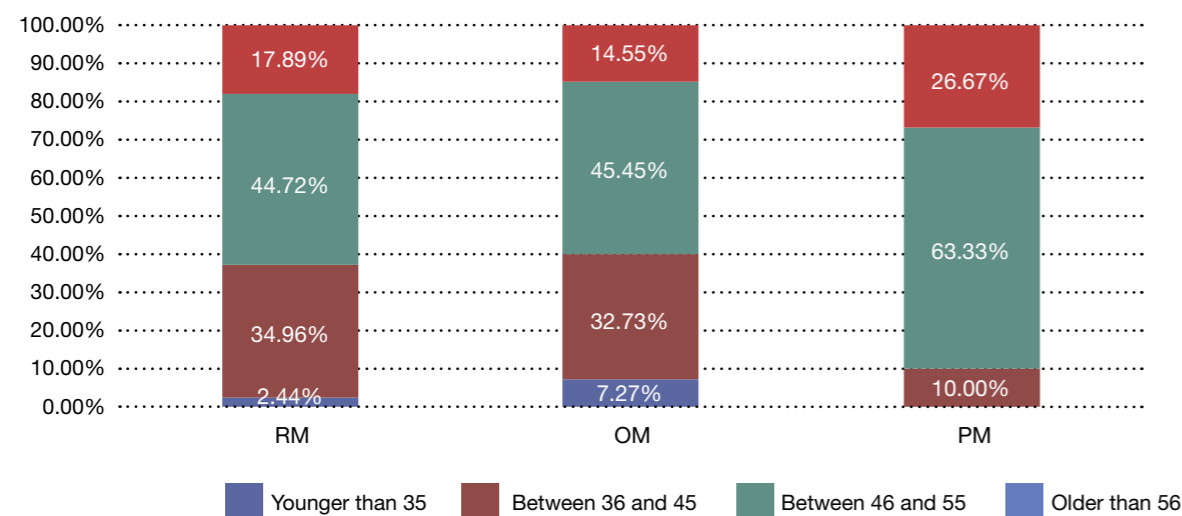
The management board has the primary responsibility for the company's operations, for meeting its targets and strategic objectives set, and for maintaining its reputation as a responsible and trustworthy company.

The following text presents the analysis of the data delivered in the 2023 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 2023, the majority of management board members (82%) had a university degree (85% in 2022), while 5% of them had a PhD (same as in 2022).
- As at 31 December 2023, 8% of management board members were foreign citizens (9% in 2022).
- As at 31 December 2023, the management board of the issuers consisted of 2 members on average (2 members in 2022, as well).
- Out of the total number of female management board members (36), one (3%) had a PhD (9% in 2022).
- According to the data from the governance practices questionnaire, as at 31 December 2023, the majority of management board members (48%) were between 46 and 55 years old (48% in 2022), 28% of them were between 36 and 45 years old (31% in 2022), 19% of them were over 56 years of age (18% in 2022), while 5% of them were younger than 35 years of age (3% in 2022).

Chart 77 Management board age structure as at 31/12/2023 by segments of the regulated market



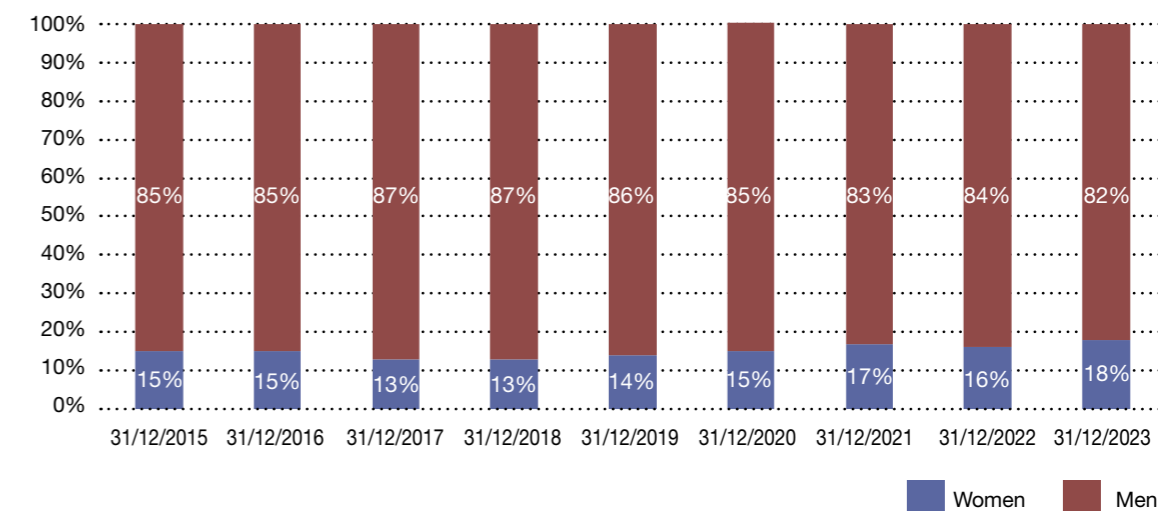
Source: Governance practices questionnaire 2023

- The majority of management board members aged from 46 to 55 sat on management boards of issuers whose shares are admitted to trading on the Prime Market

(63%), a share significantly higher compared to the Official and Regular Market, where the percentages totalled 46% and 45% respectively.

- There were no members younger than 35 on management boards of issuers whose shares are admitted to trading on the Prime Market.

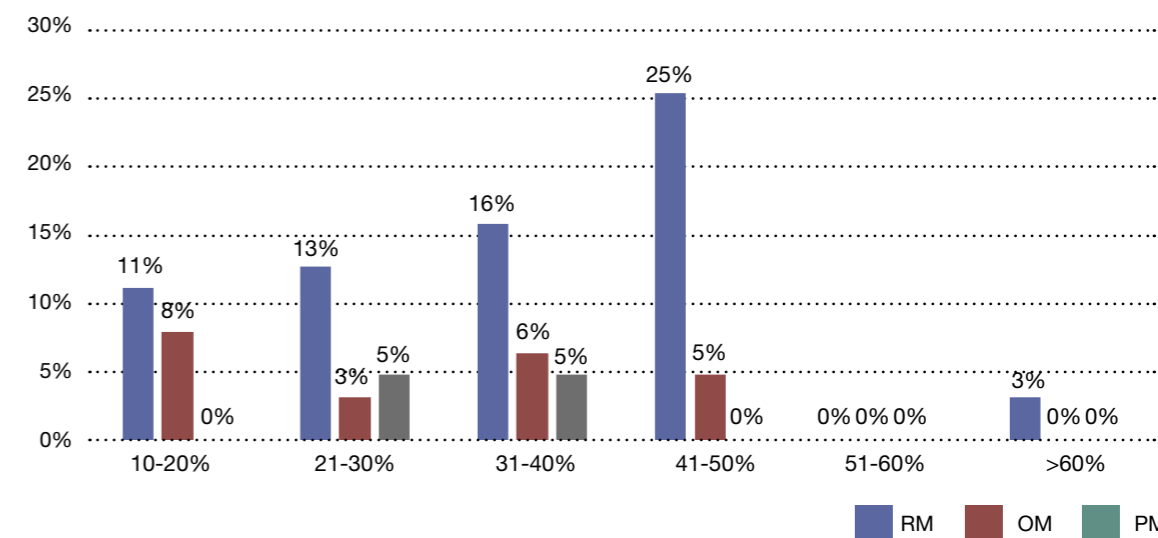
Chart 78 Share issuers' management board gender structure from 2015 to 2023



Source: court register<sup>10</sup>

- 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 2023 slightly increased relative to 2022.

Chart 79 Share issuers that set a target percentage of female management board members in 2023



Source: Governance practices questionnaire 2023

<sup>10</sup>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.

- According to the corporate governance practices questionnaire, 63 issuers set a target percentage of female management board members (75 issuers in 2022).
- The largest number of issuers (19 or 30%) set a target percentage of female management board members ranging between 41% and 50%, while a target percentage of female management board members ranging between 51% and 60% was set by the smallest number of issuers (0 or 0%).
- Broken down by individual segments of the market:
  - the largest number of issuers on the Regular Market set a target percentage of female management board members ranging between 41% and 50%; this percentage was set to range between 51% and 60% by the smallest number of these issuers;
  - the largest number of issuers on the Official Market set a target percentage of female management board members ranging between 10% and 20%; this percentage was set to range between 51% and 60% by the smallest number of these issuers;
  - 3 issuers (50%) on the Prime Market set a target percentage of female management board members ranging between 21% and 30% and between 31% and 40%; the remaining 3 issuers did not set the target.

### Meetings of the management board

- In 2023, the number of management board meetings held ranged from 0 to 195 (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 22 (in 2022, the number of management board meetings held ranged from 1 to 244 (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 23).
- In 2023, 37 issuers (45%) reported having a schedule of meetings of the management board (36 issuers or 41% in 2022).
- A total of 62 issuers (75% of all issuers) reported having an internal regulation on management board activities (rules of procedure of the management board), while 17 issuers (27%) reported changes in this regulation having occurred during the year (in 2022, 65 issuers (around 75%) reported having an internal regulation on management board activities, while 16 of them (24%) 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 2023, the average duration of management board membership was 5 years (in 2022 it was 5 years, as well).
- As at 31 December 2023, the average number of terms of office of management board members was 2.23 (2.15 in 2022). In 2023, the largest number of consecutive terms of office (ten) was reported by 2 management board members (in 2022, the largest number of consecutive terms of office (ten) was reported by 3 management board members).
- In 2023, a total of 15 issuers reported new appointments (first term of office - 24 newly appointed members). (In 2022, 57 issuers reported a total of 105 newly appointed management board members).

- Out of the 24 newly appointed management board members in 2023, 7 (29%) were women (in 2022, out of the 35 newly appointed management board members, 14 (40%) were women).

### Resignations of management board members

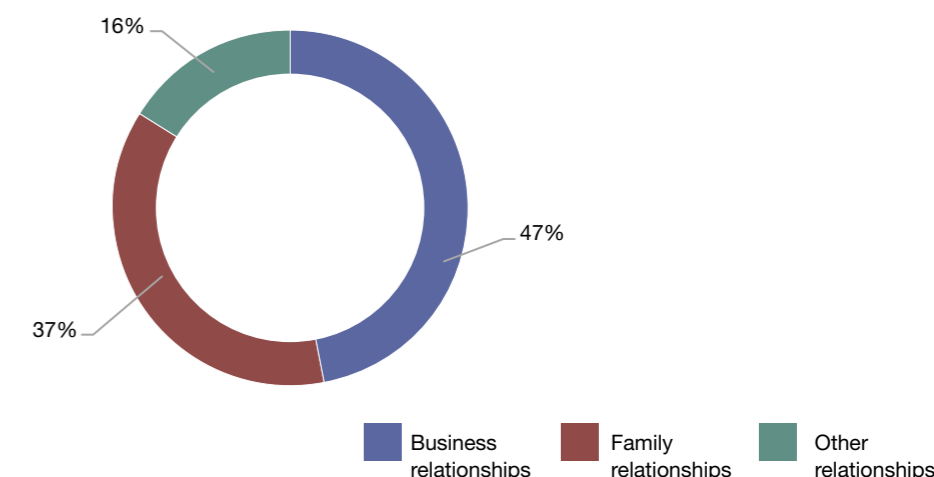
Resignations of management board members are submitted in writing.

- In 2023, a total of 5 management board members resigned prior to the expiry of their terms, mostly due to personal reasons (17 management board members due to same reasons in 2022).

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

Chart 80 shows the proportion of management board members related to other management board members in 2023, with respect to the type of relationship.

Chart 80 Relationship between management board members and other management board members in 2023

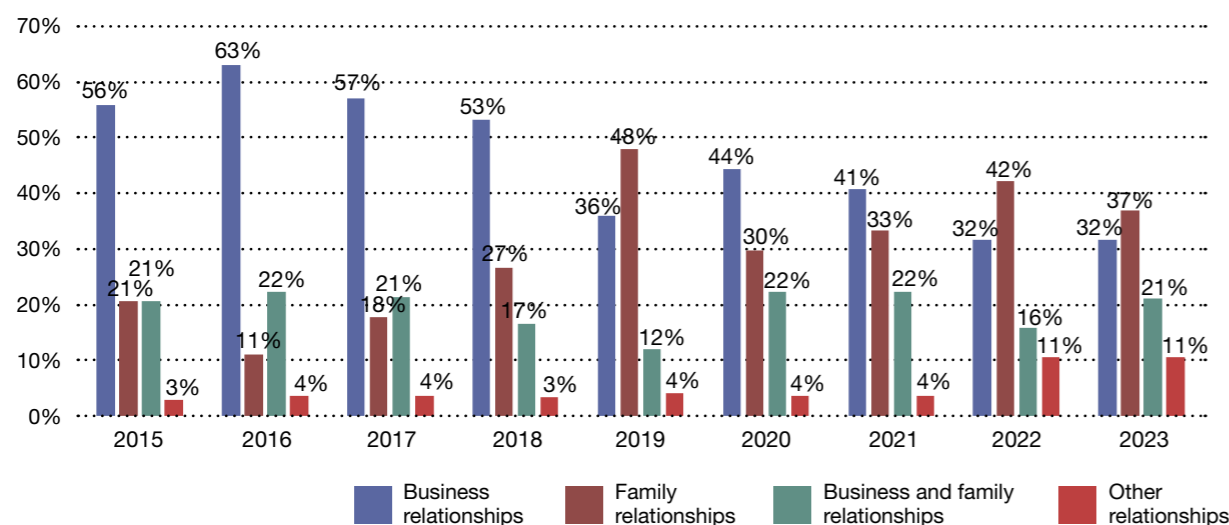


Source: Governance practices questionnaire 2023

- During the year, a total of 19 management board members in 8 issuers were related with other management board members. The majority of management board members (9 of them, i.e., 47%) were related by business relationships, followed by family relationships (7, i.e., 37%) and other relationships (3, i.e., 16%). In the previous year, a total of 18 management board members in 8 issuers were related with other management board members. The majority of management board members (9 of them, i.e., 50%) were related by business relationships, followed by family relationships (6, i.e., 33%) and other relationships (3 members, i.e., 17%).

The chart below shows the relationship between management board members and supervisory board members from 2015 to 2023, by types or relationships.

Chart 81 Relationship between management board members and supervisory board members from 2015 to 2023



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

In the period observed, the majority of management board members were related to supervisory board members by business relationships (46% on average), while 5% of management board members on average were related to supervisory board members by other relationships.

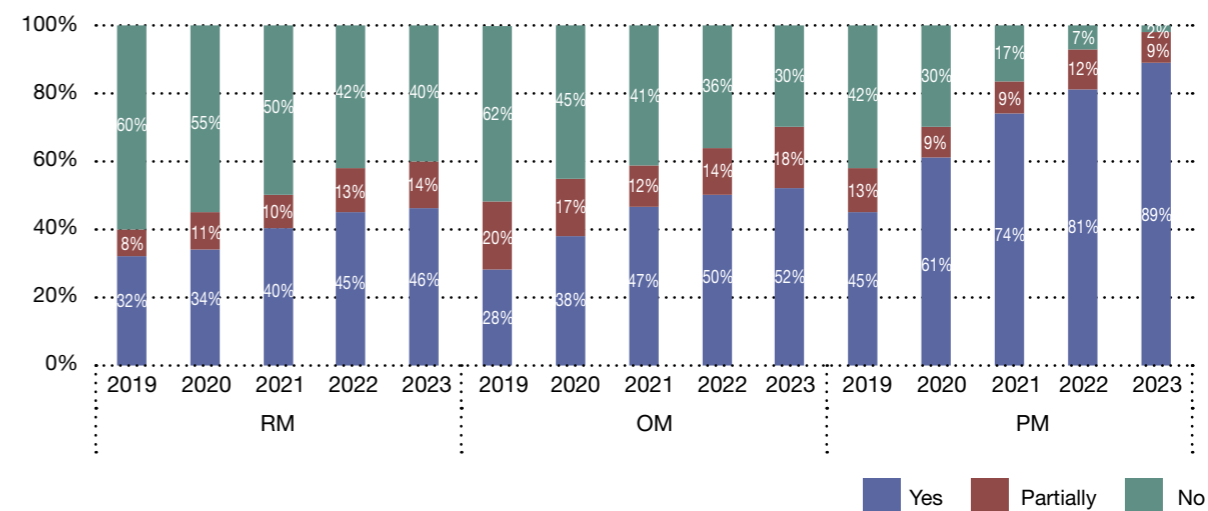
- In 2023, a total of 19 management board members in 14 issuers were related to supervisory board members. The majority of them were related by family relationships (7 management board members or 37%), followed by business relationships (6 management board members or 32%), business and family relationships (4 management board members or 21%) and other types of relationships (2 management board members or 10%). In 2022, a total of 19 management board members in 15 issuers were related to supervisory board members; the majority of them were related by business relationship.
- In 2023, a total of 77 management board members were at the same time management board members in 3 other companies on average, of which 0.38 on average were issuers on the regulated market, and 1.84 on average were a related company within the meaning of Article 473 of the Companies Act (in 2022, 79 management board members were at the same time management board members in 3 other companies on average, of which 0.5 on average were issuers on the regulated market, and 0.6 on average were a related company).
- In 2023, a total of 65 management board members were at the same time supervisory board members in 2 other companies on average, of which 1.7 on average were a related company within the meaning of Article 473 of the Companies Act (in 2022, 73 management board members were at the same time supervisory board members in 2 other companies on average, of which 1.6 on average were a related company within the meaning of Article 473 of the Companies Act).
- In 2023, a total of 62% of share issuers reported having in place rules of procedure of the management board adopted by the supervisory board which defines the division of responsibilities and cooperation among management board members (60% in 2022).

- Supervisory boards of 94% 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 (91% in 2022).
- Supervisory boards of 82% of share issuers evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in the past 12 months (80% in 2022).

### 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.

Chart 82 Share issuers' compliance with the section "Appointment of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market

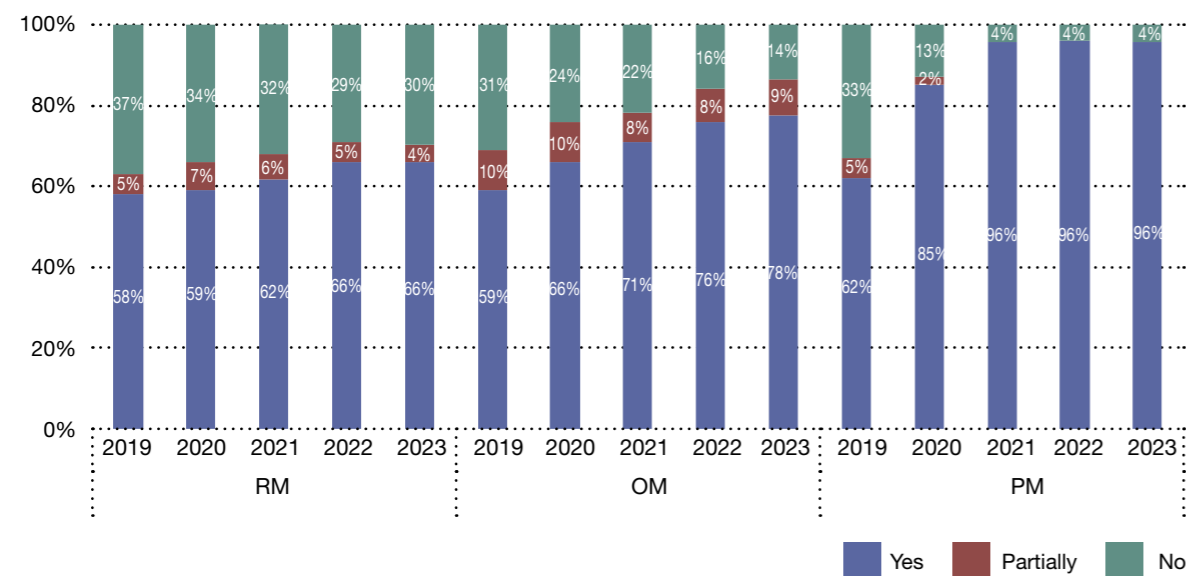


Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- In 2023, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Appointment of board members" of 89%.
- The average level of compliance of issuers on the Official Market and Regular Market with the section "Appointment of board members" reached 52% and 46% respectively.

In 2023, 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 "Appointment of board members" relative to the observed period.

Chart 83 Share issuers' compliance with the section "Leadership" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market

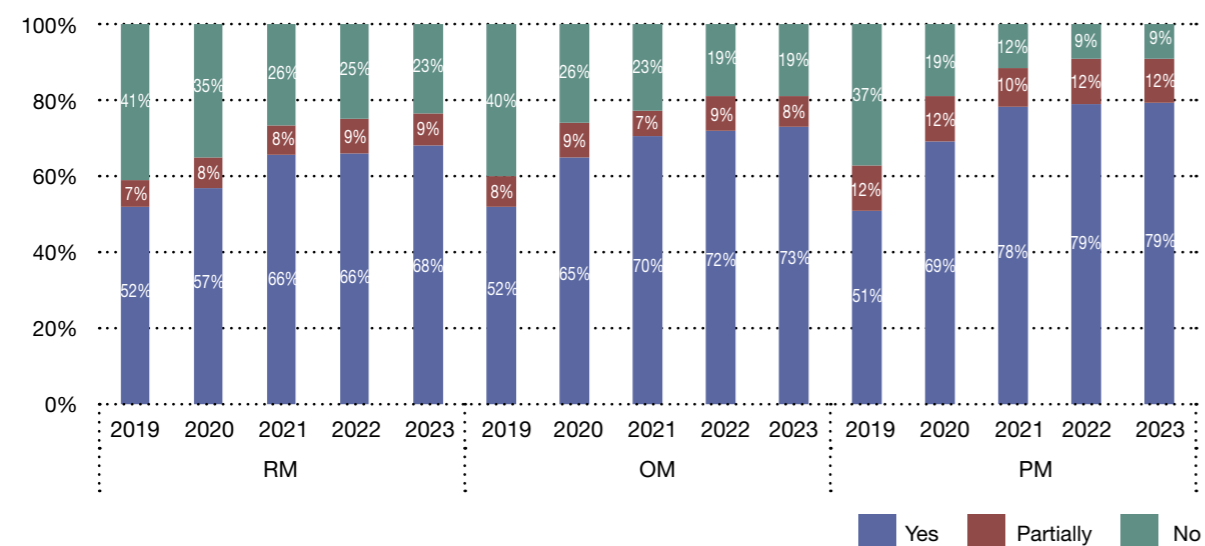


Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- In 2023, the issuers whose shares are admitted to trading on the Prime Market recorded the level of compliance with the section "Management board" of 96% 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 78% and 66% respectively.

There is a consistent level of compliance of the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market in 2023, relating to the section "Management board" in comparison with the observed period.

Chart 84 Share issuers' compliance with the section "Duties of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- Issuers whose shares are admitted to the Prime Market comply with the Section "Duties of board members" 79% on average.
- The level of compliance recorded by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 73% and 68% 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.

### Remuneration of management board members

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 is appropriate 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 20 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 2023. The amounts shown in Table 20 are average amounts paid to the entire management board (not to a single management board member).

Table 20 Remuneration paid to share issuers' management board members in the 2015 – 2023 period

		Average gross amount of remuneration		Average amount of options held by management board members (in EUR)	Average amount of other remuneration (in EUR)
		Fixed remuneration	Variable remuneration		
2023	Number of issuers	77	46	1	35
	Amount	319,404	245,750	232,527	93,100
2022	Number of issuers	80	35	1	37
	Amount	336,807	120,412	243,270	56,463
2021	Number of issuers	84	35	2	32
	Amount	273,764	176,383	236,483	39,155
2020	Number of issuers	86	36	3	31
	Amount	276,371	79,991	475,849	49,632
2019	Number of issuers	84	39	2	31
	Amount	299,595	269,678	147,863	109,227
2018	Number of issuers	73	19	3	1
	Amount	330,148	308,684	1,628,522	158,976
2017	Number of issuers	69	16	2	14
	Amount	288,700	252,079	1,700,329	157,421
2016	Number of issuers	72	19	3	7
	Amount	296,828	232,583	1,577,589	179,116
2015	Number of issuers	85	20	4	7
	Amount	254,569	377,693	1,416,649	61,568

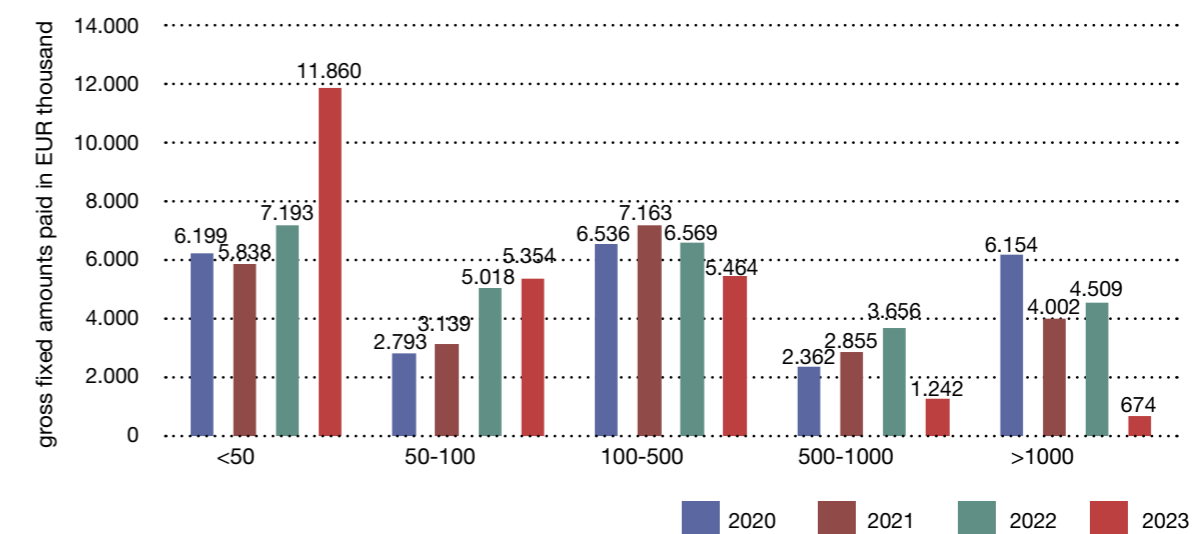
Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2023, 77 issuers paid a gross fixed amount of remuneration to management board members totalling EUR 24,594,105 (in 2022, 80 issuers paid a gross fixed amount of remuneration to management board members totalling EUR 26,944,547).
- The average gross fixed amount of remuneration paid to management board members in 2023 is higher compared to the previous observed periods, except 2022, and totals EUR 319,404 (it was the lowest in 2021).
- The gross fixed amount of remuneration paid to management board members in 2023 ranged from EUR 14.7 thousand to EUR 2.3m (in 2022, it ranged from EUR 14.3 thousand to EUR 2.9m). As in the previous year, the highest gross amounts of fixed remuneration were paid to management board members of issuers from the banking sector, while the lowest gross amounts of fixed remuneration were paid in the management activities of holding companies.
- 46 issuers paid gross variable remuneration to management board members reaching EUR 11,304,491 (in 2022, the amount totalling EUR 9,632,924 was paid by 35 issuers).
- The gross amounts of variable remuneration paid to management board members in 2023 reached EUR 245,750 on average (EUR 120,411 in 2022).

- The gross variable amount of remuneration paid to management board members in 2023 ranged from EUR 756 to EUR 1.5m (from EUR 870 to EUR 1.5m in 2022).
- In 2023, the highest gross amount of variable remuneration was paid to management board members of an issuer from the telecommunications industry, while the lowest amount was paid by an issuer engaged in the accommodation and food service activities (in the previous period, the highest amount was paid in the wholesale and retail trade services, and the lowest in the accommodation and food service activities).
- One issuer from the food industry granted options to management board members in the amount of EUR 232,529 (in 2022, also one issuer from the food industry, and the amount stood at EUR 243,270).
- A total of 35 issuers paid other benefits to management board members in the amount reaching EUR 3,258,512 (in 2022, other benefits totalling EUR 2,089,125 were paid by 37 issuers). The amount of other benefits paid to management board members in 2023 ranged from EUR 287 to EUR 1.1m (in 2021, it ranged from EUR 79 to EUR 606 thousand).
- In 2023, a total of 74 issuers submitted the annual management board remuneration report to the general meeting (71 issuers in 2022).

The chart below shows a comparative overview of the total gross fixed remuneration paid to management board members (in EUR thousand) in relation to the market capitalisation of issuers for 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022 and 2023.

Chart 85 Total gross amounts of fixed remuneration paid to management board members (in EUR thousand) in relation to market capitalisation of issuers (in EUR million) in 2020, 2021, 2022 and 2023

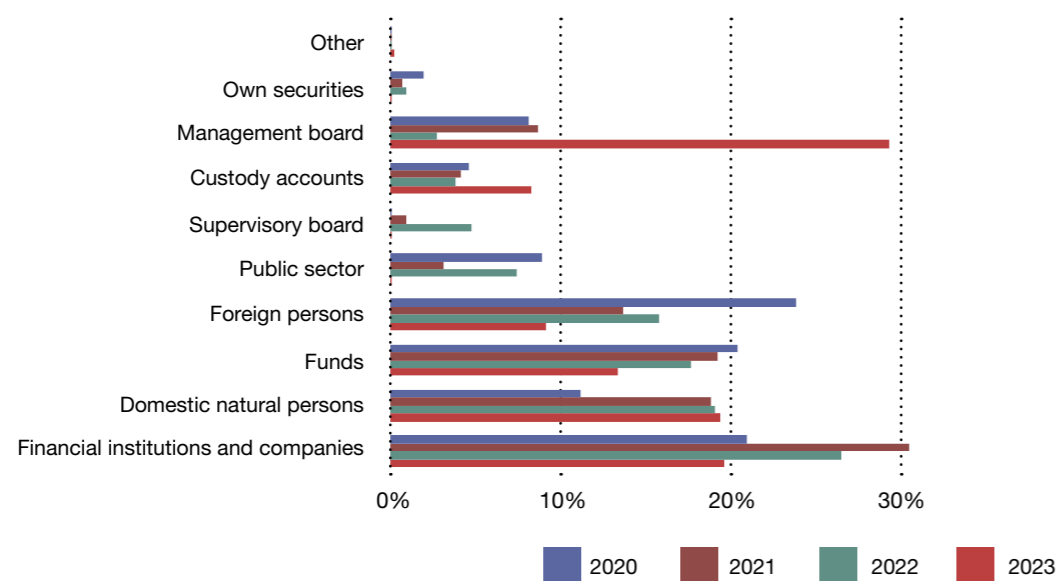


Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023, ZSE

- In 2023, management board members were paid gross fixed remuneration in the amount reaching EUR 24,594,105.86 (in 2022, the amount totalled EUR 26,944,547.38).
- The largest amount of gross fixed remuneration reaching EUR 2,260,366.86 was paid to management board members by issuers with the market capitalisation in the amount > EUR 1000m, while the smallest amount of gross fixed remuneration reaching EUR 14,773.76 was paid to management board members by issuers with their market capitalisation < EUR 50m.

- Compared to 2022, the greatest difference in total gross fixed remuneration paid to management board members is evident among issuers with the market capitalisation > EUR 1000m (a 96% decrease) and EUR 500 – 1000m (an 85% decrease).
- In 2023, compared to 2022, the increase in gross fixed remuneration paid to management board members amounted to 80% for share issuers with market capitalisation < EUR 50m.

Chart 86 Ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand in 2020, 2021 and 2022



Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023, CDCC

- The ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand in 2023 was dominated by management boards (29%), followed by financial institutions and companies (20%) and domestic natural persons (a 19% share) (in 2022, the ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand was dominated by financial institutions and companies with a 27% share and domestic natural persons with a 19% share).

## Management board remuneration policy

Article 247a of 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 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.

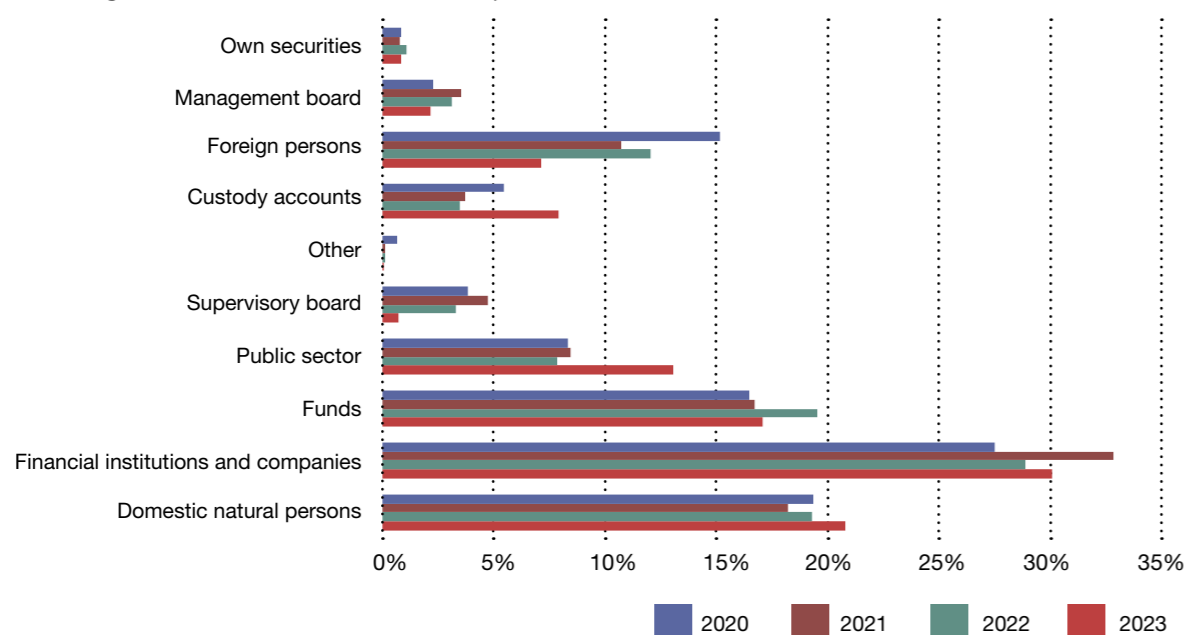
Pursuant to provisions 51 and 52 of the Code, the supervisory board should determine annual remuneration paid to each member of the management board, based on recommendations from the remuneration committee and in line with the approved remuneration policy, while the policy should be prepared in accordance 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 2023, 91% of the issuers reported having in place a remuneration policy for management board members, of which 6 issuers on the Prime Market, 18 issuers on the Official Market and 50 issuers on the Regular Market (in 2022, 91% of the issuers reported having in place a remuneration policy, of which 6 issuers on the Prime Market, 18 issuers on the Official Market and 49 issuers on the Regular Market).
- A total of 95% out of 73 issuers that had in place a remuneration policy for management board members publicly disclosed their policy (in 2022, 93% out of 73 issuers with a remuneration policy in place publicly disclosed their policy).
- The remuneration policy was approved by shareholders at the general meeting of 88% of the issuers (in 2022, this number reached 86%).
- The remuneration policy of 49% 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 (51% in 2022).
- A total of 94% 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 (95% of the issuers in 2022).

The ownership structure of the issuers that reported having in place a remuneration policy for management board members in 2020, 2021, 2022 and 2023 is shown in the following chart.

Chart 87 Ownership structure of share issuers with a remuneration policy for management board members in place in 2020, 2021, 2022 and 2023



Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023, CDCC

- Issuers that reported having in place a remuneration policy for management board members at the end of 2023 were mostly owned by financial institutions and companies (with a 30% share) and funds (21% share) (in 2022, they were mostly owned by financial institutions and companies (29%) and funds (20%)).

### Severance allowance for management board members

- In 2023, 8% of the issuers reported having agreed the amount of severance allowance for management board members totalling EUR 3,928,611 (in 2022, 7% of the issuers reported having agreed the amount of severance allowance for management board members totalling EUR 2,484,784).
- In 2023, the amounts of severance allowance agreed ranged from EUR 9.7 thousand to EUR 1.7m (from EUR 33.3 thousand to EUR 1.1m in 2022).
- A total of 5% of the issuers paid severance allowance to management board members in 2023 (7% of the issuers in 2022).

### 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 2023, 67% of the issuers reported having in place a remuneration policy for supervisory board members (6 issuers on the Prime Market, 14 issuers on the Official Market and 36 issuers on the Regular Market), of which 49 issuers (88%) reported having publicly disclosed the policy.

Table 21 Manner of determining the level of remuneration for supervisory board members in 2020, 2021, 2022 and 2023

	2020	2021	2022	2023
General meeting	76%	90%	80%	80%
Statute	16%	8%	15%	14%
Other	6%	2%	5%	6%

Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023

- In 2023 (as in previous periods), the level of remuneration for supervisory board members was most often determined by the general meeting (80% of the issuers), followed by the statute (14% of the issuers) and other manners of determining the level of remuneration for supervisory board members of the issuers (6% of the issuers).
- In 2023, fixed amounts of remuneration totalling EUR 6,346,093 were paid to supervisory board members by 84% of the issuers (the amount of EUR 6,833,985 was paid by 83% of the issuers in 2022).

The following table shows the amounts of remuneration paid to supervisory board members in the period from 2015 to 2023.

Table 22 Remuneration paid to supervisory board members in the 2015 – 2023 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration (in EUR)
		Fixed remuneration	Variable remuneration	
2023	Number of issuers	70	/	19
	Amount	90,658	/	55,032
2022	Number of issuers	72	/	20
	Amount	94,916	/	57,706
2021	Number of issuers	72	/	17
	Amount	73,723	/	114,313

2020	Number of issuers	79	/	18
	Amount	67,335	/	136,020
2019	Number of issuers	75	/	12
	Amount	67,818	/	38,905
2018.	Number of issuers	78	7	1
	Amount	63,377	33,109	424
2017.	Number of issuers	71	4	0
	Amount	57,312	38,715	0
2016.	Number of issuers	78	5	0
	Amount	53,999	102,846	0
2015.	Number of issuers	89	5	0
	Amount	51,911	63,679	0

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2023, 70 share issuers paid remuneration to supervisory board members in the total amount of EUR 6,346,093, while 19 issuers paid other benefits to supervisory board members in the total amount of EUR 1.05m.
- In 2023, fixed amounts of remuneration paid to supervisory board members ranged from EUR 3.4 thousand to EUR 580.8 thousand (from EUR 3.4 thousand to EUR 559.3 thousand in 2022).
- A total of 80% of the issuers reported having submitted the annual supervisory board remuneration report to the general meeting (77% of the issuers in 2022).
- Levels of remuneration of the chair and members of the supervisory board of the majority of the issuers (72%) reflected the time commitment and responsibilities of their roles (69% of the issuers in 2022).
- Remuneration policies and/or internal regulations of 64% of the issuers prohibit the inclusion of variable or other elements relating to business performance in the remuneration of supervisory board members (same as in 2022).
- A total of 83% of the issuers reported having included data on the remuneration of individual supervisory board members in the annual remuneration report (80% of the issuers in 2022).

### Remuneration paid to senior management

- In 2023, 75% of the issuers paid fixed remuneration to their senior management in the total amount of EUR 46,519,398, with single amounts of the remuneration ranging from EUR 5.6 thousand, reported by an issuer engaged in the production of textiles, clothing, leather and related products, to EUR 5.4m, reported by an issuer from the financial and insurance activities sector (in 2022, 75% of the issuers paid fixed remuneration to their senior management in the total amount of EUR 45,800,954, with single amounts of the remuneration ranging from EUR 12.5 thousand, reported by an issuer engaged in management activities of holding companies, to EUR 4.9m, reported by an issuer from the insurance sector).

Table 23 Remuneration paid to the issuers' senior management in the 2020 – 2023 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration (in EUR)
		Fixed remuneration	Variable remuneration	
2023	Number of issuers	62	36	26
	Amount	798,700	273,162	58,785
2022	Number of issuers	65	36	26
	Amount	704,630	139,416	63,816
2021	Number of issuers	65	27	20
	Amount	754,953	278,346	76,847
2020	Number of issuers	67	29	19
	Amount	753,675	111,360	61,004

Source: Governance practices questionnaire for 2020, 2021, 2022 and 2023

- In 2023, 36 issuers paid variable remuneration to their senior management in the total amount of EUR 9,833,814, with single amounts of variable remuneration ranging from EUR 2.9 thousand, reported by an issuer from the research and development sector, to EUR 2m, reported by an issuer from the wholesale and retail trade – repair of motor vehicles and motorcycles (in 2022, 36 issuers paid variable remuneration to their senior management in the total amount of EUR 9,062,056, with single amounts of variable remuneration ranging from EUR 2.7 thousand, reported by an issuer engaged in the manufacture of textiles, clothing, leather and related products, to EUR 2m, reported by an issuer from the refined petroleum products manufacturing sector).
- Other benefits in the average amount of EUR 58,785 were paid to the senior management by 26 issuers (in 2022, other benefits in the average amount of EUR 63,816 were paid to the senior management by 26 issuers as well).
- One issuer granted options to the senior management in the total amount of EUR 305,832 (one issuer in 2022 as well, with the total amount reaching EUR 270,821).

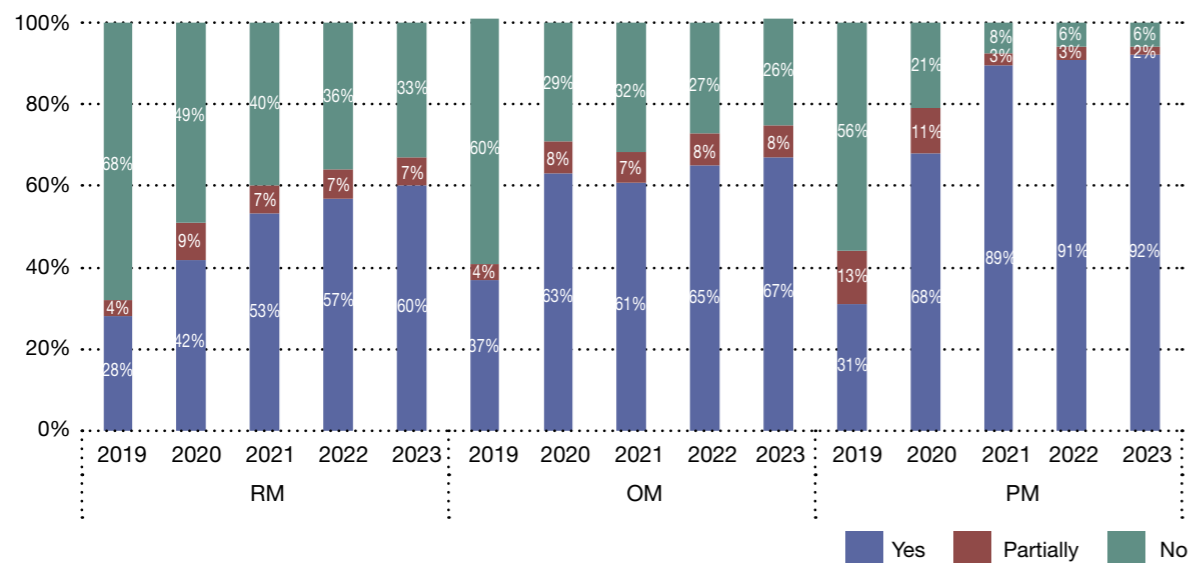
### Severance allowance for the senior management

- In 2023, 9 issuers agreed the amount of severance allowance for their senior management in the total amount of EUR 5,472,982, with single amounts ranging from EUR 9.4 thousand to EUR 1.8m (in 2022, 10 issuers agreed the amount of severance allowance for their senior management in the total amount of EUR 3,319,988, with single amounts ranging from EUR 16.2 thousand to EUR 975.1 thousand).
- In 2023, severance allowance in the total amount of EUR 782,068 was paid to the senior management by 9 issuers, with single amounts of the severance allowance ranging from EUR 3.2 thousand to EUR 260.3 thousand (in 2022, severance allowance in the total amount of EUR 1,155,320 was paid to the senior management by 10 issuers, with single amounts of the severance allowance ranging from EUR 12.7 thousand to EUR 304.2 thousand).

## 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 2019, 2020, 2021, 2022 and 2023.

Chart 88 Share issuers' compliance with the section "Remuneration of board members" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- The level of compliance with the section "Remuneration of board members" achieved by issuers whose shares are admitted to trading on the Prime Market reached 92% on average.
- The level of compliance recorded by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 67% and 60% respectively.

In 2023, 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 the observed period.

## 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 2023, 39% of the issuers reported having a person in charge of risk management (37% of the issuers in 2022):
  - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2022);
  - 7 issuers on the Official Market (8 issuers on the Official Market in 2022);
  - 20 issuers on the Regular Market (19 issuers on the Regular Market in 2022).
- Out of the 32 issuers that reported having a person in charge of risk management in 2023, the majority (10) were from the financial sector, same as in 2022
- The most frequent risk faced by the issuers in 2023 was macroeconomic environment risk, same as in 2022
- The most frequent risks faced by issuers in 2023 were:
  - macroeconomic environment risk (reported by 22 issuers);
  - liquidity risk (15 issuers);
  - operational risk (10 issuers);
  - credit risk (9 issuers).
- In 2023, the majority of the issuers (94%) reported maintaining an effective risk management system that ensures reliable risk identification, measurement and monitoring (96% of the issuers in 2022).

## 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

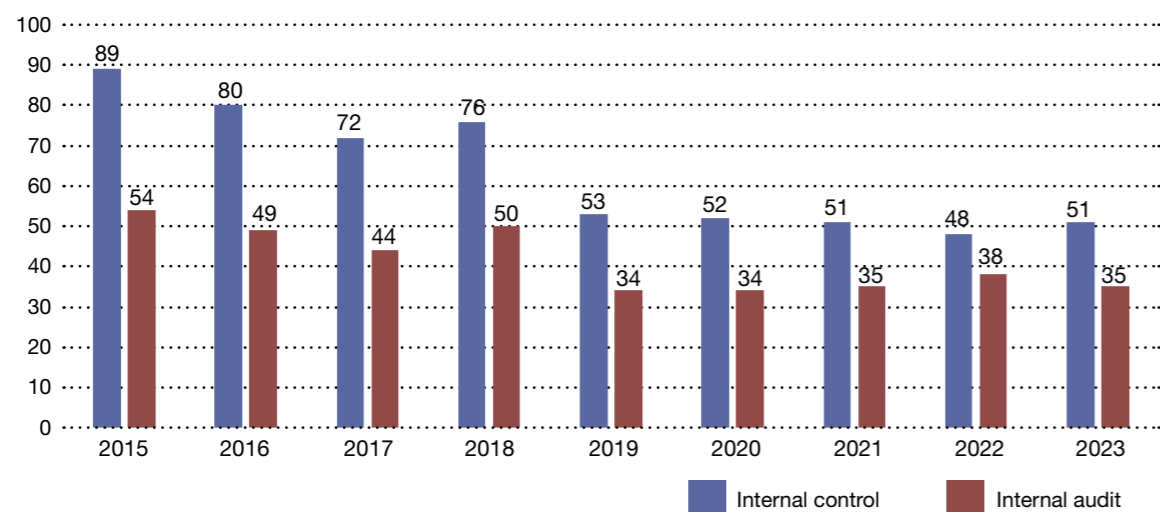
- In 2023, 61% of the issuers reported having in place an internal control system (55% of the issuers in 2022). Broken down by segments of the regulated market, this system was established by:
  - 6 issuers on the Prime Market (6 issuers on the Prime Market in 2022);
  - 13 issuers on the Official Market (12 issuers on the Official Market in 2022);
  - 32 issuers on the Regular Market (30 issuers on the Regular Market in 2022).
- In 2023, there were on average 16 employees in each internal control system (same as in 2022).
- The majority of the issuers that reported having in place an internal control system in 2023 were from the tourism industry (13 issuers), followed by 11 issuers from the financial sector and 5 issuers from the transportation and storage sector (in 2022, the majority of the issuers that reported having in place an internal control system were from the tourism industry (12 issuers), followed by 9 issuers from the financial sector and 4 issuers from the food industry).

### Internal audit system

- In 2023, 42% of the issuers reported having in place an internal audit system (44% of the issuers in 2022). Broken down by segments of the regulated market, such system was established by:
  - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2022);
  - 13 issuers on the Official Market (14 issuers on the Official Market in 2022);
  - 17 issuers on the Regular Market (19 issuers on the Regular Market in 2022).
- In 2023, there were 4 employees in each internal audit system on average, same as in 2022.
- The majority of the issuers that reported having in place an internal audit system in 2023 were from the financial sector (10 issuers), followed by 6 issuers from the tourism industry and 3 issuers from the manufacture of electrical equipment and transportation and storage activities (the majority of the issuers that reported having in place an internal audit system in 2022 were from the financial sector (8 issuers), followed by 5 issuers from the tourism industry and 2 issuers from the food industry).
- The audit committee of 41% of the issuers that 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 (38% of the issuers in 2022).
- The audit committee of 46% of the issuers that reported having in place an internal audit system received the internal auditor's reports and supervised the implementation of their recommendations (44% of the issuers in 2022).
- Market capitalisation of shares of 35 issuers that had in place an internal audit system in 2023 amounted to EUR 18.8m as at 31 December 2023 (market capitalisation of shares of 38 issuers that had in place an internal audit system in 2022 amounted to EUR 14.5m as at 31 December 2022).

The following chart shows the number of issuers that reported having in place internal audit and control systems in the period from 2015 to 2023.

Chart 89 Number of share issuers with internal audit and control systems in place in the 2015 – 2023 period

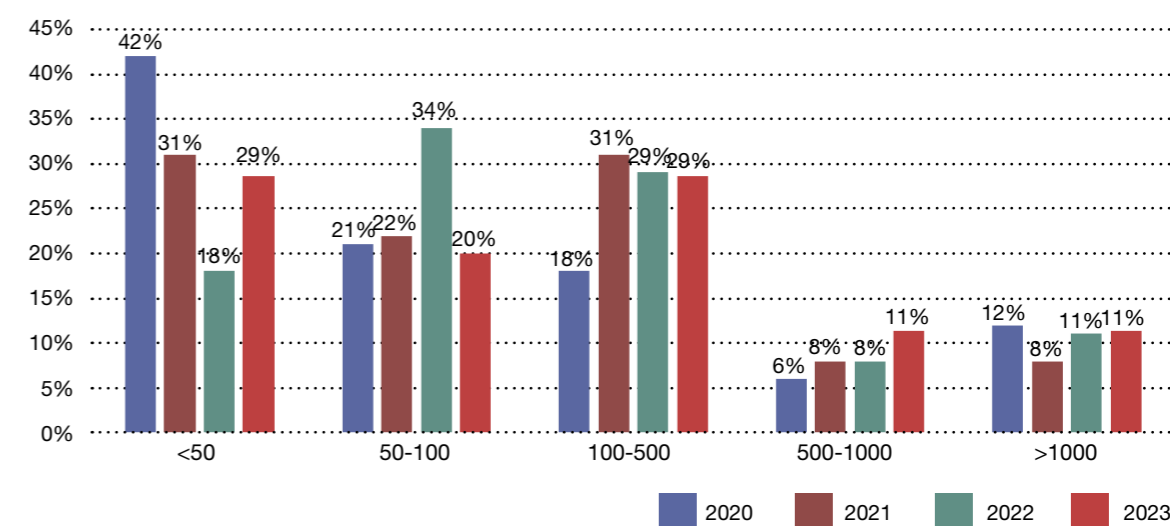


Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- All the 6 issuers with shares admitted to the Prime Market in 2023 reported having an internal control system in place, and 83% of them also had an internal audit system in place (as in 2022).
- Out of 19 issuers on the Official Market, 68% had in place internal audit and control systems (in 2022, out of 19 issuers on the Official Market, 63% had in place internal audit and control systems).
- Out of 62 issuers on the Regular Market, 51% had in place an internal control system, while 27% of them had in place an internal audit system (in 2022, out of 62 issuers on the Regular Market, 48% had in place an internal control system, while 31% of them had in place an internal audit system).

The following chart shows the share of issuers that had in place an internal audit system in 2023 in relation to their market capitalisation.

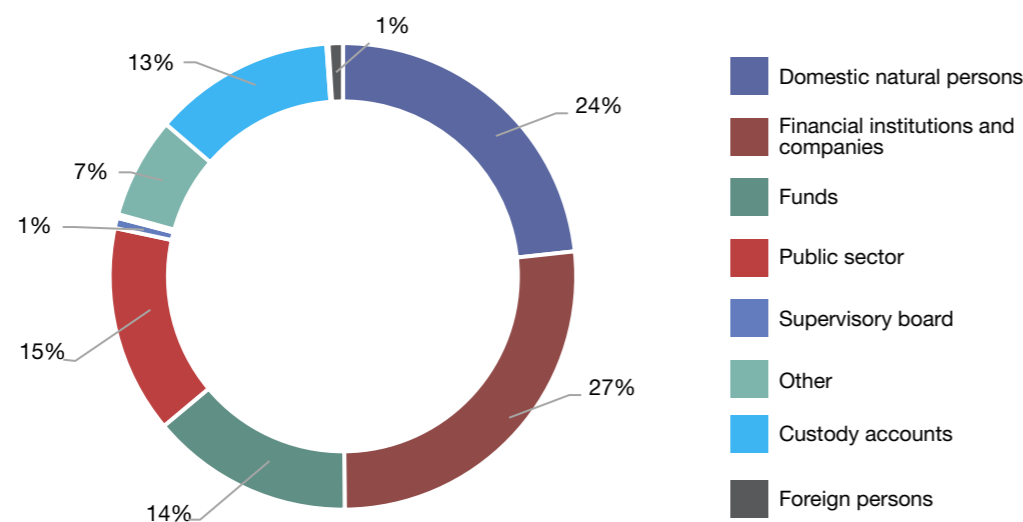
Chart 90 Share of issuers having in place an internal audit system in 2019, 2020, 2021, 2022 and 2023, in relation to their market capitalisation (in EUR million)



Source: Governance practices questionnaire for 2019, 2020, 2021, 2022 and 2023, ZSE

- It is evident that in 2023 and 2022, the share of issuers with an internal audit system in place is equally present in the higher market capitalisation classes.

Chart 91 Ownership structure of share issuers with an internal audit system in place in 2023



Source: Governance practices questionnaire 2023, CDCC

- The largest share in the ownership structure of issuers that had an internal audit system in place in 2023 was accounted for by financial institutions and companies (27%), while the share of domestic natural persons amounted to 24% (the largest share in the ownership structure of issuers that had an internal control system in place in 2022 was accounted for by financial institutions and companies (27%), while the share of domestic natural persons amounted to 19%).

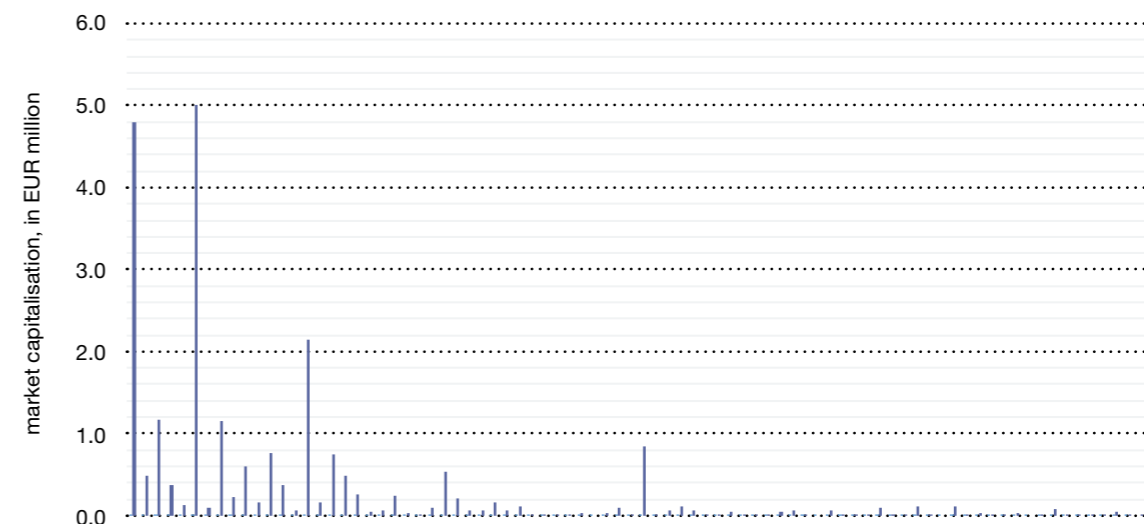
### External audit

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 2023, 46% of the issuers received financial statement audit services from one of the four largest audit firms.

- Broken down by segments of the regulated market, financial statement audit services were provided in 2023 by one of the four largest audit firms for:
  - 6 issuers on the Prime Market (6 issuers on the Prime Market in 2022);
  - 13 issuers on the Official Market (13 issuers on the Official Market in 2022);
  - 23 issuers on the Regular Market (27 issuers on the Regular Market in 2022).
- The majority of issuers (13) that received financial statement audit services from one of the four largest audit firms belonged to the tourism industry (in 2022, the majority of issuers (13) that received financial statement audit services from one of the four largest audit firms also belonged to the tourism industry).

- At end-2023, market capitalisation of issuers that used services provided by the four largest audit firms totalled EUR 16.5bn and accounted for 71% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2023 (at end-2022, market capitalisation of issuers that used services provided by the four largest audit firms totalled EUR 15.1bn and accounted for about 84% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2022).
- A total of 7 issuers used services of the same audit firm for 7 years or longer (3 issuers on the Prime Market and one issuer on the Regular Market). In 2022, 2 issuers used services of the same audit firm for 7 years or longer, both on the Regular Market.
- The average length of time during which the issuers used services of the same audit firm was 3.84 years (3 years in 2022).
- The average length of time during which the issuers used services of the same certified auditor in the same audit firm was 3 years (as was in 2022).
- The average gross amount paid to an audit firm for audit services provided in 2023 reached EUR 64.7 thousand (EUR 80.2 thousand in 2022), with the amounts ranging between EUR 4.6 thousand and EUR 696.6 thousand (between EUR 4.9 thousand and EUR 649.9 thousand in 2022).
- In 2023, audit firms provided services other than audit services to 22 issuers, with the average gross amount paid to an audit firm for other services during the year amounting to EUR 32.7 thousand (in 2022, other services were provided by audit firms to 20 issuers, with the average gross amount paid to an auditor for other services totalling EUR 31.3 thousand).

Chart 92 Gross amount paid to audit firms for audit services provided during 2023 in relation to market capitalisation of issuers



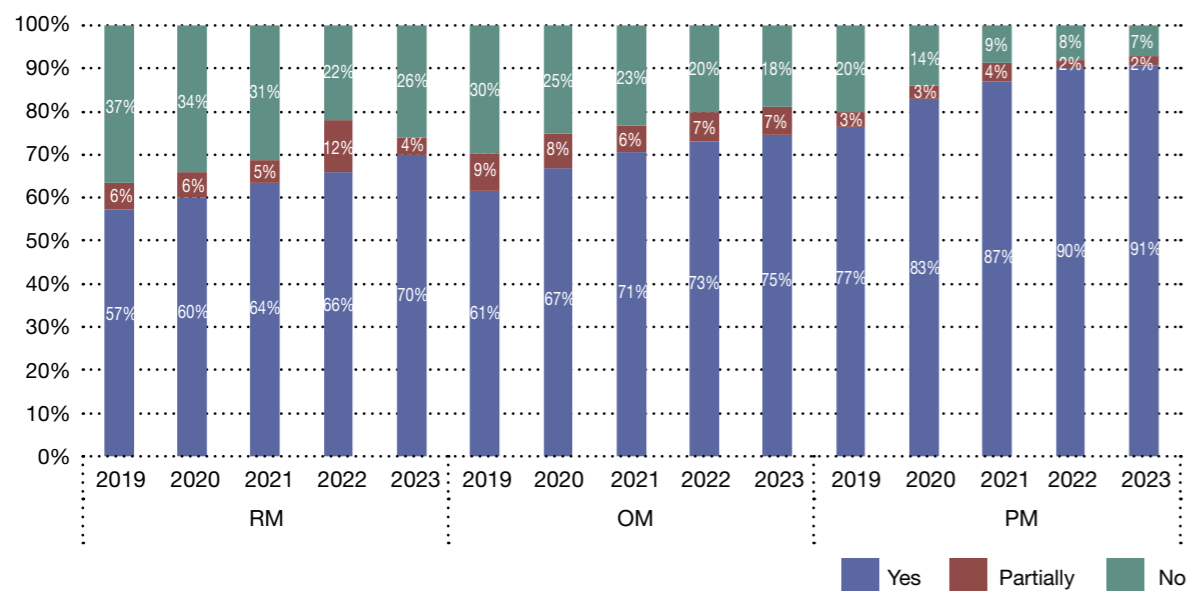
Source: Governance practices questionnaire 2023, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2023 and market capitalisation of the issuers was 0.68124 (in 2022, it stood at 0.5864).

## 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 2019, 2020, 2021, 2022 and 2023.

Chart 93 Share issuers' compliance with the section "Risks, internal control and audit" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, 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 91%.
- The level of compliance with this section achieved by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 75% and 70% respectively.

In 2023, issuers whose shares are admitted to trading in all segments of the regulated market showed improved compliance with the section "Risks, internal control and audit" in relation to the observed period.

## 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 2023, a total of 43% of share issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 8 issuers on the Official Market and 24 issuers on the Regular Market (in 2022, 41% of share issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 8 issuers on the Official Market and 24 issuers on the Regular Market).
- Out of the 36 issuers that had in place rules of procedure of the general meeting, no issuers reported changes in their rules of procedure during the year (5 issuers in 2022).

## 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.

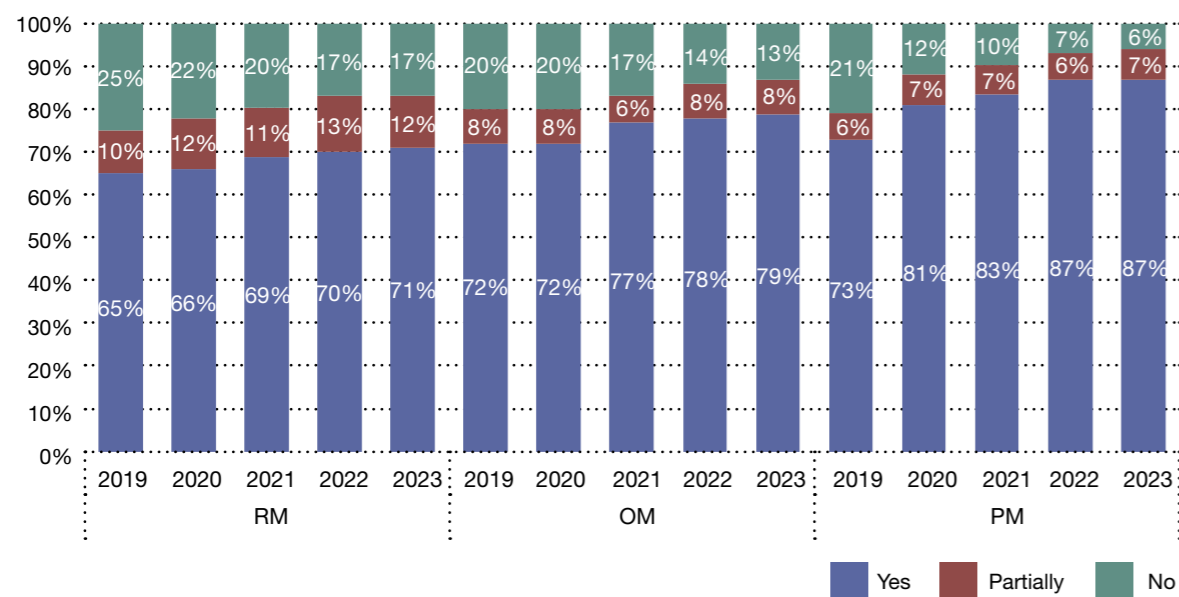
- In 2023, a total of 112 general meetings were held (113 general meetings in 2022).
- According to the data from the governance practices questionnaire, 60 issuers reported having held only 1 general meeting in 2023, 18 issuers held 2 general meetings, 4 issuers held 3 general meetings, and 1 issuer held 4 general meetings (in 2022, 64 issuers reported having held only 1 general meeting, 15 issuers held 2 general meetings, 5 issuers held 3 general meetings, while 1 issuer held 4 general meetings).
- According to the 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 412,161. Excluding this issuer, and the issuer with 3608 shareholders who participated in the general meeting, that represent a significant deviation from the average, the average number of shareholders who participated in the general meeting amounts to 18 (20 in 2022).
- Only 36% of the issuers allowed, on the basis of the statute or another internal regulation, their shareholders to vote online without limitations (31% of the issuers in 2022).
- In 2023, 96% 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 (in 2022, 98% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 93% 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 39% of the issuers ensured that all documents required for the general meeting were available in Croatian and English (39% of them in 2022 as well).

- The chair and deputy chair of the supervisory board, chairs of supervisory board committees and all management board members attended general meetings of 56% of the issuers (of 59% of the issuers in 2022).
- External auditors attended general meetings of 60% of the issuers at which financial statements were presented (same as in 2022).

### 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, 2020, 2021, 2022 and 2023.

Chart 94 Share issuers' compliance with the section "Shareholders and the general meeting" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, 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 87%, 79% and 71% respectively.

In 2023, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Shareholders and the general meeting" in comparison with the observed period from 2019 to 2022.

## TRANSPARENCY AND CORPORATE SOCIAL RESPONSIBILITY

### Investor relations

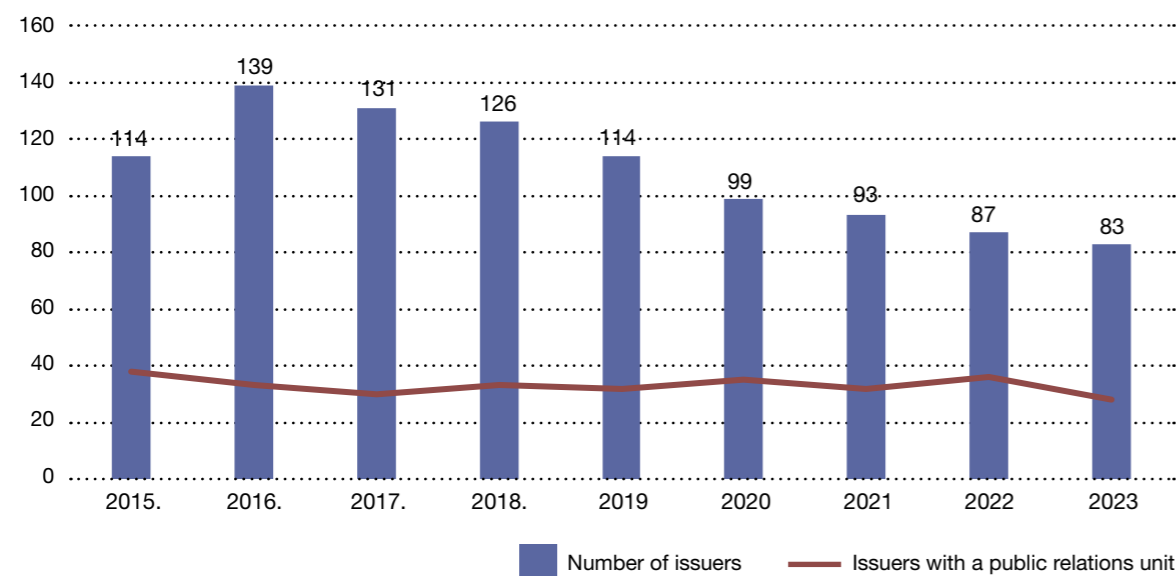
Basic principles in connection with transparency and corporate social responsibility state that the company shall ensure that shareholders and other stakeholders have easy and non-discriminatory access to information on the company's ownership structure, corporate governance arrangements and financial 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 2023, 99% of the issuers had their websites in Croatian, of which 84% had their websites in English as well (in 2022, 99% of the issuers had their websites in Croatian, of which 73% had their websites in English as well).
- One issuer on the Regular Market did not have a website in 2023 (as in 2022).
- In 2023, 95% 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 (99% of the issuers in 2022).
- In 2023, 34% of the issuers had a separate organisational unit or employees in charge of investor relations exclusively (33% of the issuers in 2022). Broken down by segments of the regulated market, a separate organisational unit or employees in charge of investor relations were reported by:
  - 5 issuers on the Prime Market (5 issuers in 2022);
  - 10 issuers in the Official Market (10 issuers in 2022);
  - 13 issuers on the Regular Market (14 issuers in 2022).
- A separate organisational unit or employees in charge of public (investor) relations were reported mostly by issuers from the tourism industry, 6 of them (7 issuers from the tourism industry in 2022).

The following chart shows the number of issuers that had a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2023.

Chart 95 Number of issuers with a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2022



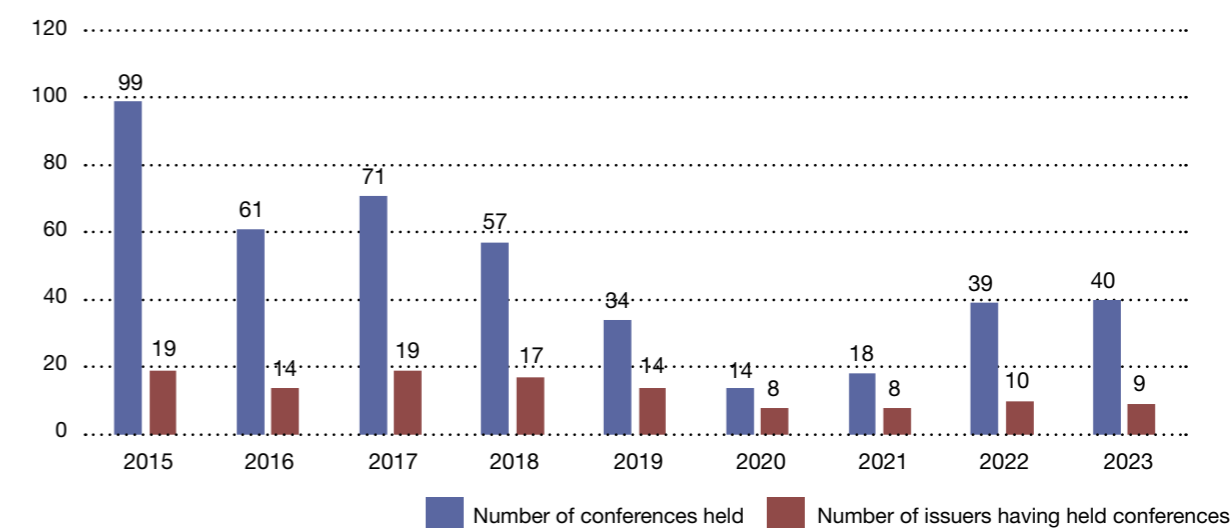
Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

The Chart shows that, while the number of issuers decreased over the observed period, the number of issuers with an organisational unit or employees exclusively in charge of public relations did not fluctuate to a large extent, however, in 2023 it was lower than in the previous periods. 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 2022 (41%) and the smallest in 2017 (23%).

- A total of 11% of the issuers (10% of the issuers in 2022) had an institution in charge of monitoring the position of issuers on the capital market (drawing up market position analyses, etc.).
- In 2023, 35% of the issuers (36% of them in 2022) reported having published the calendar of significant events on their websites:
  - 6 issuers on the Prime Market (6 issuers in 2022);
  - 11 issuers in the Official Market (12 issuers in 2022);
  - 12 issuers on the Regular Market (13 issuers in 2022).
- A total of 11% of the issuers (same as in 2022) reported having held one or more press conferences in 2023, of which 5 issuers on the Prime Market, 1 issuer on the Official Market and 3 issuers on the Regular Market (3 issuers on the Prime Market, 4 issuers on the Official Market and 3 issuers on the Regular Market in 2022).
- The largest number of press conferences held in 2023 was reported by 1 issuer on the Official Market (20) and 1 issuer on the Regular Market (7) (in 2022, the largest number of press conferences (22) was reported by 1 issuer on the Official Market).

The following chart shows the number of issuers that held press conferences in the period from 2015 to 2023 and the number of the conferences held in that period.

Chart 96 Number of issuers that held press conferences and the number of the conferences held in the 2015 – 2023 period



Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

The largest number of press conferences held (99) was reported in 2015. 2023 saw an increased number of press conferences held compared to 2022.

- The most common reasons for convening a press conference in 2023 were presentations of significant activities and investments (3 issuers) and presentations of business results (4 issuers). The most common reasons for convening a press conference in 2022 were presentations of business results (4 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 2023, a decision on the payment of dividend out of profits generated in 2022 was adopted by 45% of the issuers (in 2022, a decision on dividend payment was made by 41% of the issuers), of which:
  - 5 issuers on the Prime Market (4 issuers in 2022);
  - 9 issuers in the Official Market (9 issuers in 2022);
  - 23 issuers on the Regular Market (23 issuers in 2022).
- In 2023, the largest number of issuers (7) that adopted a decision on the payment of dividend or advance dividend out of profits generated in 2022 belonged to the financial and insurance sector and the tourism industry (same sectors in 2022, 5 issuers).
- The total market capitalisation of issuers that in 2023 adopted a decision on divi-

dend payment at the end of the year reached EUR 22.9bn (in 2022, it stood at EUR 15.9bn).

- Among these issuers, the largest market capitalisation was reported by an issuer from the coke and refined petroleum products manufacturing sector (EUR 5bn) (in 2022, an issuer from the petroleum products manufacturing sector with the market capitalisation reaching EUR 4.5bn), and the smallest by an issuer from the financial and insurance activities sector (EUR 6m) (in 2022, an issuer from the financial sector, with the market capitalisation reaching EUR 4.7m).
- The average amount of dividend per stock paid out in 2023 totalled EUR 11.97 (EUR 11.47 in 2022). The largest amount was paid out by an issuer engaged in wholesale and retail trade services, and it totalled EUR 215.

### Corporate Governance Code

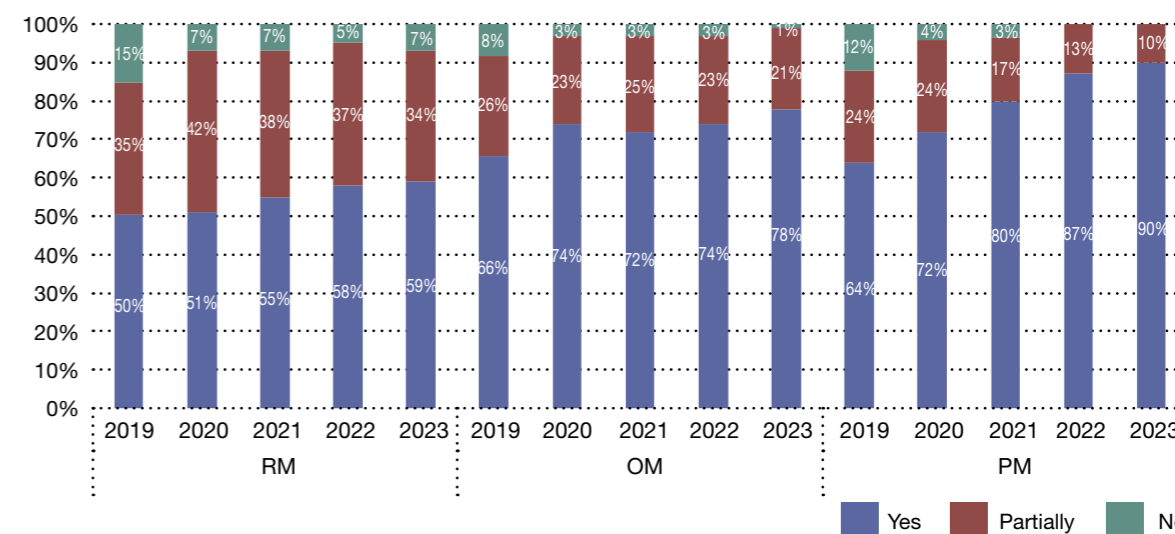
- A total of 84% of the issuers (6 issuers on the Prime Market, 18 issuers on the Official Market and 46 issuers on the Regular Market) published their compliance questionnaire for 2023 on their websites (83% of the issuers in 2022).
- 31% of the issuers (same percentage as in 2022) complied with another corporate governance code in addition to the Code (3 issuers on the Prime Market, 7 issuers on the Official Market and 16 issuers on the Regular Market).

Out of the total of 26 issuers that complied with another corporate governance code in addition to the Code in 2023, 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 2022, 27 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 2019, 2020, 2021, 2022 and 2023.

Chart 97 Share issuers' compliance with the section "Disclosure and transparency" in 2019, 2020, 2021, 2022 and 2023 by segments of the regulated market

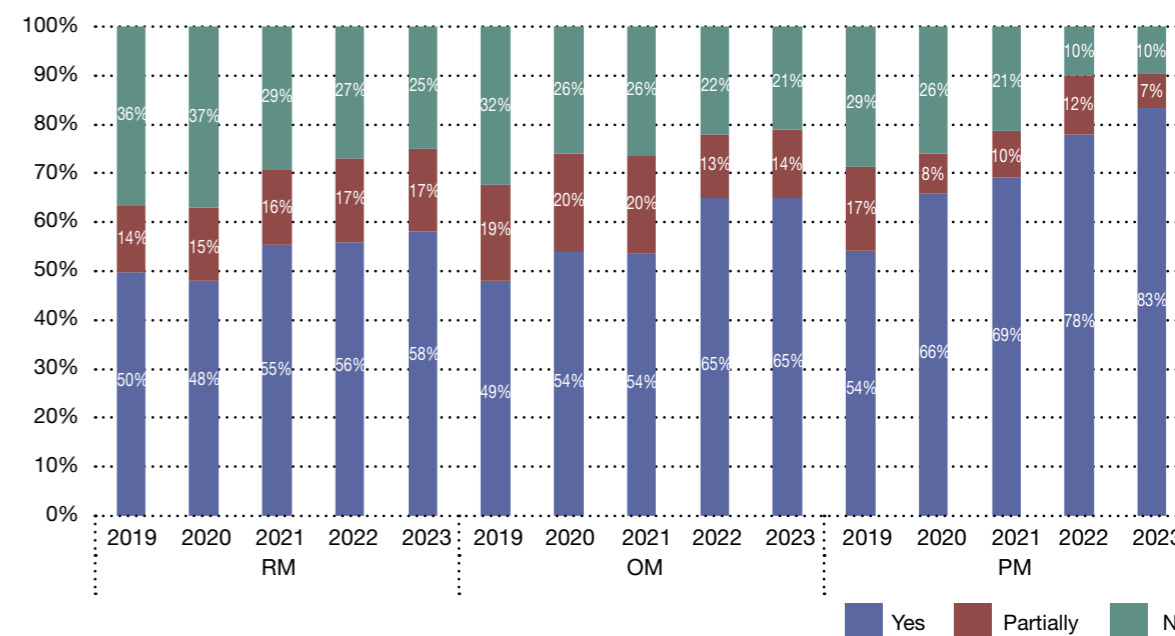


Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, internal calculation

- The level of compliance with the section "Disclosure and transparency" achieved by issuers whose shares are admitted to trading on the Prime Market reached 90%.
- The level of compliance with this section achieved by issuers whose shares are admitted to trading on the Official Market and Regular Market reached 78% and 59% respectively.

In 2023, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Disclosure and transparency" in comparison with the observed period.

Chart 98 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019, 2020, 2021, 2022 and 2023, by segments of the regulated market



Source: Compliance questionnaire 2019, 2020, 2021, 2022 and 2023, 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 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 65% and 58% respectively.

As regards this section, issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed improvement in compliance relative to the observed period.

# ANNUAL REPORT ON CORPORATE GOVERNANCE FOR BOND ISSUERS

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## 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; therefore, these data are presented in the previous chapter, that relates to share issuers.

At the end of 2023, there were a total of 13 corporate bonds issued by 11 issuers, of which 11 bonds were admitted to trading on the Official Market and 2 bonds on the Regular Market. Out of the 11 issuers, 7 issuers issued only corporate bonds and were obliged to submit to Hanfa the governance practices questionnaire for bond issuers, while the remaining 4 issuers issued both bonds and shares and were obliged to submit to Hanfa the governance practices questionnaire for share issuers.

Out of the 7 corporate bond issuers obliged to submit to Hanfa the governance practices questionnaire for 2023, all 7 of them (100%) submitted the questionnaire. The following data relate to issuers that submitted to Hanfa their 2023 governance practices questionnaire for bond issuers.

At the end of 2023, the market capitalisation of bonds reached EUR 11.5bn, decreasing by 0.9% compared to the end of 2022, when it amounted to EUR 11.6bn.

## 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 2020 to 2023.

Table 24 Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2020 to 2023.

Number of issuers				Initial capital and market capitalisation	2020	2021	2022	2023
2020	2021	2022	2023					
5	7	7	7	Initial capital	683	696	764	762
				Market capitalisation (EUR bn)	487	567	770	772

Source: court register, ZSE

- Initial capital of corporate bond issuers reached EUR 762bn at the end of 2023, decreasing slightly compared to end-2022 (by 0.26%).
- Market capitalisation of corporate bonds admitted to trading on the regulated market amounted to EUR 772bn at the end of 2023, increasing by 0.26% compared to the end of the previous year.

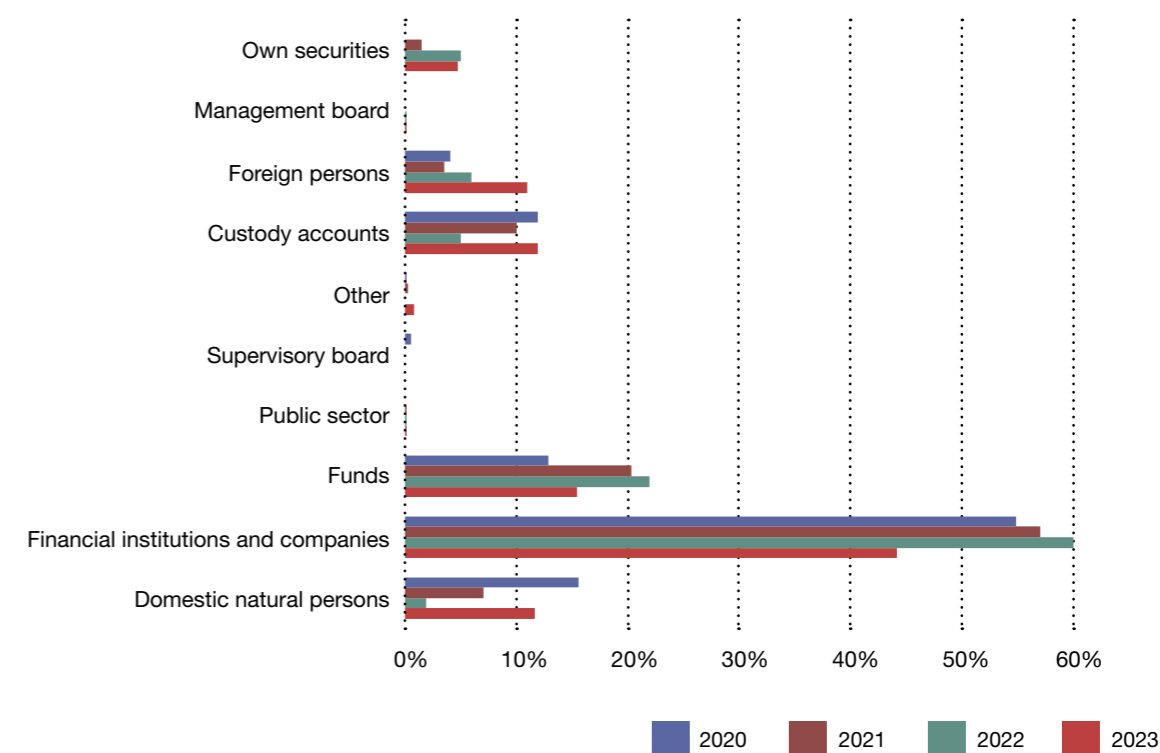
### Ownership structure of corporate bond issuers

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 holders, with the sum of all groups making 100% of the ownership structure, meaning that one holder can be allocated to a single group only.

The ownership structure of 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 (other than members of the management and supervisory board), foreign persons (other than members of the management and supervisory board), custody accounts and other.

Chart 99 presents the ownership structure of corporate bond issuers as at 31 December 2020, 2021, 2022 and 2023 by the above-mentioned categories.

Chart 99 Ownership structure of corporate bond issuers as at 31/12/2020, 31/12/2021, 31/12/2022 and 31/12/2023



Source: CDCC

- In 2023 (as in the previous years), the ownership structure of corporate bond issuers was dominated by financial institutions and companies with a 44% share, followed by funds with a 16% share and domestic natural persons with a 12% share, while the smallest share was accounted for by the public sector and management and supervisory board members (from 0% to 0.1%). Foreign persons made up a minor share in this structure (11% in 2023); however, an increasing trend is noticeable in the period from 2020 to 2023.
- In the period from 2020 to 2023, the ownership structure of corporate bond issuers showed a rise in the share of domestic natural persons (10%) and custody accounts (7%) and a decline in the share of funds and financial institutions (16%) in 2023 compared with the previous periods.

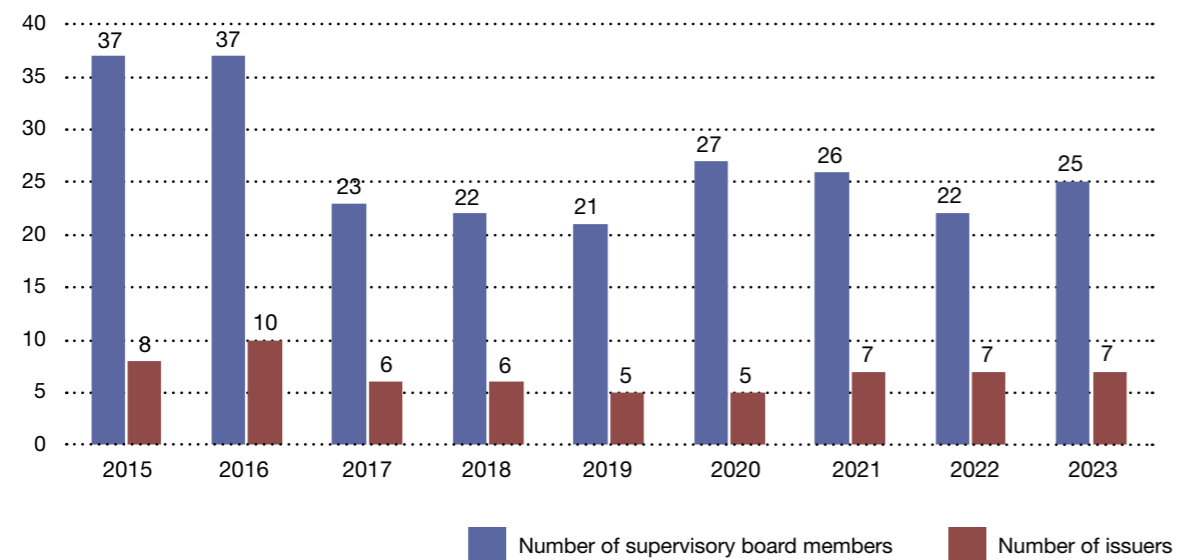
## SUPERVISORY BOARD AND ITS COMMITTEES

### Supervisory board

- At the end of 2023, supervisory boards of corporate bond issuers consisted of 4 members on average (3 members at the end of 2022).
- At end-2023, the proportion of women on supervisory boards of corporate bond issuers was by 31% larger than the proportion of women on management boards (at the end of 2022, the proportion of women on supervisory boards of corporate bond issuers was by 19% 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 2023.

Chart 100 Number of supervisory board members of corporate bond issuers in the 2015 – 2023 period

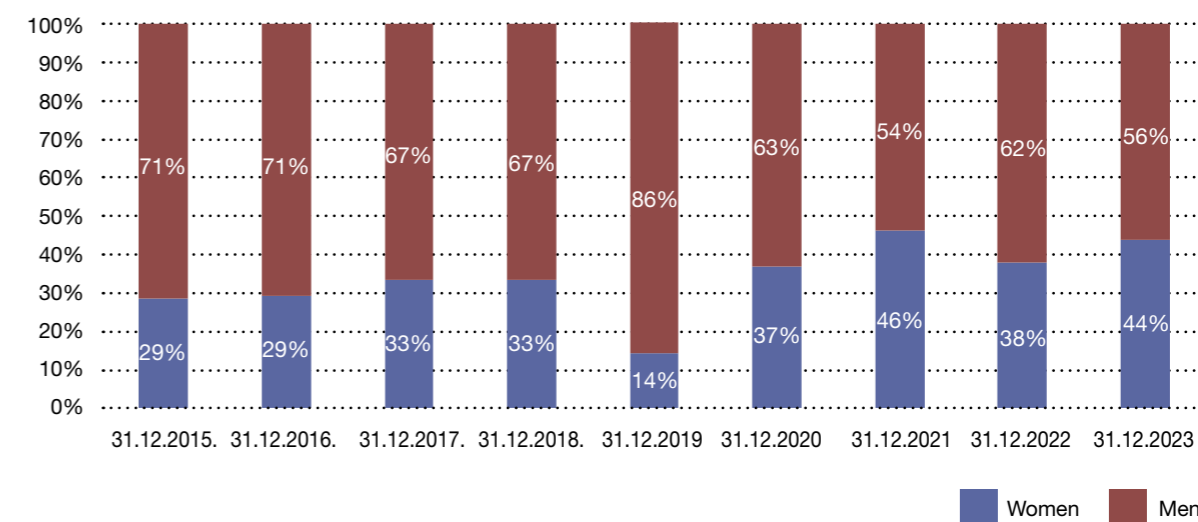


Source: court register

The number of supervisory board members in the observed period ranged from 37 in 2015 to 27 in 2020, and after a decrease in the following two periods reached 25 in 2023. In 2023, the number of corporate bond issuers remained unchanged compared to 2022, while the number of supervisory board members increased by 3.

Gender composition of corporate bond issuers' supervisory boards in the period from 2015 to 2023 is shown in the following chart.

Chart 101 Share issuers' supervisory board gender structure in the 2015 – 2023 period



Source: court register

- The proportion of women on bond issuers' supervisory boards was higher as at 31 December 2023 than as at 31 December 2022.
- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 34%, exceeding the average number of women on management boards of corporate bond issuers in the same period (17%).

Table 25 Age structure of supervisory board members of corporate bond issuers in the 2015 – 2023 period

Age of supervisory board members	2015	2016	2017	2018	2019	2020	2021	2022	2023
Younger than 35	5%	5%	2%	2%	-	-	-	5%	-
Between 36 and 45	30%	35%	36%	27%	24%	22%	19%	18%	27%
Between 46 and 55	25%	27%	26%	37%	29%	26%	35%	41%	42%
Older than 56	40%	33%	36%	34%	47%	52%	46%	36%	31%

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2023, the majority of supervisory board members of corporate bond issuers were between 46 and 55 years old.
- As at 31 December 2023, 31% of supervisory board members of corporate bond issuers were older than 56 years of age, 42% of them were between 46 and 55 years old, while

27% of them were between 36 and 45 years old (as at 31 December 2022, 36% of supervisory board members of corporate bond issuers were older than 56 years of age, 41% of them were between 46 and 55 years old, 18% of them were between 36 and 45 years old, while 5% were younger than 35).

- As at 31 December 2023, the majority of supervisory board members of corporate bond issuers (85%) had a university degree (82% of supervisory board members at the end of 2022).
- The average number of corporate bond issuers' supervisory board meetings held in 2023 was 8 (8 meetings in 2022, as well).

### Supervisory board committees

- One corporate bond issuer (14%) had in place all three supervisory board committees in 2023 (1 issuer in 2022, as well).
- Broken down by individual committees, 7 issuers (100%) had an audit committee, while one issuer had a remuneration committee i.e., a nomination committee (in 2022, 7 issuers had an audit committee, while one issuer had a remuneration committee and a nomination committee).
- Each of the supervisory board committees had a minimum of 3 members (as in 2022).
- Out of the 7 issuers that had in place an audit committee in 2023, 6 issuers (86%) had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee (same as in 2022).
- The average number of meetings held by the audit committee during 2023 was 3. The issuer with a remuneration committee in place held 3 meetings in 2023, same as the issuer with a nomination committee (in 2022, 4 meetings of the audit committee were held on average, while an issuer with a remuneration committee and a nomination committee in place held 4 meetings of the remuneration committee and 1 meeting of the nomination committee).

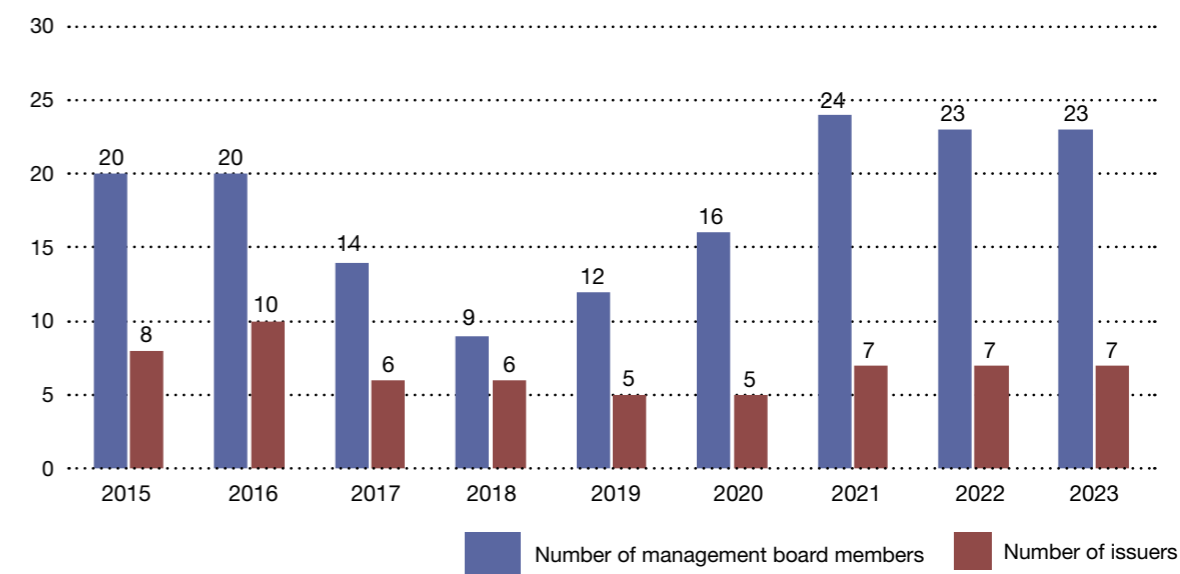
## MANAGEMENT BOARD

The following analysis presents the data on management board members of corporate bond issuers in the 2015 – 2023 period.

- In 2023, 1 corporate bond issuer (14%) had a one-tier governance system, while 6 issuers (86%) had a two-tier governance system (in 2022, out of 7 corporate bond issuers, one issuer had a one-tier governance system, and 6 issuers had a two-tier governance system).
- At end-2023, management boards of corporate bond issuers consisted of 3 members on average (of 3 members on average at end-2022, as well).

The number of management board members of corporate bond issuers in the period from 2015 to 2023 is shown in the following chart.

Chart 102 Number of management board members of corporate bond issuers in the 2015 – 2023 period

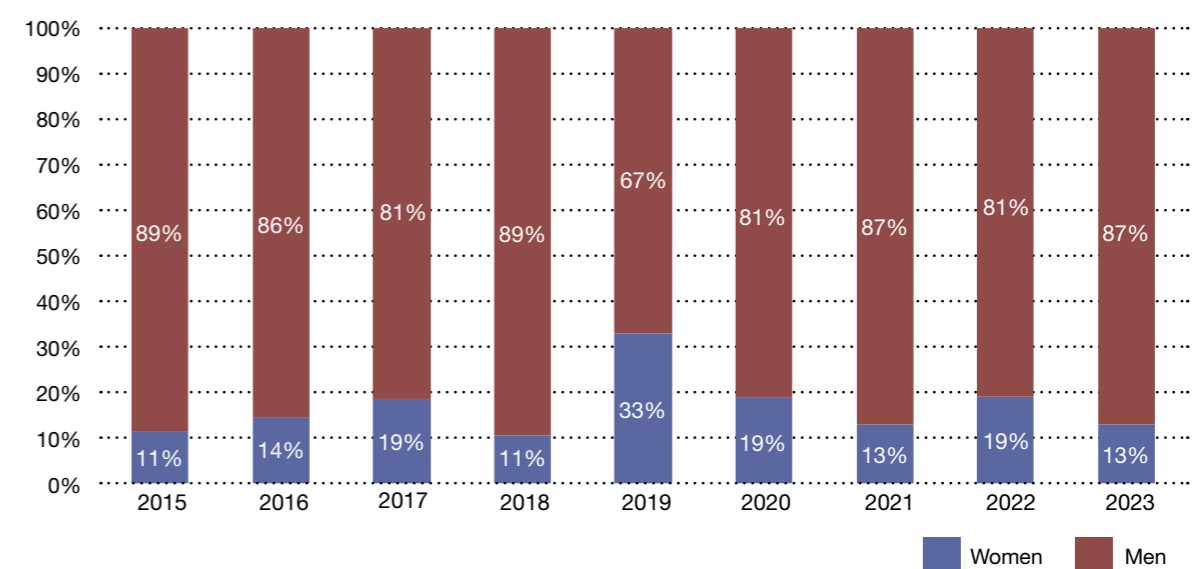


Source: court register

- The number of management board members of bond issuers was decreasing until 2018, after which it showed a continuous increase until 2021, while it remained stable in the remaining two periods.
- The number of bond issuers remained the same as in the previous period, and at the end of 2023 there were 7 bond issuers.

The following chart shows the share women on management boards of corporate bond issuers in the period from 2015 to 2023.

Chart 103 Share of women on management boards of corporate bond issuers in the 2015 – 2023 period



Source: court register

- In the period observed (2015 – 2023), the average share of women on management boards of corporate bond issuers totalled 17%.

Table 26 Age structure of management board members of corporate bond issuers in the 2015 – 2023 period

Age of supervisory board members	2015	2016	2017	2018	2019	2020	2021	2022	2023
Younger than 35	5%	5%	-	-	-	-	-	-	-
Between 36 and 45	48%	49%	50%	30%	44%	31%	21%	17%	14%
Between 46 and 55	32%	31%	43%	60%	33%	50%	54%	61%	68%
Older than 56	15%	15%	7%	10%	22%	19%	25%	22%	18%

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In the period from 2015 to 2017, and in 2019, the majority of management board members were between 36 and 45 years old. In 2018, 2020, 2021, 2022 and 2023, the majority of management board members were between 46 and 55 years old.
- At the end of 2023, the majority of management board members had finished undergraduate university study and graduate university study or an integrated undergraduate university study and graduate university study / undergraduate university study (54%) or had a Master Degree in Science or Art (9%) (at the end of 2022, the majority of management board members had finished undergraduate university study and graduate university study or an integrated undergraduate university study and graduate university study / undergraduate university study (39%) and a graduate specialist professional study / undergraduate professional study (17%)).
- A total of 5 issuers (71%) 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 2020, 5 issuers out of 7 reported having an internal regulation on management board activities (rules of procedure of the management board), which one issuer amended during the year).
- 5 issuers reported having a schedule of meetings of the management board (same as in 2022). The average number of corporate bond issuers' management board meetings held in 2023 was 33 (29 meetings in 2022).
- In 2023, one member of the corporate bond issuers' management board resigned before the expiry of their term of office due to personal reasons (in 2022, one member of corporate bond issuers' management board resigned before the expiry of their term).

## DUTIES AND RESPONSIBILITIES OF BOARD MEMBERS

### Conflicts of interest and related party transactions

- In 2023, 4 issuers (57%) reported having in place an internal regulation for cases of related party transactions (2 issuers in 2022).
- No conflicts of interest were reported in 2023 (as in 2022).

The following table shows the average value of transactions concluded by corporate bond issuers in the period from 2015 to 2023 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 27 Average value of related party transactions in the period from 2015 to 2023

		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
2023	Number of issuers having reported the transaction	2	2	1	6
	Average transaction value in EUR	101,276,039	911,891	9,823,472	82,387,949
2022	Number of issuers having reported the transaction	2	2	1	6
	Average transaction value in EUR	407,368,403	877,350	9,622,864	179,744,163
2021	Number of issuers having reported the transaction	3	2	1	6
	Average transaction value in EUR	601,583,198	2,724,639	8,928,932	849,059,134
2020	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value in EUR	188,284,366	1,998,976	6,454,134	126,310,964
2019	Number of issuers having reported the transaction	3	1	1	3
	Average transaction value in EUR	219,638,562	2,358,999	3,977,165	224,795,179
2018	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value in EUR	358,625,11	2,146,489	3,039,980	98,479,080

2017	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value in EUR	890,729,122	1,956,897	3,079,425	198,256,329
2016	Number of issuers having reported the transaction	2	2	1	4
	Average transaction value in EUR	501770259.1	9111820/7.5345	3,950,093	47,960,888
2015	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value in EUR	363,667,803	1,734,110	4,584,512	37,792,611

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2023, 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 (same as in 2022), while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer (as in 2022).
- In 2023, 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 2023, 2 corporate bond issuers (29%) reported having a remuneration policy for management board members, and only 1 issuer (14%) published the remuneration policy for management board members on its website (in 2022, 2 corporate bond issuers reported having a remuneration policy for management board members, and only 1 issuer published the policy on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to management board members in the 2015 – 2023 period.

Table 28 Remuneration paid to corporate bond issuers' management board members in the 2015 – 2023 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration (in EUR)	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2023	Number of issuers	6	5	2	0
	Amount	468,496	227,025	21,549	0
2022	Number of issuers	5	4	2	0
	Amount	576,324	270,923	4,712	0
2021	Number of issuers	6	3	2	0
	Amount	453,334	227,431	3,809	0
2020	Number of issuers	4	1	0	0
	Amount	562,162	150,651	0	0
2019	Number of issuers	4	2	0	1
	Amount	454,273	287,112	0	31,477
2018	Number of issuers	6	4	3	1
	Amount	612,869	290,196	26,021	192,400
2017	Number of issuers	7	2	2	1
	Amount	785,122	278,343	57,976	982,968
2016	Number of issuers	11	4	1	1
	Amount	565,920	133,266	636,599	289,536
2015	Number of issuers	11	4	0	1
	Amount	488,007	355,153	0	746,241

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2023, 6 corporate bond issuers (86%) paid gross fixed remuneration to management board members in the amount of EUR 2,810,975.82 (5 issuers out of 7 in 2022).
- The gross fixed amount of remuneration paid to management board members in 2023 reached EUR 468,496 on average (EUR 576,324 in 2022).
- The gross fixed amount of remuneration paid to management board members in 2023 ranged from EUR 26.5 thousand to EUR 1.6m (in 2022, it ranged from EUR 143.6 thousand to EUR 1.7m).
- Five corporate bond issuers paid variable remuneration to management board members in the amount of EUR 1,135,127.21 (in 2022, 4 corporate bond issuers paid variable remuneration to management board members in the amount of EUR 1,354,614).
- The average amount of gross variable remuneration paid to management board members in 2023 reached EUR 227,025 (EUR 270,923 in 2022).
- Two corporate bond issuers paid other benefits to management board members in 2023, in the total amount of EUR 21.5 thousand (EUR 4.7 thousand in 2022).

- No corporate bond issuer granted options to management board members in 2023 (as in 2022).
- In 2023, 2 issuers granted shares to management board members in the amount totalling EUR 146,559.79 (in 2022, 2 issuers in the amount of EUR 121,892).
- In 2023, no issuers agreed severance allowance with management board members (same as in 2022).
- In 2023, 1 issuer paid severance allowance in the amount totalling EUR 27 thousand (same as in 2022).

### Remuneration of supervisory board members

- In 2023, 2 corporate bond issuers (29%) reported having a remuneration policy for supervisory board members, and only 1 issuer (14%) published the remuneration policy for supervisory board members on its website (in 2022, 2 corporate bond issuers reported having a remuneration policy for supervisory board members, and only 1 issuer 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 - 2023 period.

Table 29 Remuneration paid to corporate bond issuers' supervisory board members in the 2015-2023 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration (in EUR)
		Fixed remuneration	Variable remuneration	
2023	Number of issuers	3	0	1
	Amount	121,017	0	38,779
2022	Number of issuers	3	0	1
	Amount	405,537	0	17,675
2021	Number of issuers	3	0	1
	Amount	485,540	0	15,133
2020	Number of issuers	3	0	0
	Amount	198,516	0	0
2019	Number of issuers	3	0	0
	Amount	193,261	0	0
2018	Number of issuers	5	0	1
	Amount	51,227	0	1,440
2017	Number of issuers	5	1	1
	Amount	137,700	2,354	594
2016	Number of issuers	9	1	1
	Amount	56,201	2,888	1,315
2015	Number of issuers	9	1	1
	Amount	67,036	3,408	915

Source: Governance practices questionnaire 2019, 2020, 2021, 2022 and 2023, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- For 3 issuers, the amount of remuneration for supervisory board members was determined by the general meeting (same as in 2022).
- In 2023, no corporate bond issuer reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting (as in 2022).

### Remuneration of the senior management

- A total of 5 bond issuers paid remuneration to the senior management in 2023, of which 5 issuers paid fixed remuneration only, and 3 issuers paid both fixed and variable remuneration (in 2022, 5 issuers paid fixed remuneration and 3 issuers paid both fixed and variable remuneration).
- The amounts of fixed remuneration paid to the senior management in 2023 ranged from EUR 378 thousand (paid by an issuer from the computer, electronic and optical products manufacturing sector) up to EUR 2.4m (paid by an issuer from the banking sector) (from EUR 199 thousand (paid by an issuer from the computer, electronic and optical products manufacturing sector) up to EUR 2.4m (paid by an issuer from the banking sector) in 2022). The average amount of variable remuneration in 2023 stood at EUR 479 thousand.
- In 2023, no issuers agreed severance allowance with the senior management (in 2022, 2 issuers in the amount of EUR 233 thousand).
- In 2023, no issuers paid severance allowance to their senior management (in 2022, severance allowance was paid to the senior management in the amount averaging EUR 101 thousand).
- In 2023, 2 issuers granted shares to the senior management and 2 issuers paid other benefits to the senior management ranging from EUR 44 thousand to EUR 45 thousand (in 2022, 2 issuers granted shares to the senior management and 2 issuers paid other benefits to the senior management ranging from EUR 4 thousand to EUR 23 thousand).

## RISKS, INTERNAL CONTROL AND AUDIT

### Internal control and audit

- In 2023, 4 issuers had an internal control system in place (3 issuers in 2022).
- There were 30 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 2022, there were 38 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).
- 5 issuers reported having an internal audit system in place in 2023 (same as in 2022).

## Managing company risks

- 3 issuers (43%) reported having a person in charge of risk management (3 issuers in 2022, as well).
- The most frequent risks faced by corporate bond issuers in 2023 were liquidity risk, credit risk, political risk and other risks (same as in 2022).

## External audit

- In 2023, 7 corporate bond issuers used services of 8 different external auditors; the number of auditors was higher than the number of issuers because one issuer used services of 2 different auditors that carried out a joint audit (as in 2022).
- 2 issuers used services of the largest audit firms (3 issuers in 2022).
- At the end of 2023, the average length of the time period during which issuers used services of the same external audit firm was 4 years (4 years in 2022, as well).
- 7 issuers reported the gross amount paid to the external audit firm for audit services provided in 2023, and the amounts ranged from EUR 9.7 thousand to EUR 490 thousand (from EUR 7 thousand to EUR 171 thousand in 2022). External auditors were paid an average of EUR 107 thousand by issuers (EUR 97 thousand in 2022).
- One issuer reported the gross amount paid to an external audit firm for other services provided in 2022, and the amount totalled EUR 9.9 thousand (2 issuers in 2022, and the amount totalled EUR 91 thousand).

## TRANSPARENCY AND CORPORATE SOCIAL RESPONSIBILITY

- In 2023, 5 issuers had their websites in both Croatian and English, while 1 issuer had its website in Croatian only (same as in 2022).
- In 2023, 2 issuers (1 issuer from the computer, electronic and optical products manufacturing sector and 1 issuer from the construction industry) had a separate department or employees in charge of investor relations exclusively (2 issuers in 2022 as well, 1 from the distribution sector and 1 from real estate business).
- 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 2022).
- 3 issuers reported having held press conferences in 2023, of which 1 issuer held 3 press conferences during the year (in 2022, 2 issuers, of which 1 issuer held a total of 5 press conferences during the year).

## Corporate Governance Code

- In 2023, 2 issuers complied with another corporate governance code in addition to the Code, namely an internal code of the issuer (in 2022, 1 issuer complied with their internal code in addition to the Code).
- The issuers that complied with an internal code in addition to the Code in 2023 were engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations and in real estate activities (the issuer that complied with an internal code in addition to the Code in 2022 was engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations).

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