

# ANNUAL REPORT ON CORPORATE GOVERNANCE **2021**



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# Introduction

## Implementation of the Corporate Governance Code and other regulations in 2021

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.

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 the level of their compliance with the Code, i.e. their corporate governance practices, also for the year starting on 1 January 2019, in order to enable the identification of the existing practices and the monitoring of the progress in the years following the entry into force of the Code. The initial level of companies' compliance with the Code is presented in the 2019 Annual Report on Corporate Governance.

In addition to the obligation to implement the Code, in 2022, companies whose shares are admitted to the regulated market were obliged, pursuant to Article 462(5) of the Capital Market Act<sup>1</sup>, to prepare their annual reports and consolidated annual reports in accordance with Commission Delegated Regulation (EU) 2018/815 of 17 December 2018<sup>2</sup>, specifying a single electronic reporting

<sup>1</sup> Capital Market Act (Official Gazette, No 65/2018, 17/2020, 83/2021)

<sup>2</sup> Commission Delegated Regulation (EU) No 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format, OJ L 143, 29.5.2019

format. In order to enable issuers to focus their activities on other aspects of their business due to the impact of the COVID-19 pandemic, Hanfa postponed the application of this obligation in 2020. Hanfa's decision was based on an agreement between the European Parliament and the Council to offer Member States the possibility to postpone the application of the obligation by one year. On behalf of the Republic of Croatia, Hanfa notified the European Commission of the postponement. During 2022, issuers were obliged to submit their annual report for the year 2021 in the prescribed single electronic reporting format.

As regards the publication of ESG<sup>3</sup> relevant information within the framework of non-financial reporting, in 2021, companies whose securities are admitted to the regulated market and which meet the criterion of the prescribed number of employees were obliged (pursuant to the Accounting Act<sup>4</sup>, transposing Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014<sup>5</sup> into the legal system of the Republic of Croatia) to include in their management report a non-financial statement containing information on their development, performance, position and impact of their activity relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Companies whose securities are admitted to the regulated market and which are subject to non-financial reporting requirements are also obliged to publish certain indicators pursuant to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (hereinafter: the Taxonomy Regulation<sup>6</sup>).

In order for this information to be comparable, reliable and understandable, on 18 March 2021, Hanfa published Guidelines on the preparation and disclosure of ESG-relevant issuer information<sup>7</sup> for the purpose of ensuring uniform action by all issuers on the Croatian market.

Furthermore, companies whose shares were admitted to the regulated market are obliged to apply the provisions of the Act Amending the Companies Act<sup>8</sup> which entered into force on 20 April 2019, namely its provisions which entered into force on 1 January 2021.

These provisions prescribe the exercise of voting rights at the general meeting by electronic communication, confirmation of the shares being deposited for the purpose of exercising voting rights, the right of shareholders to ask the company, within one month after the general meeting was held, to confirm whether and how their votes were cast, and the obligation of the company to provide that confirmation to shareholders, the exercise of voting rights via intermediaries and persons acting accordingly, transfer of information on the exercise of rights arising from shares via intermediaries and intermediaries in the chain, and the processing and correcting of shareholder data.

Shareholders' right to exercise their voting rights by proxy or electronically without any restrictions is regulated by the Code, which entered into force before 1 January 2021, the date of entry into force of the amendments to the Companies Act in question.

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<sup>3</sup> ESG – Environmental, Social and Governance

<sup>4</sup> Accounting Act (Official Gazette, No 78/2015, 134/2015, 120/2016, 116/2018, 42/2020, 47/2020 and 114/2022)

<sup>5</sup> Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, OJ L 330, 15.11.2014

<sup>6</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

<sup>7</sup> <https://www.hanfa.hr/vijesti/hanfa-donijela-smjernice-za-nefinancijsko-izvje%C5%A1tavanje-poduze%C4%87a-prema-okoli%C5%A1nim-upravlja%C4%8Dkim-i-dru%C5%A1tvenim-esg-ciljevima/>

<sup>8</sup> Act Amending the Companies Act (Official Gazette, No 40/2019)

# 2021 Annual Report on Corporate Governance

Hanfa began to publish its Annual Report on Corporate Governance in 2011; therefore, the 2020 Annual Report on Corporate Governance started a new ten-year period of presenting data on corporate governance of issuers.

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 the compliance of issuers with 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 declare their (non)compliance with 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 publicly publish data on corporate governance, the application of the Code and compliance with its recommendations.

The compliance questionnaire requires the company to explain whether it complies (fully or partially) or fails 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, stating specific circumstances related to the company, and it should 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. Furthermore, if the company intends to comply with a provision of the Code in the future, it should specify when it will start doing so. The compliance questionnaire is published and sent to Hanfa for the purpose of monitoring compliance with respect to each individual company and jointly with respect to all the companies on the regulated market and on individual segments of the regulated market.

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 companies whose shares are admitted to the regulated market with specific sections of the Code, i.e. with recommendations of the Code for specific areas of corporate governance, as well as the overall compliance of these companies with the Code as a whole.

Apart from this, Hanfa's 2021 Annual Report on Corporate Governance will also show compliance with new and important provisions and recommendations of the Code (independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control system, gender diversity and ESG policies).

It will also, for the first time, describe the progress in compliance achieved by each issuer with respect to individual sections of the Code.

Data on compliance with the Code (via the compliance questionnaire), as well as data on governance practices (via the governance practices questionnaire) for 2021 were submitted by all of the companies obliged to submit data to Hanfa.



# Summary of key information in the 2021 Annual Report on Corporate Governance

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

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 issuers of closed-ended investment fund shares; they are therefore not obliged to submit the compliance questionnaire.

As at 31 December 2021, there were 94 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which three were closed-ended investment funds. A total of 91 share issuers were therefore obliged to submit the compliance questionnaire for 2021 (96 share issuers in 2020).

The compliance questionnaire was submitted to Hanfa by all of the companies 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 the share issuers whose shares were removed from trading on the regulated market in 2022 (4 share issuers) and the share issuers whose answers provided to the questions in the compliance questionnaire were not correct or consistent (also 4 share issuers), which was proved by a comparison between the answers provided and publicly available data. The sample serving as the basis for calculating overall compliance covered therefore 83 share issuers.

The analysis of data on share issuers' compliance with the Code in 2021 showed the following:

- The overall compliance of share issuers with the Code in 2021 is higher than their overall compliance with the Code in 2020. A total of 65% of all the questions responded to by share issuers in the 2021 compliance questionnaire were answered "YES" and 26% of the questions were answered "NO", while the remaining 9% were answered "Partially" (in 2020, 60% of all the questions in the compliance questionnaire were answered "YES" and 30% of the questions were answered "NO", while the remaining 10% were answered "Partially").
- According to data provided in the compliance questionnaire for the year 2021, issuers comply most with the sections "Leadership" (75% of "YES" answers in 2021 and 69% of "YES" answers in 2020) and "Shareholders and the general meeting" (72% of "YES" answers in 2021 and 69% of "YES" answers in 2020), while they comply least with the sections "Appointment of board members" (44% of "YES" answers in 2021 and 38% of "YES" answers in 2020) and "Stakeholders and corporate social responsibility" (56% of "YES" answers in 2021 and 51% of "YES" answers in 2020).
- The most significant increase in the compliance of share issuers compared with the previous year was recorded with respect to the section "Remuneration of management board members" (58% of "YES" answers in 2021 and 50% of "YES" answers in 2020). A substantial rise in the compliance of share issuers compared to 2020 was also recorded with respect to the section "Duties of board members" (67% of "YES" answers in 2021 and 60% of "YES" answers in 2020).

This Annual Report on Corporate Governance presents compliance with important provisions and recommendations of the Code by selected individual areas of corporate governance (independence of supervisory board members, independence of audit committee members, management and supervisory board evaluation, conflicts of interest, internal control system, gender diversity, ESG policies and remuneration policy). The following text provides data relating to important provisions and recommendations of the Code as regards individual selected areas.

## Independence of supervisory board members

- Provision 22 of the Code stipulates that the majority of supervisory board members of share issuers in the Republic of Croatia should be independent.
- The level of independence of supervisory board members of share issuers in the 2010-2021 period shows an upward trend. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2010 to 2021 stands at 39%. A total of 61% of supervisory board members were therefore not independent in that period.
- According to data collected from share issuers, their supervisory boards consist of 5.3 members on average, of which 2.21 on average are independent.
- Given that, in accordance with the Code, 3 out of 5 supervisory board members should be independent, the minimum requirement of the Code regarding the independence of the majority of supervisory board members was not met in 2021 (nor was it met in the two preceding years).



## Independence of audit committee members

- 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.
- According to data collected, the average number of share issuers' audit committee members in 2021 was 3, and 1 member of the audit committee on average was independent. The data fully correspond to the data on the average number of audit committee members and the average number of independent audit committee members in the previous two years. Therefore, as regards the independence of audit committee members, there were no changes relative to the previous period observed.
- To conclude, in 2021, the minimum independence requirement relating to the majority of audit committee members was not met.

## Management and supervisory board evaluation

- Provision 39 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness and composition of the supervisory board and its committees, as well as the performance of individual members. The evaluation should be led by the president, or by the deputy president if the president is not independent.
- In 2021, (as in 2020), supervisory boards of all the issuers whose shares were admitted to the Prime Market (100%) evaluated their effectiveness in the last 12 months, which points to a significant increase in compliance compared to 2019, when supervisory boards of 60% of the issuers evaluated their effectiveness in the previous 12 months. A positive trend in the compliance with this provision of the Code was recorded by issuers on the Regular Market (51% in 2019, 54% in 2020, and 56% in 2021), while issuers on the Official Market showed increased compliance compared to the previous year (59% in 2019, 57% in 2020, 65% in 2021).
- Provision 48 of the Code stipulates that at least once a year, the supervisory board should evaluate the effectiveness of cooperation arrangements between the supervisory and management board, and the adequacy of the support and information it receives from the management board. The results of the evaluation should be included in the report of the supervisory board in the annual report.
- As in 2020, in 2021 supervisory boards of all issuers on the Prime Market evaluated the effectiveness of cooperation arrangements between the supervisory and management board, which is an increase relative to 2019 (80%). With regard to issuers on the Official Market, a significant share of their supervisory boards evaluated the effectiveness of cooperation arrangements between the supervisory and management board both in 2021 (90%) and in 2020 (90%), which is an increase relative to 2019 (77%). The Regular Market showed a slight growth in the share of the issuers whose supervisory boards evaluated the effectiveness of cooperation arrangements between the supervisory and management board in 2021 (68%) compared to 2020 (64%), while this share stood at 67% in 2019.
- Provision 49 of the Code stipulates that at least once a year, the management board should evaluate its own effectiveness and that of its individual members, and should report the conclusions of the evaluations to the supervisory board.
- The compliance with the Code as regards the evaluation of the accountability and effectiveness of the management board and the effectiveness of individual management board members recorded by issuers on the Prime Market stood at 100%, rising significantly compared to 2020 (83%) and in particular compared to 2019 (20%). Issuers on the Official Market showed an upward trend in compliance with respect to the evaluation of the accountability and effectiveness of the management board and the effectiveness of individual management board members in 2021 (45%) relative to 2020 (33%) and 2019 (18%). Issuers on the Regular Market showed a slight upward compliance trend in 2021 (46%) compared to 2020 (45%) and 2019 (42%).

## Conflicts of interest

- Provision 7 of the Code stipulates that members of supervisory and management boards should not be permitted to make decisions based on their personal interests or interests of their related persons, and should not participate in decisions in respect of which they have a conflict of interest.
- In 2021, as in 2020, 14 conflicts of interest were reported by 4 issuers, which is an increase of 180% compared to 2019, when 5 conflicts of interest were reported by 2 issuers.
- Although the increase in the number of reported conflicts of interest in 2021 and 2020, compared to 2019, is significant and indicates higher awareness of the importance and need to manage conflicts of interest, the largest number of conflicts of interest in 2021, as in 2020, were reported by the issuers whose shares are admitted to the Official Market (8 reports in 2021, 10 reports in 2020), while the number of reports by the issuers whose shares are admitted to the Regular Market (4 reports in 2021, 1 report in 2020) and the Prime Market (2 reports in 2021, 3 reports in 2020) is still low.
- The governance practices questionnaire showed that 54 supervisory board members in 25 issuers were related to management board members in 2021 (56 supervisory board members in 24 issuers in 2020, and 55 supervisory board members in 25 issuers in 2019). The year 2021 saw the highest average gross amount of related party transactions (HRK 146.6m) relative to the 2017-2020 period.
- The number of issuers having reported transactions with management and supervisory board members was the lowest in 2021 compared to the 2015-2020 period.
- Despite the above-mentioned data on the relationship between management and supervisory board members and data on related party transactions, in 2021, only 7 conflicts of interest were reported by management boards, while supervisory boards did not report any conflicts of interest.
- Taking into account information on the relationship between management and supervisory board members, as well as data on related party transactions and the absence of internal rules of procedure in cases of related party transactions, 45% of the issuers reported an extremely small number of conflicts of interest, calling into question the effectiveness of conflict of interest management and conflict of interest control mechanisms that should be provided by issuers through internal rules and the operation of internal control and supervisory board.

## Internal control system

- One of the basic principles of the Code concerning the section relating to the leadership of share issuers implies that supervisory and management boards shall ensure that the company has in place the strategy, resources, risk management and internal control systems and relations with shareholders to support its long-term success and sustainable development.
- In 2021, 55% of the issuers had an internal control system in place, which is a slight increase compared to the previous years (53% of the issuers in 2020, 54% of the issuers in 2019).
- The share of issuers on the Regular Market with an internal control system in place in 2021 (47%) grew relative to 2020 (43%) and 2019 (38%), showing that issuers recognised the importance of establishing an effective internal control system as a factor which ensures reliable information used by the management board in its management activities. However, in spite of the growing compliance trend recorded in the period observed, the share of issuers on the Regular Market with an internal control system in place is still low.

- The share of issuers on the Official Market with an internal control system in place (67%) decreased slightly in 2021 compared to 2020 (71%), but rose a little relative to 2019 (65%). All share issuers on the Prime Market in 2021, as well as in 2020 and 2019, had an internal control system in place.
- The existence of an internal control system does not in itself ensure the effectiveness and efficiency of the system. As the management of conflicts of interest 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.

## Gender diversity of management and supervisory boards

- The Code prescribes that every five years, the supervisory board of the issuer should set a target relating to the percentage of female members on the supervisory and management board to be achieved within the next five years. Each target must be published in the annual report and include an explanation as to why it has been set.
- The target percentage of female supervisory board members in 2021 was not set by 23% of the share issuers on the Regular Market and 33% of the share issuers on the Official Market. The target percentage of female management board members in 2021 was not set by 12% of the issuers on the Regular Market and 19% of the issuers on the Official Market. All share issuers on the Prime Market set the target percentage of female management and supervisory board members.
- Although the target percentage of female board members is to be achieved within a period of five years from the date of defining that percentage, in 2021, 41% of the issuers achieved the target percentage of female supervisory board members, which is a rise compared to 2020, when 28% of them achieved this target. A total of 29% of the share issuers achieved the target percentage of female management board members, which is an increase compared to 2020, when this share stood at 24%.
- The share of issuers without any female management board members reached 65% in 2021, declining compared to 2019 and 2020 (73% and 66% respectively). The share of issuers without any female supervisory board members stood at 32% in 2021, also decreasing slightly compared to 2019 and 2020 (40% and 38% respectively). However, the share of issuers without any female management board members remains very high (65%), indicating only slight progress towards achieving gender diversity goals and leaving significant room for improvement in this segment.

## Non-financial (ESG) reporting

- Non-financial statements were disclosed by 42% of the share issuers, a decline compared to 2020, when 56% of the share issuers disclosed their non-financial statements.
- All issuers on the Prime Market disclosed their 2021 non-financial statements, while 65% and 28% of the issuers on the Official Market and Regular Market respectively did so.
- The analysis of issuers subject to the obligation to disclose their non-financial statements (42% of the total number of issuers) shows that 88% of them met this obligation.

- Of the 40 issuers that published their non-financial statements, 24 (60%) published indicators under the Taxonomy Regulation.
- Within the framework of these statements, all issuers disclosed information on their performance and financial position, planned development and investments, as well as environmental protection and employee-related matters.
- In 2021, issuers' compliance with Section 10 of the Code "Stakeholders and corporate social responsibility" stood at 69% on the Prime Market (66% in 2020), 54% on the Official Market (54% in 2020) and 55% on the Regular Market (48% in 2020).
- The comparison of the responses received for 2021 with those received for 2019 and 2020 shows an increase in share issuers' compliance with the section "Stakeholders and corporate social responsibility" in all segments of the regulated market. 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.

## Remuneration policy

- Provision 51 of the Code stipulates that the supervisory board should determine the annual remuneration of each management board member, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy. The remuneration policy should be prepared in accordance with relevant legal requirements and should include provisions that will specify circumstances under which part of a management board member's remuneration would be withheld or recovered.
- The largest increase in the share of the issuers that complied with this provision in 2021 was recorded with respect to share issuers on the Prime Market (20% in 2019, 67% in 2020, 100% in 2021), while the rise in the said share of issuers on the Official Market (36% in 2019, 48% in 2020, 50% in 2021) and Regular Market (22% in 2019, 35% in 2020, 46% in 2021) was significantly smaller than in 2019 and 2020. In 2021, all issuers on the Prime Market complied with this provision of the Code.
- Provision 56 of the Code stipulates that share issuers should make their remuneration policy as approved by shareholders at the general meeting freely available on their website.
- As regards the availability of share issuers' remuneration policy on their website free of charge, there was a significant increase in the compliance of share issuers on the Prime Market and Regular Market. The largest increase was recorded by share issuers on the Prime Market (100%) relative to 2020, when this percentage stood at 67%, while in 2019 no issuers complied with this provision of the Code. A rise in the compliance as regards the availability of share issuers' remuneration policy on their website free of charge was also recorded by share issuers on the Regular Market, and it amounted to 65% (in 2019, it stood at 12%, and in 2020 at 41%). However, the share of issuers on the Official Market that comply with this provision of the Code fell slightly in 2021, reaching 80%, while in 2020 and 2019 it stood at 86% and 36% respectively.



## Overview of selected corporate governance areas for share issuers

## Introduction

The 2021 Annual Report on Corporate Governance shows the compliance with recommendations of the Code for individual selected corporate governance areas. This chapter shows the compliance in the following corporate governance areas: independence of the supervisory board, supervisory board committees, gender diversity.

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

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

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

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

Management and supervisory board gender composition was selected since the new Code introduced, for the first time, a provision in the corporate governance in the Republic of Croatia regulating the issue of women's participation in supervisory and management boards as a mandatory factor in determining the balanced composition of management and supervisory boards. The Code prescribes that every five years, the supervisory board should set a target percentage of female members on the supervisory and management board to be achieved within the next five years. The target should be published in the annual report, together with an explanation as to why the specific percentage was chosen, a plan setting out how it will be achieved, as well as the progress on the plan. The Code allows the supervisory board of a company to determine the target percentage of women on the management and supervisory board, which means that the Code does not specify which percentage of women on the management and supervisory board is acceptable and desirable, but only that such objective should be set by the company. In order to monitor measures taken by the supervisory board of a company as regards the share of women on the management and supervisory board and whether there were any changes or improvements in those shares in relation to 2019 and 2020, this area was selected as an area relevant for assessing the compliance of issuers.

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

The evaluation of the management and supervisory board comprises the evaluation of the effectiveness and composition of the supervisory board and its committees, as well as of individual performance of committee members; the evaluation of the effectiveness of arrangements for co-

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

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

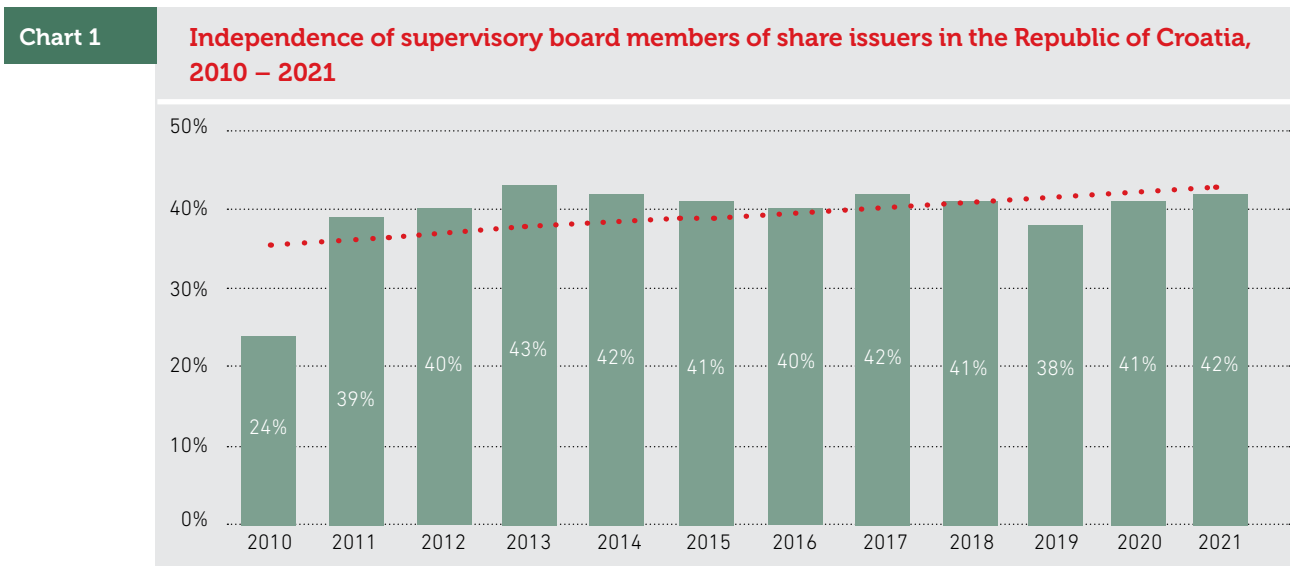
The remuneration policy, its adoption, and the content and adoption of remuneration reports are governed not only by the Code, but also by the Companies Act<sup>9</sup>. Considering the importance of the adoption and disclosure of the remuneration policy and remuneration reports this area was selected as an area relevant for assessing the compliance of issuers.

## Independence of supervisory board members

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

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

The following chart provides a comparative overview of the ratio of independent supervisory board members of share issuers in the Republic of Croatia from 2010 to 2021.



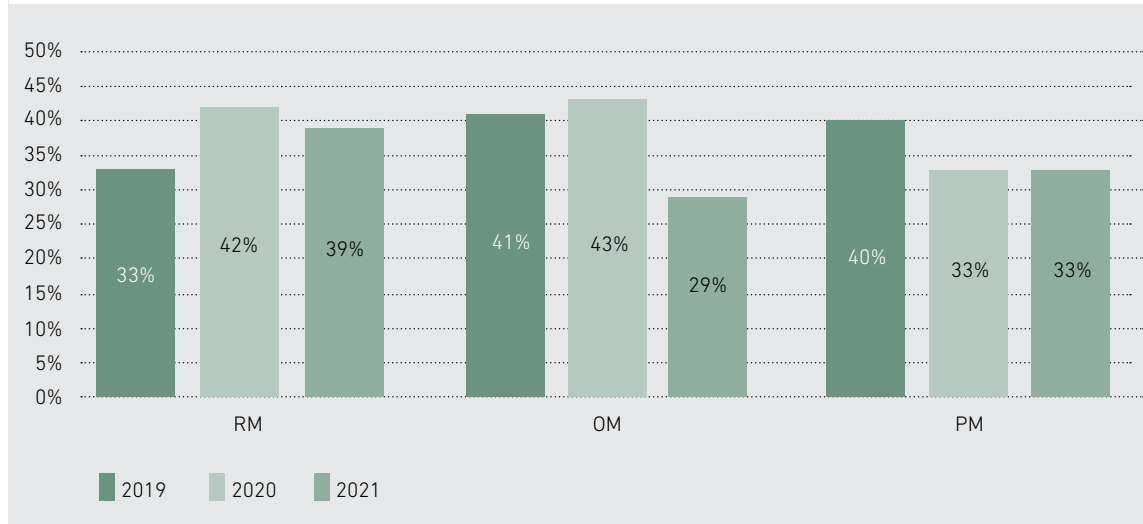
Source: Governance practices questionnaire 2019, 2020 and 2021, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

<sup>9</sup> Official Gazette, No 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107/2007, 146/2008, 137/2009, 125/2011, 111/2012, 68/2013, 110/2015, 40/2019, 34/2022



The independence of supervisory board members of share issuers in the 2010-2021 period shows an upward trend. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2010 to 2021 reached 39%. This means that 61% of supervisory board members were not independent in that period.

**Chart 2** Share of issuers with an independent majority of supervisory board members by segments of the regulated market, 2019, 2020 and 2021

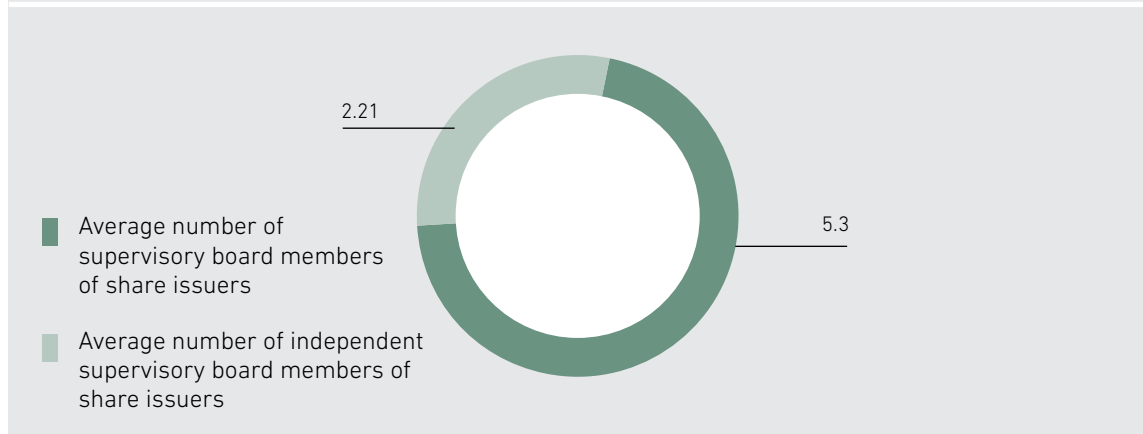


Source: Governance practices questionnaire 2019, 2020 and 2021

As regards the independence of supervisory board members of share issuers in 2021 and 2020, depending on the regulated market segment, the share of share issuers on the Regular Market recorded a slight decrease, while the share of issuers on the Official Market with an independent majority of supervisory board members decreased significantly relative to 2020. The share of share issuers on the Prime Market with an independent majority of supervisory board members remained unchanged relative to 2020. However, shares of issuers with an independent majority of supervisory board members by individual segments of the regulated market are lower than 50%.

According to data collected from share issuers, supervisory boards consist of 5 members on average. Pursuant to the Code, 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 2021.

**Chart 3** Average number of supervisory board members and average number of independent supervisory board members of share issuers in 2021



Source: Governance practices questionnaire 2021



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

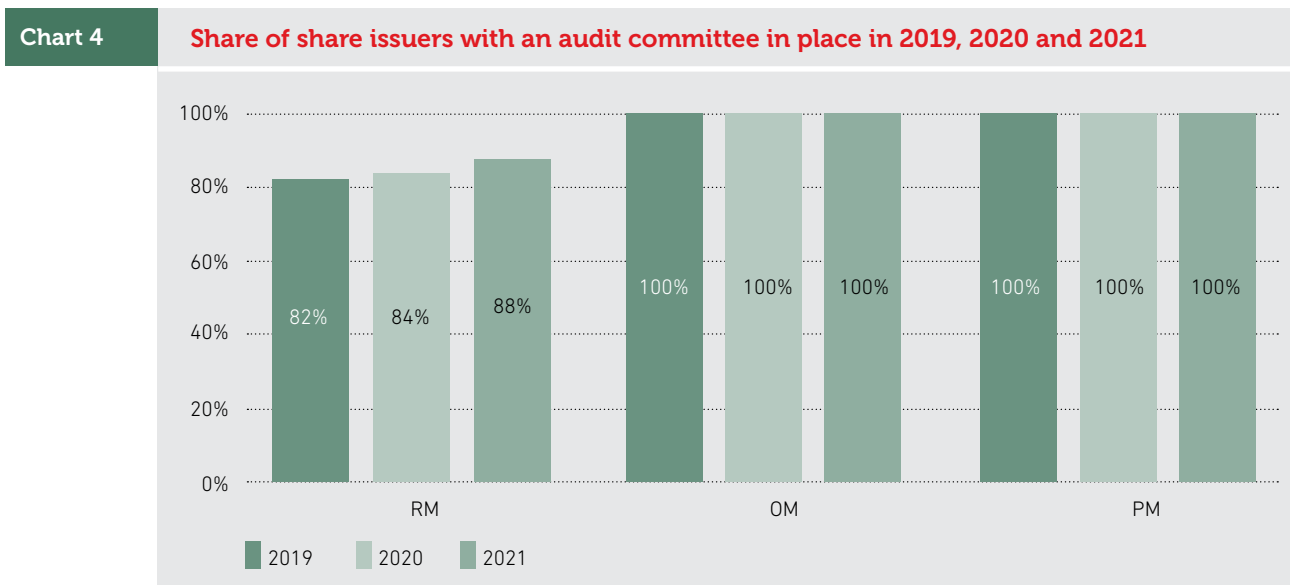
Even though data on independent supervisory board members of share issuers in the Republic of Croatia point to certain (slight) progress towards the increase in their independence, share issuers should put in additional effort in order to ensure the independence of the majority of their supervisory board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

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

According to data collected, the relationship between supervisory board members and management board members (predominant business relationship reaches 57%) and other supervisory board members (predominant business relationship reaches 71%), as well as related party transactions may affect the achievement of the objective regarding the independence of the majority of supervisory board members, which, as a consequence, may have an impact on the effectiveness of the work of the supervisory board and its decision-making process.

## Independence of audit committee members

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



Source: Compliance questionnaire 2019, 2020 and 2021

2021 saw a slight increase in the compliance of share issuers with the Code as regards the establishment of the audit committee by the supervisory board on the Regular Market, while issuers on the Official Market and Prime Market were fully aligned with the Code in this respect, over all three 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 2021 was 3, and on average 1 member of the audit committee was independent.

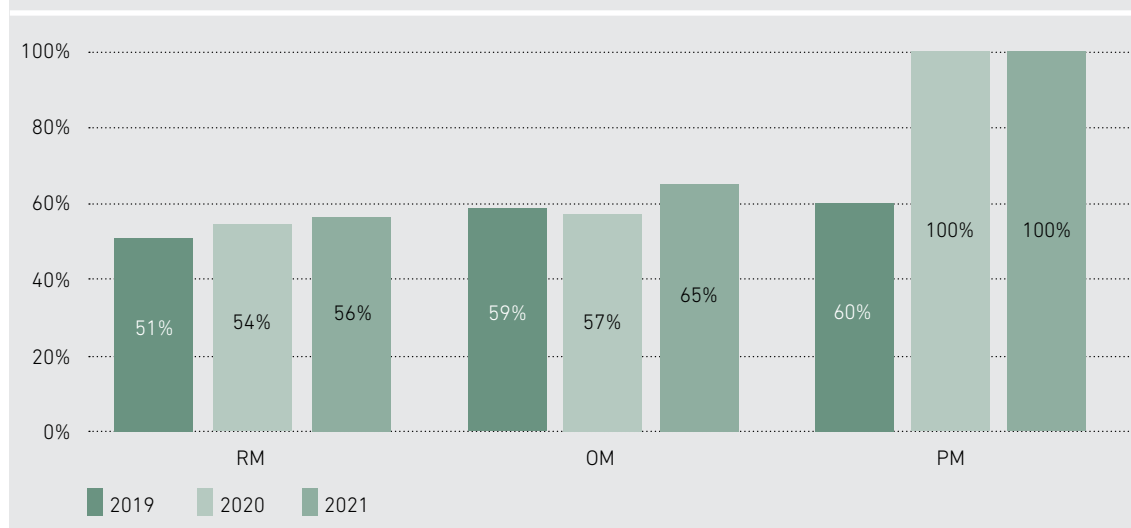
The data fully correspond to the data on the average number of audit committee members and the average number of independent audit committee members in the previous year. Therefore, as regards the independence of audit committee members, there were no changes relative to the previous year. To conclude, in 2021, as in the previous year, the minimum majority independence requirement set by the Code for audit committee members was not met. Issuers have recognised the significance of the audit committee for a company, as evidenced by the increase in the share of the issuers that 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.

## Management and supervisory board evaluation

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

Chart 5

Share of issuers whose supervisory board evaluated its effectiveness in 2019, 2020 and 2021, by segments of the regulated market



Source: Compliance questionnaire 2019, 2020 and 2021

According to data collected, supervisory boards of 61% of the share issuers evaluated their effectiveness in the previous 12 months (57% of the issuers in 2020); of which in 88% of the share issuers the evaluation was led by the president or deputy president of the supervisory board (in 2020, this share reached 80%).

In 2021, supervisory boards of all issuers on the Prime Market evaluated their effectiveness in the last 12 months (same as in 2020). A small rise in compliance with this provision of the Code was recorded by issuers on the Regular Market (a visible upward trend in the observed period) and the Official Market.

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

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

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

**Table 1** Share of the issuers whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees, which contains the assessment of all the circumstances referred to in provision 41 of the Code

	Share of the issuers whose supervisory board evaluated its effectiveness in the previous 12 months and whose annual report includes the report on the evaluation of the supervisory board and its committees			Share of the issuers whose supervisory board evaluated its effectiveness in the previous 12 months and where the evaluation of the supervisory board included the assessment of all the circumstances referred to in provision 40 of the Code		
	2019	2020	2021	2019	2020	2021
RM	25%	23%	28%	8%	35%	46%
OM	18%	14%	15%	5%	33%	35%
PM	40%	67%	100%	20%	67%	100%

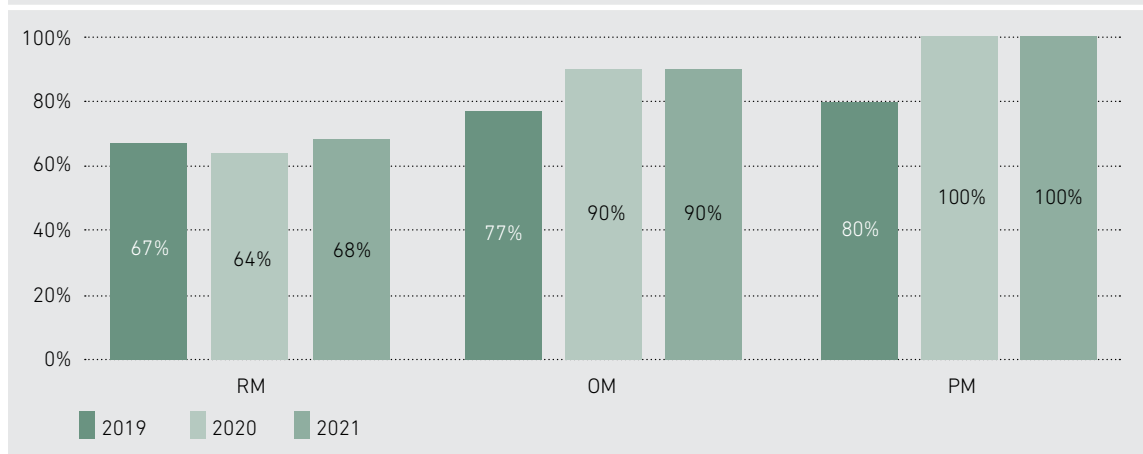
Source: Compliance questionnaire 2019, 2020 and 2021

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

Supervisory boards of 76% of the share issuers evaluated the effectiveness of the arrangements for cooperation between the supervisory and management board in the previous 12 months, which is a slight increase compared to 2020, when this share reached 73%.

The following chart shows the share of the issuers whose supervisory board evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2019, 2020 and 2021 by segments of the regulated market.

**Chart 6** Share of the issuers whose supervisory board evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2019, 2020 and 2021 by segments of the regulated market



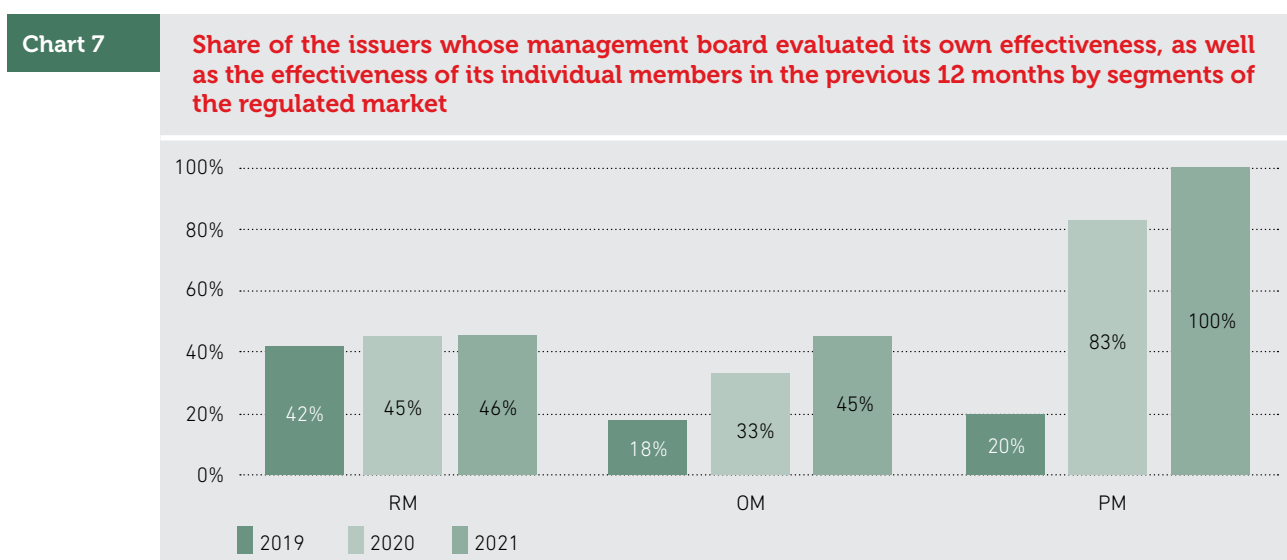
Source: Compliance questionnaire 2019, 2020 and 2021

In 2021, share issuers on the Official Market and Prime Market recorded an increase in compliance as regards the evaluation of the effectiveness of the arrangements for cooperation between the supervisory and management boards. Supervisory boards of all issuers on the Prime Market evaluated the effectiveness of the arrangements for cooperation between the supervisory and management boards in 2021 (same as in 2020).

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

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

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



Source: Compliance questionnaire 2019, 2020 and 2021

The largest increase in the compliance with the Code as regards the evaluation of the accountability and effectiveness of the management board and of the effectiveness of individual management board members in 2021 compared to 2020 was recorded by share issuers on the Prime Market (from 83% in 2020 to 100% in 2021), while the smallest increase was recorded by share issuers on the Regular Market (from 45% in 2020 to 46% in 2021). Share issuers on the Official Market recorded a 45% increase in compliance with the above-mentioned section of the Code, bringing that part of the regulated market closer to the Regular Market. However, issuers on the Official Market, a segment with higher transparency requirements and standards, should increase their compliance with the Code as regards the evaluation of the accountability and effectiveness of the management board and of the effectiveness of individual management board members in future.

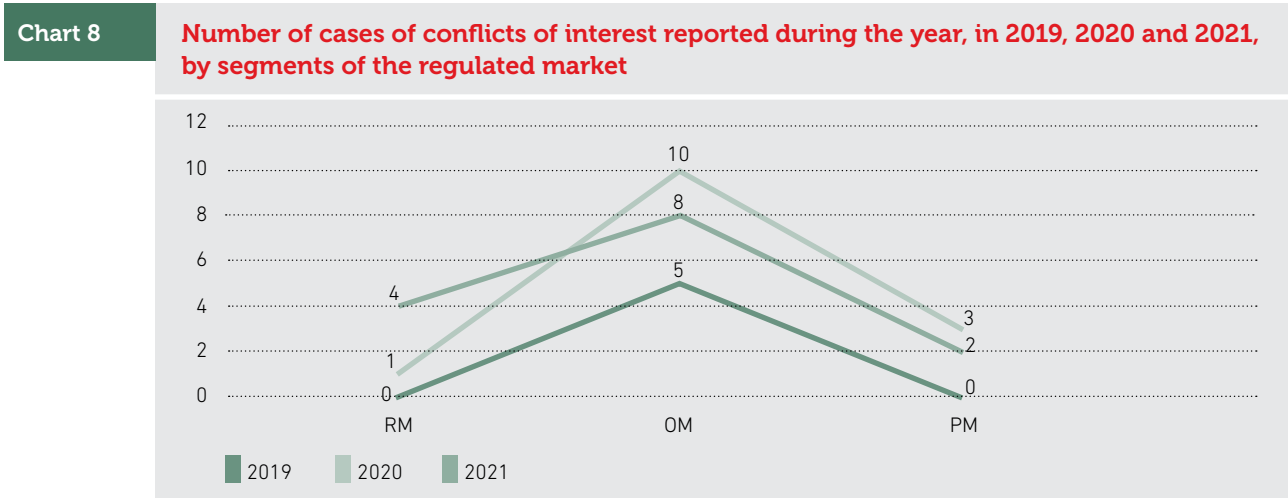
## Conflicts of interest

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

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

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

For comparison, the following chart shows the number of reported conflicts of interest in 2019, 2020 and 2021 by segments of the regulated market.



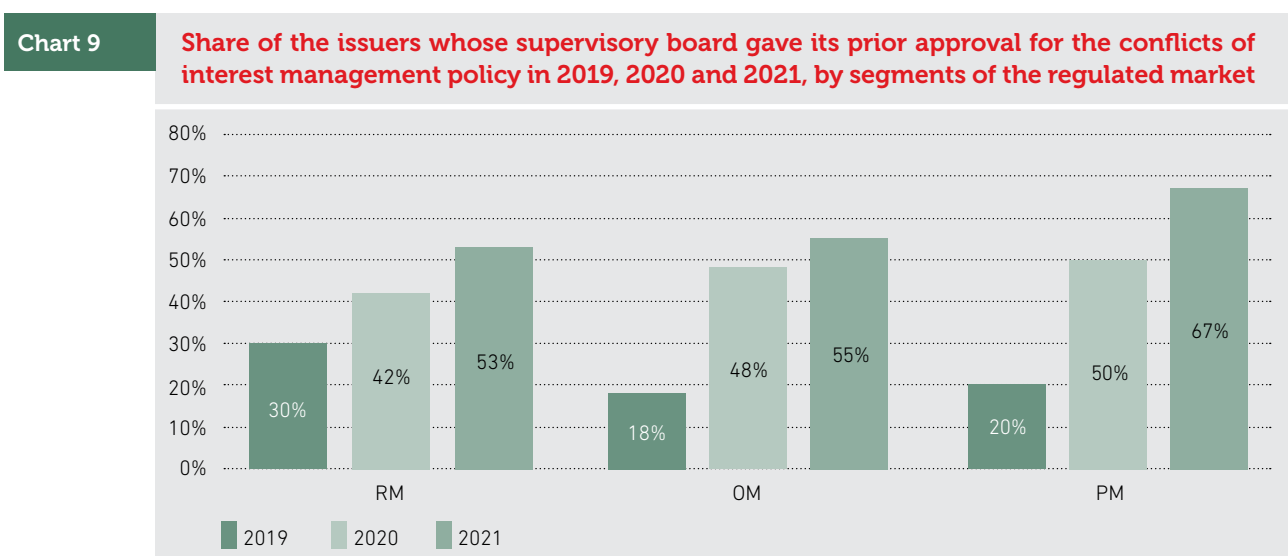
Source: Governance practices questionnaire 2019, 2020 and 2021

In 2021, 14 conflicts of interest (same number as in 2020) were reported by 4 issuers, namely:

- 8 conflicts of interest were reported by 2 issuers whose shares are admitted to trading on the Official Market
- 2 conflicts of interest were reported by one issuer whose shares are admitted to trading on the Prime Market, and
- 4 conflicts of interest were reported by one issuer whose shares are admitted to trading on the Regular Market.

This information shows that there were no changes in the number of conflicts of interest reported between 2020 and 2021, as well as in the number of reporting issuers.

Provision 7 of the Code stipulates that the supervisory board should give its prior approval for the conflicts of interest management policy. The following chart shows the share of the issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2019, 2020 and 2021 by segments of the regulated market.



Source: Compliance questionnaire 2019, 2020 and 2021

The 2021 data relating to all regulated market segments, and in particular to the Prime Market, show a significant rise in compliance as regards the granting of the supervisory board's prior approval for the conflicts of interest management policy compared to 2019 and 2020.

Table 2

**Comparative overview of reported conflicts of interest during the year and prior approvals given by supervisory boards for the conflicts of interest management policy in 2019, 2020 and 2021 by segments of the regulated market**

	2019		2020		2021	
	Number of cases of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of cases of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy	Number of cases of conflicts of interest reported during the year	The supervisory board gave its prior approval for the conflicts of interest management policy
RM	0	-	1	YES	4	YES
OM	5	NO	10	YES	8	NO
PM	0	-	3	NO	2	NO

Source: Questionnaires related to corporate governance, 2019, 2020 and 2021

Although the increase in the number of reported conflicts of interest in 2020 and 2021, compared to 2019, is relatively significant and indicates higher awareness of the importance and need to manage conflicts of interest, the largest number of conflicts of interest were reported by the issuers whose shares are admitted to the Official Market (same as in 2019 and 2020), while the number of reports from the issuers whose shares are admitted to the Regular Market and the Prime Market was low.

Furthermore, out of 14 cases of conflicts of interest reported in 2021, 7 cases were reported by the senior management, 7 by the management board, while the supervisory board did not report any conflict of interest (in 2020, out of 14 reported cases of conflict of interest, 10 were reported by the senior management, 4 by the management board, while the supervisory board did not report any conflict of interest). All the cases of conflicts of interest reported in 2021, as well as in 2020, involved persons who abstained from voting on entering related party transactions.

The governance practices questionnaire showed that 54 supervisory board members of 25 issuers were related to management board members in 2021 (56 supervisory board members of 24 issuers in 2020). Moreover, the total number of issuers having reported transactions with management and supervisory board members in 2021 is slightly lower than in 2020, when the number of transactions was the highest relative to the 2015-2019 period. In addition, 2021 saw the highest average gross amount of related party transactions relative to the 2017-2020 period. Despite the above-mentioned data on the relation between management and supervisory board members and data on related party transactions in 2021, only 7 conflicts of interest were reported by management boards, while supervisory boards did not report any conflicts of interest.

According to data on governance practices, 59% of the issuers failed to adopt internal rules of procedure in cases of related party transactions in 2021, while this share stood at 65% in 2020.

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

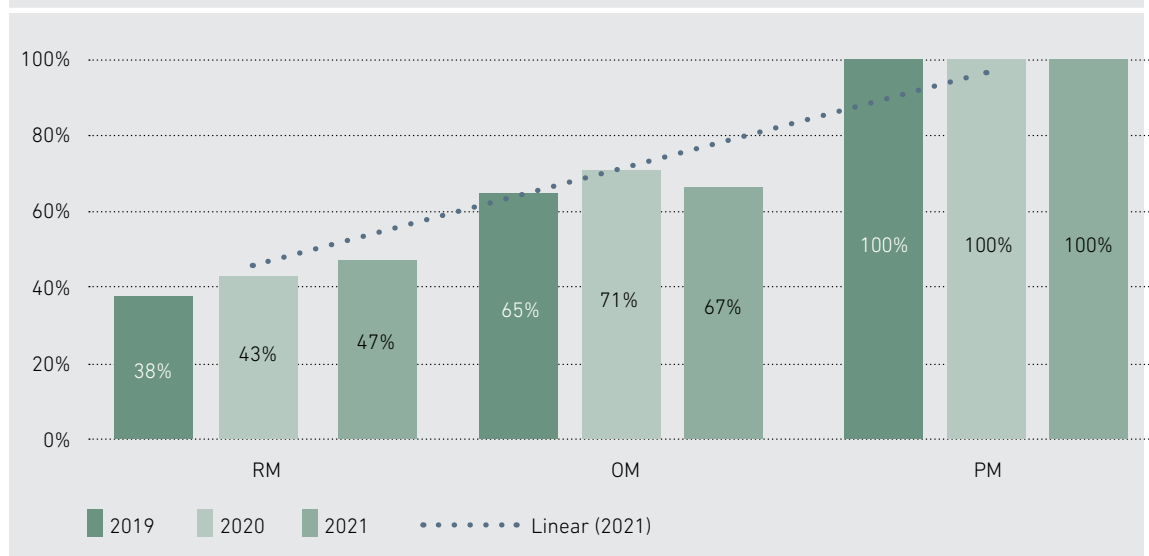
## Internal control system

One of the basic principles of the Code concerning the section relating to the leadership of share issuers implies that 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 2021, 55% of the issuers had an internal control system in place (53% of the issuers in 2020). The following chart shows the proportion of the share issuers that had in place an internal control system in 2021 by segments of the regulated market.

Chart 10

Share of the share issuers that had in place an internal control system in 2019, 2020 and 2021, by segments of the regulated market



Source: Governance practices questionnaire 2019, 2020 and 2021

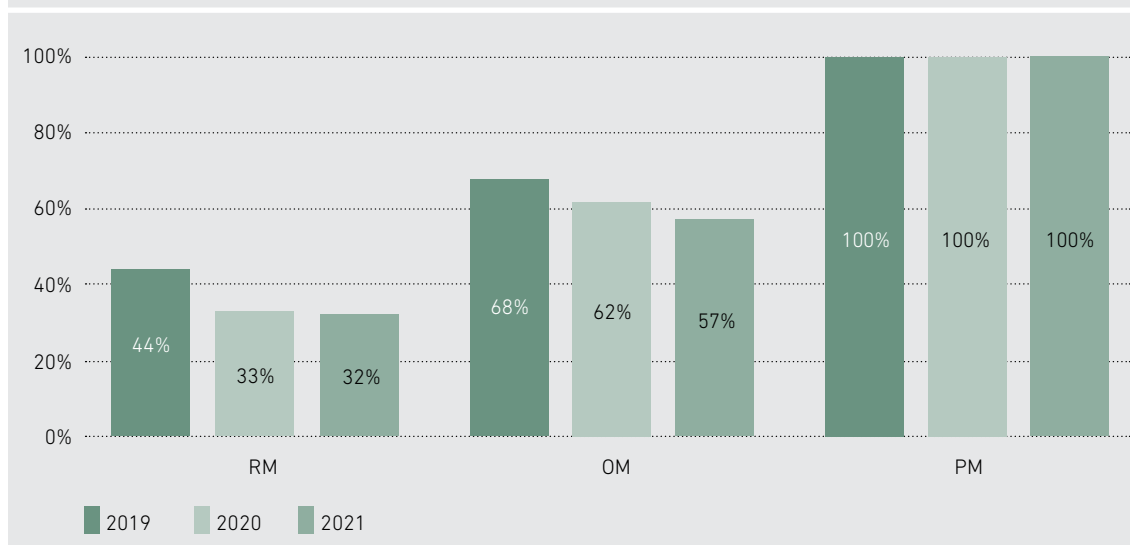
The data provided show an increase in the share of issuers on the Regular Market with an internal control system in place, which points to the fact that issuers have recognised the importance of establishing an effective internal control system as a factor which ensures reliable information used by the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

In 2021, there are on average 15 employees in the internal control system, same as in the previous year.

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

Chart 11

Share of the share issuers that have in place an internal control system and whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once in 2019, 2020 and 2021, by segments of the regulated market



Source: Questionnaires related to corporate governance, 2019, 2020 and 2021

2021 saw a decrease 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 share issuers on the Prime Market who have in place an internal control system evaluated the effectiveness of the risk management and internal control system as a whole at least once a year, which points to full compliance of issuers on the Prime Market with this provision of the Code.

However, the existence of an internal control system and its evaluation by the audit committee do not in themselves ensure the effectiveness and efficiency of the system. As the management of conflicts of interest 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 2020 Annual Report on Corporate Governance, however, the situation remained unchanged in this regard.

## Gender structure of management and supervisory boards

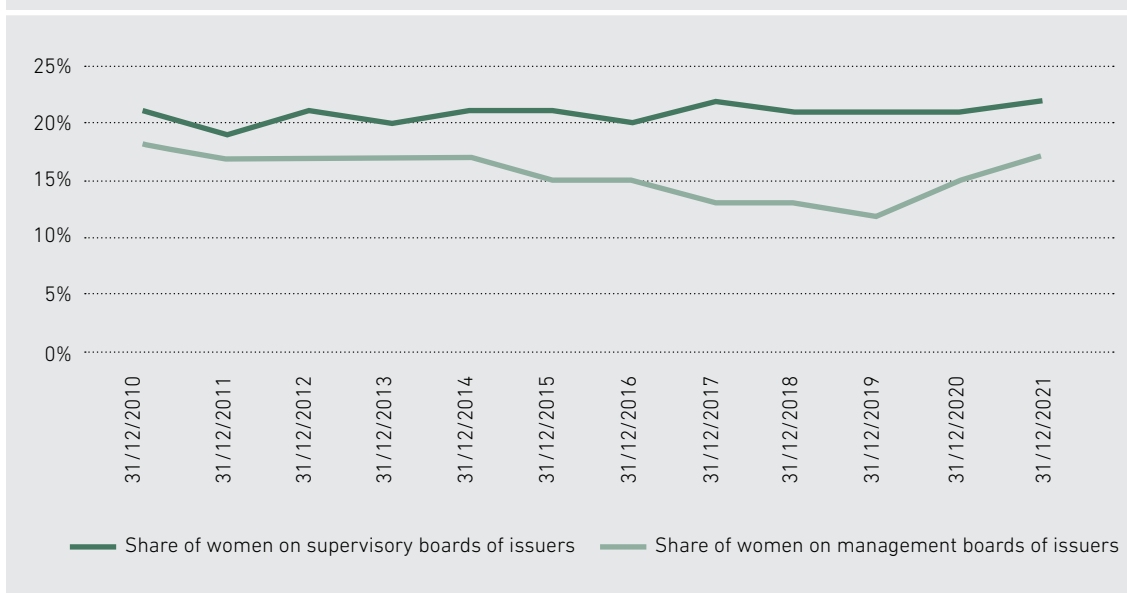
The Code prescribes that every five years, the supervisory board should set a target for the percentage of female members on the supervisory and management boards to be achieved within the next five years. Each goal must be published in the annual report and include an explanation as to why it has been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

In order to show how the share of women on management and supervisory boards of issuers in the Republic of Croatia changed from 2010 to 2021, a comparative presentation for the observed period is shown below.



Chart 12

**Overview of women’s participation in management and supervisory boards of issuers in the Republic of Croatia, 2010 – 2021**

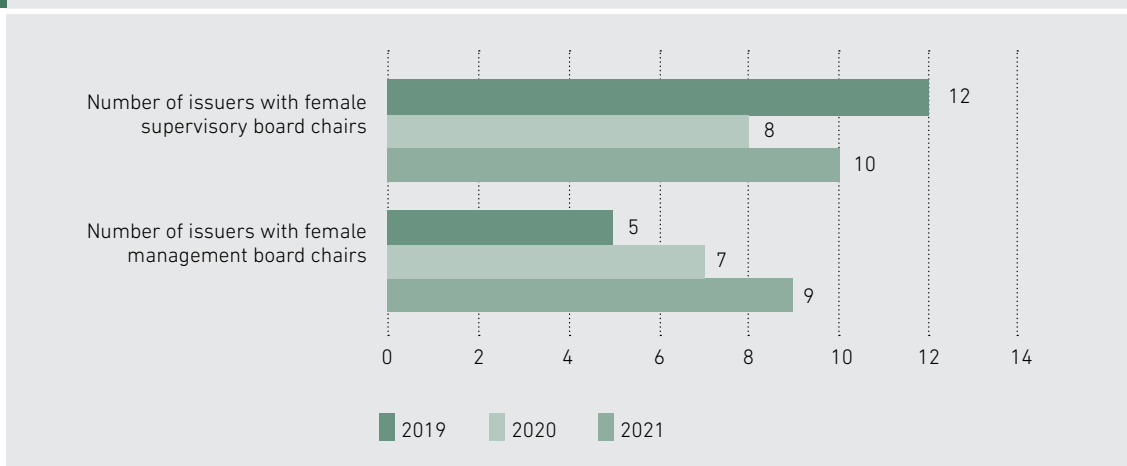


Source: Governance practices questionnaire 2019, 2020 and 2021

In the period from 2010 to 2021, there is a visible trend of a slight decline in the participation of women on management boards of issuers, which started to improve in 2019, 2020 and 2021, with an average share of 16% in the eleven-year observed period. In 2020 and 2021, the proportion of women on management boards of share issuers increased from 15% to 17%, while the proportion of women on supervisory boards did not fluctuate significantly between 2010 and 2020, with the average share of women on supervisory boards of issuers being 21% during the observed period.

Chart 13

**Comparison of the number of issuers with female board chairs in 2019, 2020 and 2021**



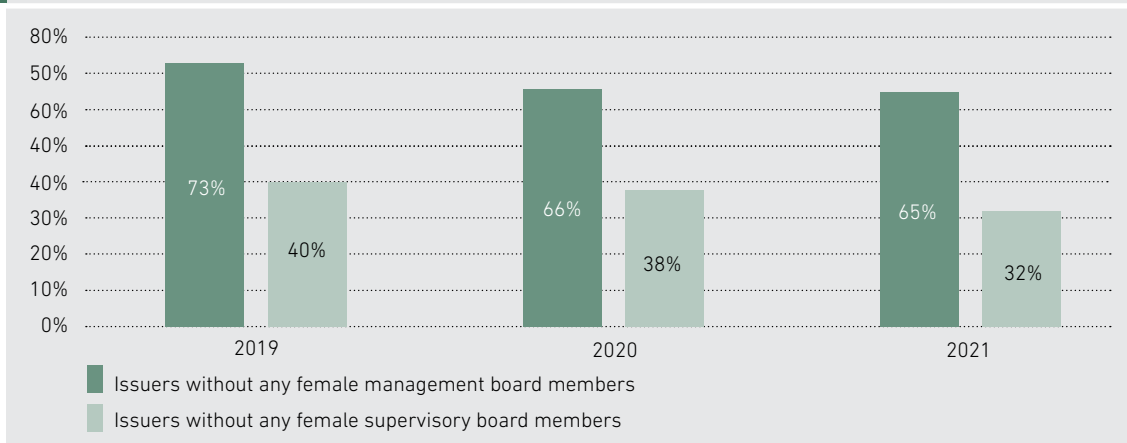
Source: court register

In 2021, the number of women who chair supervisory boards is higher than in 2020. As regards the number of issuers with female management board chairs, an upward trend is evident in the observed period.

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

Chart 14

Number of issuers without a single female board member in 2019, 2020 and 2021



Source: Governance practices questionnaire 2019, 2020 and 2021

Compared to 2019 and 2020, in 2021 there was a decrease in the share of issuers without any female management board members and female supervisory board members. However, the share of issuers without female management board members remains very high, indicating slight progress towards achieving gender diversity and leaving significant room for improvement in this segment with the aim of decreasing the share in question.

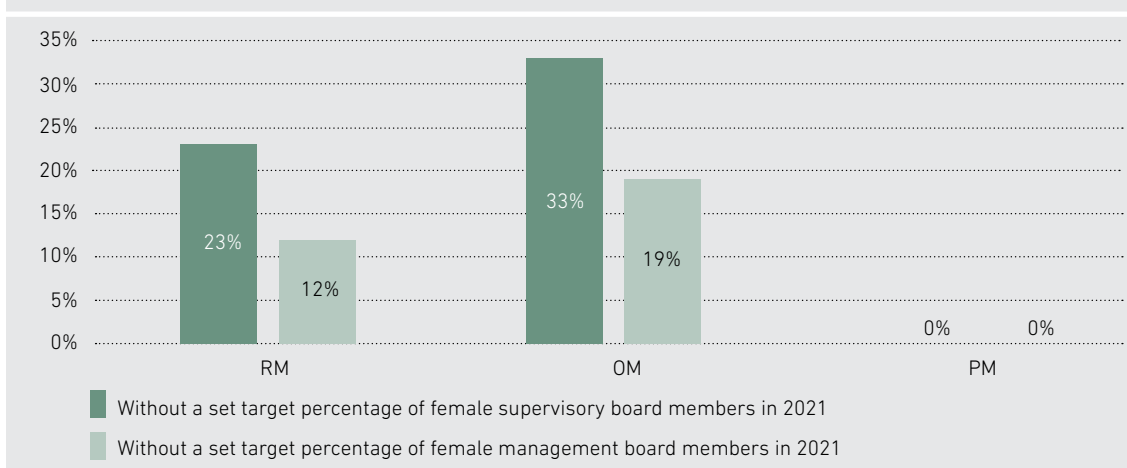
## Target percentage of female board members

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

According to the data from the governance practices questionnaire, a total of 71 share issuers, i.e. supervisory boards of share issuers, set a target for the percentage of female members of supervisory and management boards to be achieved within the next five years, while the remaining issuers that did not set this target percentage do not comply with the requirements of the Code.

Chart 15

Share of the issuers that did not set the target percentage of female board members in 2021, by segments of the regulated market



Source: Governance practices questionnaire 2021

The target percentage of female supervisory board members in 2021 was not set by 23% of the issuers on the Regular Market and 33% of the issuers on the Official Market (in 2020, 38% on the Regular Market, 24% on the Official Market and 17% on the Prime Market). The target percentage of female management board members in 2021 was not set by 12% of the issuers on the Regular Market and 19% of the issuers on the Official Market (in 2020, 29% of the issuers on the Regular Market and 38% of the issuers on the Official Market). All issuers on the Prime Market set the target percentage of female management board members. All share issuers on the Prime Market set the target percentage of female management and supervisory board members in 2021.

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
- 51 issuers on the Regular Market.

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

- 38 issuers (41%) achieved the target percentage of female supervisory board members
- 27 issuers (29%) achieved the target percentage of female management board members (19 issuers in the Regular Market, 5 in the Official Market and 3 in the Prime Market).

The achievement of the target percentage for the share issuers that have set that target is subject to monitoring in the following years, as well as to establishing to what extent issuers comply with the Code i.e. the target percentage and deadlines they have set themselves. Data on the achievement of the target percentage in 2021 compared to 2020 indicate slight improvements in the increase in the number of women on management and supervisory boards, with the percentage slightly higher with respect to the number of women on supervisory boards.

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

**Table 3**

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

	2019	2020	2021
Issuers that reached the target percentage of female management board members and have a nomination committee in place	33%	24%	37%
Issuers that reached the target percentage of female supervisory board members and have a nomination committee in place	19%	44%	42%

Source: Governance practices questionnaire 2019, 2020 and 2021

According to data on governance practices, 37% of the issuers that achieved the target percentage of female management board members in 2021 also have a nomination committee (24% in 2020) and 42% of the issuers that achieved the target percentage of female supervisory board members in 2021 have a nomination committee in place (44% in 2020).

## Remuneration policy

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

Article 272.r of the Companies Act<sup>10</sup> requires that the management and supervisory board, i.e. executive directors and the board of directors of a company whose shares are admitted to a regulated

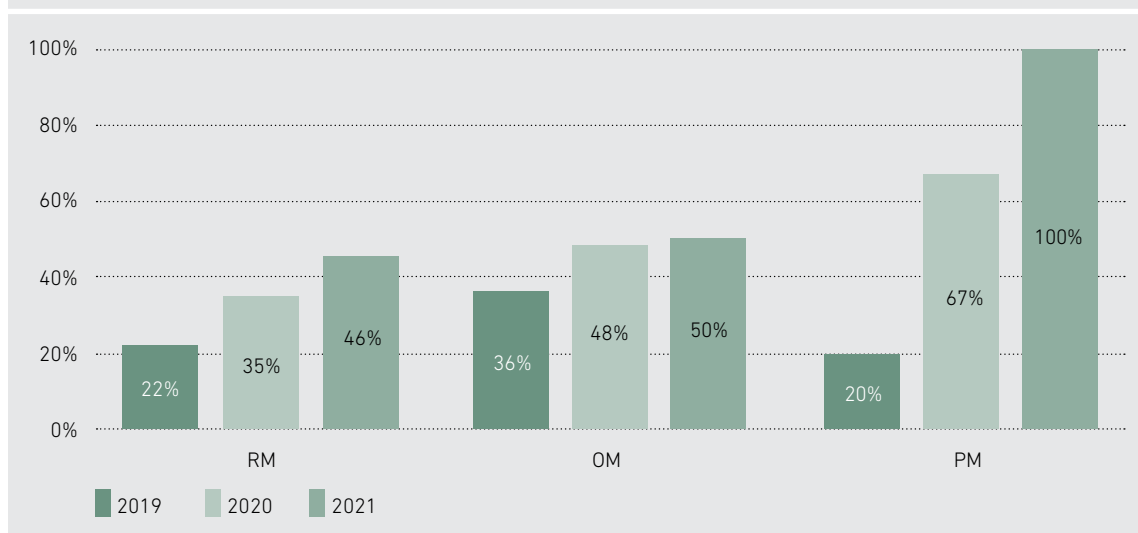
<sup>10</sup>Official Gazette, No 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107/2007, 146/2008, 137/2009, 125/2011, 111/2012, 68/2013, 110/2015, 40/2019 and 34/2022

market, once a year prepare a clear and comprehensible report on all remuneration paid or committed to pay by the company, or another company belonging to the same group, to each current and former member of the management board and supervisory board, or to the executive director and a member of the board of directors during the last financial year. The content of the report on remuneration of management and supervisory board members is defined in Article 272.r(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 must include provisions that will specify the circumstances under which part of a management board member's remuneration would be withheld or recovered.

Chart 16

**Share of the issuers where the supervisory board sets annual remuneration of each member of the management board, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy in 2019, 2020 and 2021, by segments of the regulated market**



Source: Compliance questionnaire 2019, 2020 and 2021

The largest increase in the share of the issuers that complied with this provision in 2021 relative to 2020 was recorded with respect to share issuers in the Prime Market (increase from 67% to 100%), while the increase in the said share of issuers in the Official Market and Regular Market was significantly smaller than in 2019.

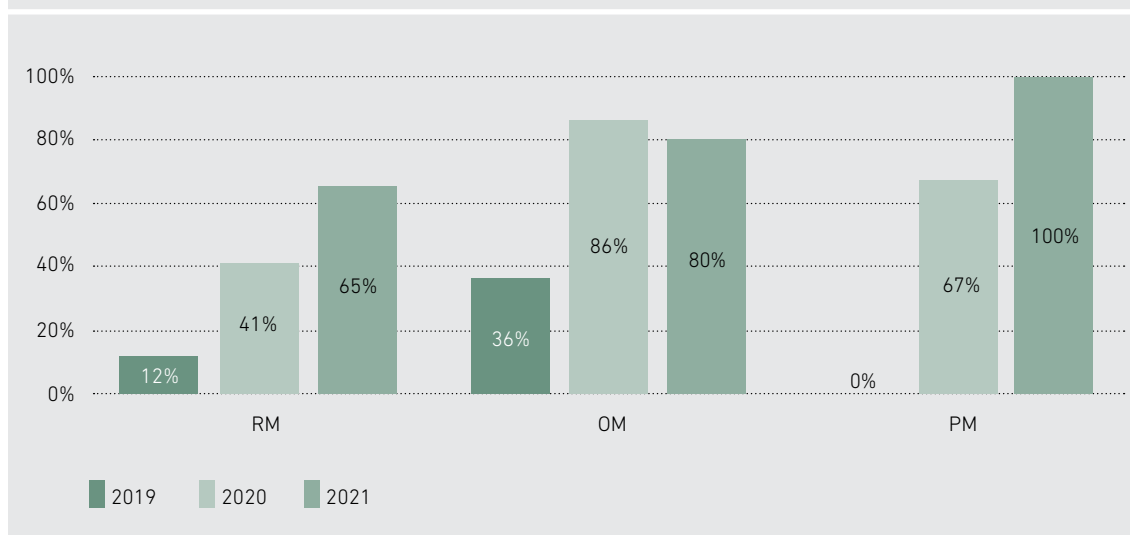
In addition, Provision 56 of the Code, in the part governing the reporting on remuneration, stipulates that companies should make freely available on their website their remuneration policy as approved by the shareholders at the general meeting. The supervisory board of the company decides on the system of remuneration of management board members. Article 247a of the Companies Act defines the minimum content of a remuneration policy, so it must contain at least the following information:

- the extent to which the remuneration contributes to the business strategy and long-term development of the company
- all fixed and variable parts of remuneration and their percentage (relative) shares in total remuneration
- all financial and non-financial criteria for the payment of the variable part, including:
  - a) an explanation of how these criteria contribute to achieving objectives related to business strategy and long-term development of the company
  - b) methods used to determine whether the criteria have been met
- periods for which the payment of part of the remuneration is deferred and whether the company has the right to request the recovery of variable parts of remuneration

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

Chart 17

**The company's approved remuneration policy is available on the website of the company free of charge (Article 56 of the Code)**



Source: Compliance questionnaire 2019, 2020 and 2021

The data presented indicate a significant increase in the compliance of issuers with regard to the availability of the company remuneration policy free of charge on the issuer's website in the Prime Market (increase from 67% to 100%) and the Regular Market (increase from 41% to 65%). This increase is particularly pronounced for issuers in the Prime Market, where none of the issuers complied with this provision of the Code in 2019. However, the share of issuers in the Official Market that comply with the Code provision in question in 2021 showed a slight decrease.

## Non-financial reporting (ESG reporting)

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

In order to realise the European Green Deal, i.e. to fulfil the international commitments under the Paris Agreement related to meeting the environmental, social and governance sustainability goals, the European Commission is in the process of establishing a sustainable financing framework. Therefore, a legislative framework has been adopted for the business operations of participants in the financial sector with the aim of redirecting financial flows to sustainable economic activities and transparent presentation of business operations related to sustainable financing. The obligations to disclose sustainability-related data are governed primarily by Regulation (EU) 2019/2088 of the European Parliament and of the Council<sup>11</sup> (hereinafter: SFDR) and the Taxonomy Regulation and its amendments<sup>12</sup>.

SFDR prescribes the obligation to disclose sustainability-related information for all financial market participants and financial advisers, i.e. regulates the prerequisites for the inclusion of ESG factors in the analyses prepared when deciding on investment in certain companies. Therefore, it indirectly refers to issuers, as only the issuers that will publish the ESG-relevant information will be considered for potential investments.

Article 8 of Taxonomy Regulation stipulates that issuers are obliged to publish indicators of the proportion of their turnover, capital expenditure and operating expenditure associated with economic activities that qualify as environmentally sustainable with respect to 6 environmental objectives. That Article shall apply from 1 January 2022 in relation to 2 environmental objectives, namely climate change mitigation and adaptation, while the application for the remaining 4 environmental objectives is foreseen from 1 January 2023. The Regulations supplementing the Taxonomy Regulation set out technical screening criteria for economic activities that should ensure that an economic activity has a positive impact or reduces a negative impact on a particular climate objective. In addition, they elaborate the key performance indicators in more detail.

On 21 June 2022, the Council and the European Parliament reached a provisional political agreement on the Corporate Sustainability Reporting Directive (CSRD), which replaces the Non-Financial Reporting Directive<sup>13</sup>.

It extends the obligation to prepare and disclose non-financial statements to all large entities, whether or not their securities are admitted to the regulated market and regardless of the number of employees, and to all SMEs whose securities are admitted to the regulated market. It also introduced a requirement for the validation of disclosed non-financial information by statutory auditors or independent assurance service providers, ensuring compliance of sustainability reporting with standards. Easier access to information is also provided in view of the requirement to publish it in a dedicated section of the management report.

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<sup>11</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>12</sup> 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

<sup>13</sup> Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, OJ L 330, 15.11.2014

The implementation of the legislative act will be carried out in three stages:

- from 1 January 2024, for entities already subject to the Non-Financial Reporting Directive
- from 1 January 2025, for large entities currently not subject to the Non-Financial Reporting Directive; and
- from 1 January 2026, for small and medium-sized companies listed on the regulated market.

The European Financial Reporting Advisory Group (EFRAG) is tasked with the establishment of European standards based on expert advice from several European agencies.

In March 2021, Hanfa adopted and published Guidelines on 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.

The provisions of the currently applicable Non-Financial Reporting Directive have been transposed into the legal system of the Republic of Croatia through the Accounting Act<sup>14</sup>.

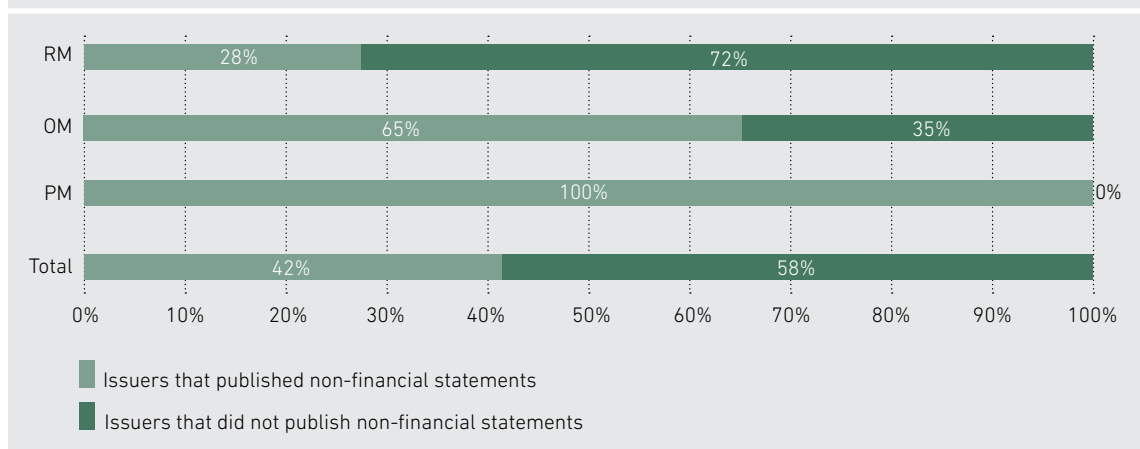
The Accounting Act obliges all the issuers that, at the date of the statement of financial position, exceed the average number of 500 workers during the previous financial year to include in their management report a non-financial statement containing information on the development, business results and position of the issuer and the impact of activities relating to environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery issues. Therefore, the average number of employees in 2020 is observed for the date of financial position statement as at 31 December 2021.

In addition, 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 share issuers on the regulated market that are not subject to non-financial reporting requirements under the Accounting Act.

A review of the disclosures of all the issuers whose securities are listed on the regulated market of the ZSE as at 31 December 2021 showed that 42 issuers (42%) published a non-financial statement for 2021, or their parent published a non-financial statement for them.

Chart 18

**Overview of disclosed non-financial statements for 2021 by segments of the regulated market**



Source: Non-financial statements of issuers for 2021

<sup>14</sup> Accounting Act (Official Gazette, No 78/15, 134/15, 120/16, 116/18, 42/20, 47/20 and 114/22)

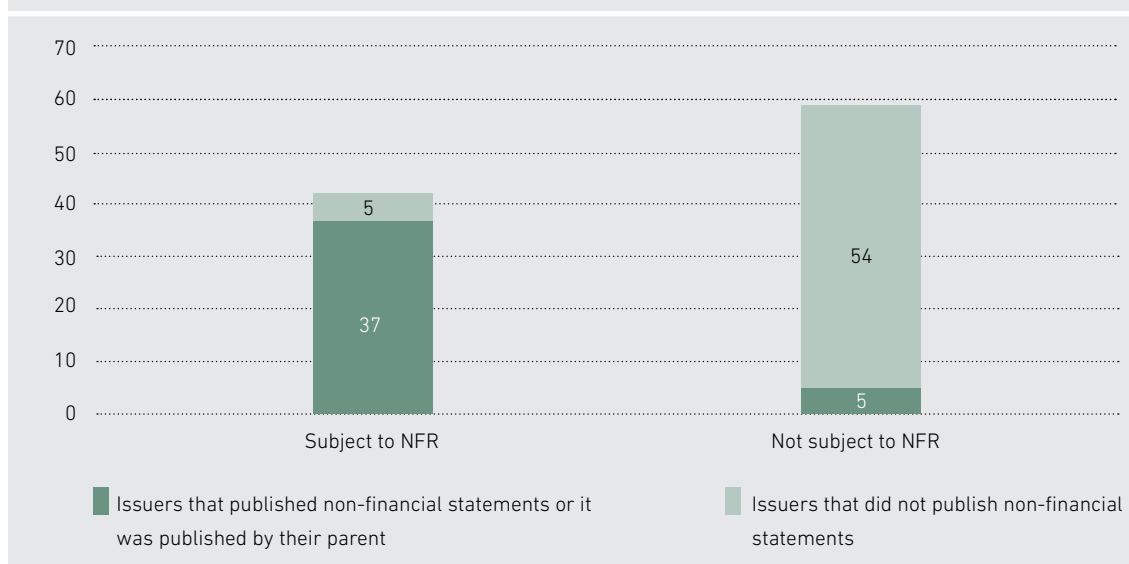
- All issuers on the Prime Market published a non-financial statement for 2021.
- 65% of the issuers on the Official Market and 28% of the issuers on the Regular Market published non-financial statements.

According to data on the average number of employees of issuers during 2020, received by Hanfa from the questionnaire on corporate governance practices and published annual reports for 2020, pursuant to the provisions of Article 21a of the Accounting Act, 42 of them were obliged to publish a non-financial statement, representing 42% of the total number of issuers. Of the 42 issuers concerned, 5 of them (12%) did not comply with the obligation to produce a non-financial statement for 2021, and for 2 issuers the non-financial statement was published by the parent company, and they were observed at the level of the parent as the shares of the parent were admitted to the regulated market. Of the 59 issuers not subject to non-financial reporting requirements, 5 of them (8%) published non-financial statements.

Therefore, the number of the issuers that published non-financial statements is 40, however, the obligation was met by 42 issuers, as for 2 issuers this obligation was met by the parent.

**Chart 19**

**Overview of the number of the issuers that published the 2021 non-financial statement according to the disclosure obligation criterion**



Source: Non-financial statements of issuers for 2021

**Table 4**

**Overview of issuers subject to non-financial reporting requirements by segments of the regulated market and by published non-financial statements for 2021**

	Subject to NFR	Published NFR or it was published by their parent	% of disclosure
PM	6	6	100%
OM	18	15	83%
RM	18	16	89%
<b>Total</b>	<b>42</b>	<b>37</b>	<b>88%</b>

Source: Non-financial statements of issuers for 2021



The review found that 3 issuers whose shares are listed on the Official Market and 2 issuers whose shares are listed on the Regular Market did not publish the 2021 non-financial statements, although they were required to do so under the Accounting Act. All issuers from the Prime Market are subject to non-financial reporting and they complied with this obligation.

Table 5

**Overview of the issuers that published non-financial statements for 2021, without being subject to non-financial reporting requirements, per segments of the regulated market**

	Not subject to NFR	Published NFR voluntarily	% of voluntary disclosures
OM	8	2	25%
RM	51	3	6%
Total	59	5	8%

Source: Non-financial statements of issuers for 2021

All issuers from the Prime Market are subject to non-financial reporting and are therefore not included in the table above. Of the 8 issuers from the Official Market that are not subject to non-financial reporting requirements, 2 of them (25%) published non-financial statements. Furthermore, of the 51 issuers not subject to non-financial reporting requirements, 3 of them (6%) published non-financial statements. The total number of the issuers that voluntarily published non-financial statements is 5.

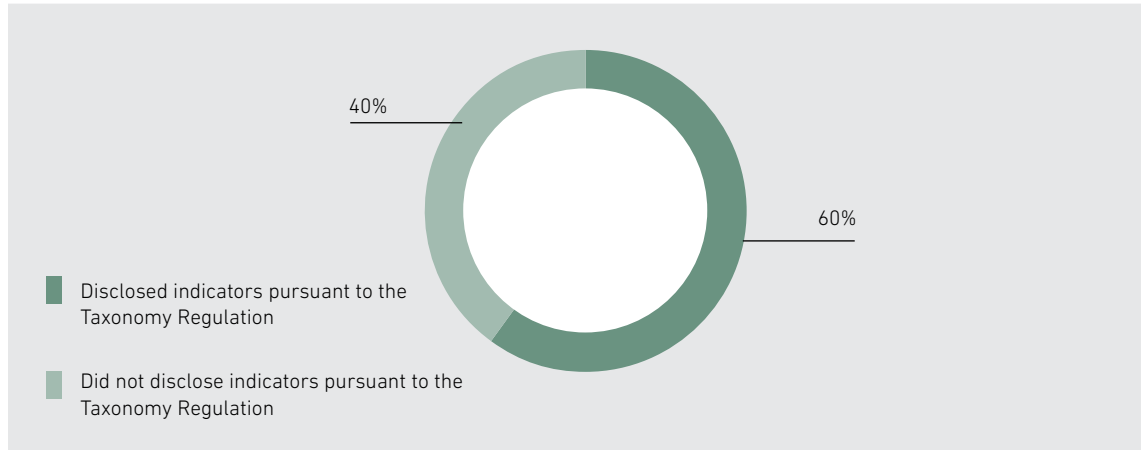
- Out of a total of 40 published non-financial statements, for 19 (48%) of them issuers reported that they had been prepared in accordance with the GRI (Global Reporting Initiative) standards. GRI standards are the most widely represented non-financial reporting standards in Europe, promoting the practice of public reporting on ESG factors, providing guidance in identifying significant positive or negative contributions to the sustainable development objective and ensuring global comparability and quality of non-financial information.
- Of the 19 issuers that used GRI standards, 15 (79%) of them also published the GRI standards content index, which states for each GRI standard on which page of the non-financial statement it is explained, to ensure the integrity and transparency of reporting on ESG factors.
- Most of the issuers that published non-financial statements also referred to the United Nations Sustainable Development Goals (SDGs). There are 17 such goals, and the issuers mainly emphasised 6 goals relevant to them in 2021.
- 4 issuers included the ESG Indicator Report in their non-financial statement, providing various indicators for each ESG factor.
- The Expert Committee on Sustainability Reporting at the Croatian Business Council for Sustainable Development (HR PSOR) gave its opinion on non-financial statements of 4 issuers. The opinion on all 4 non-financial statements confirmed that these issuers report in a detailed and comprehensive manner on the sustainability of their business.
- One issuer stated that they measure business sustainability progress through an internally created sustainability index.
- One issuer provided their key sustainability indicators (e.g. percentage reduction in paper consumption) and their fulfilment.
- One issuer stated that they received Zlatna Kuna award of the Croatian Chamber of Economy for responsible and sustainable business operations.

## Reporting pursuant to the Taxonomy Regulation

Of the 40 issuers that published non-financial statements, 24 (60%) published indicators under the Taxonomy Regulation.

Chart 20

### Overview of issuers by the disclosure of indicators pursuant to Taxonomy Regulation for



Source: Non-financial statements of issuers for 2021

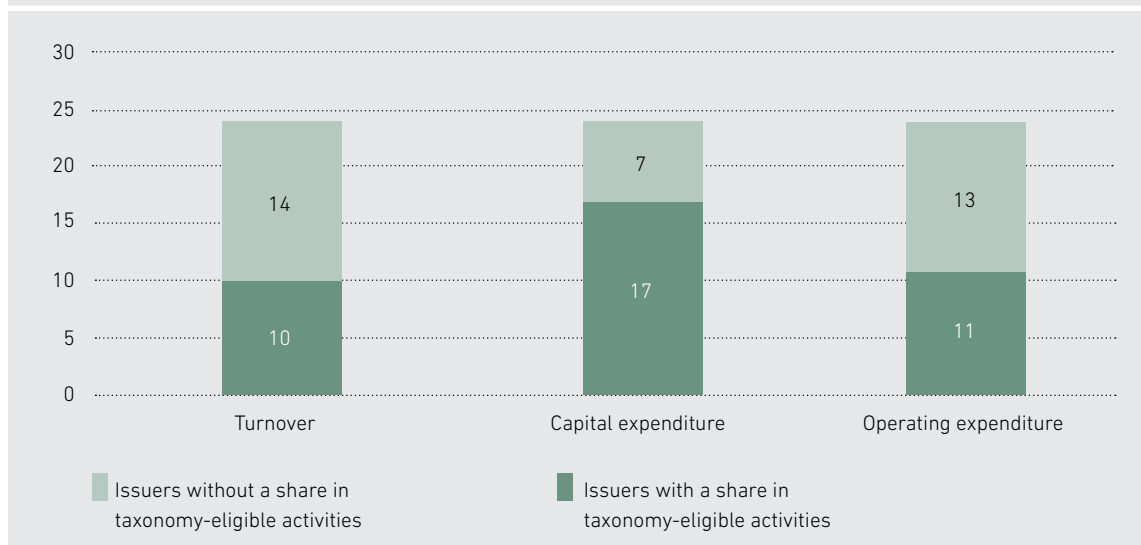
Under the aforementioned Taxonomy Regulation, the issuer must indicate the proportion of the turnover, capital expenditure and operating expenditure associated with economic activities that qualify as environmentally sustainable (taxonomy-eligible activities).

Of the 24 issuers that published indicators pursuant to the Taxonomy Regulation, 6 reported 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, and then every indicator is analysed separately.

Chart 21

### Overview of the number of issuers by whether they have a share of their turnover, capital expenditure and operating expenditure in taxonomy-eligible activities



Source: Non-financial statements of issuers for 2021

### 1. Turnover

- 14 issuers do not have a share in turnover arising from products or services related to taxonomy-eligible activities.
- Of the 10 issuers with a share of turnover in taxonomy-eligible activities, 4 reported that this share was 10% or more, while for the remaining 6 issuers it was less than 1.60%.
- The average share of turnover in taxonomy-eligible activities for the 10 issuers concerned is 7%.
- Examples of taxonomy-eligible activities in which issuers generated 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, etc.

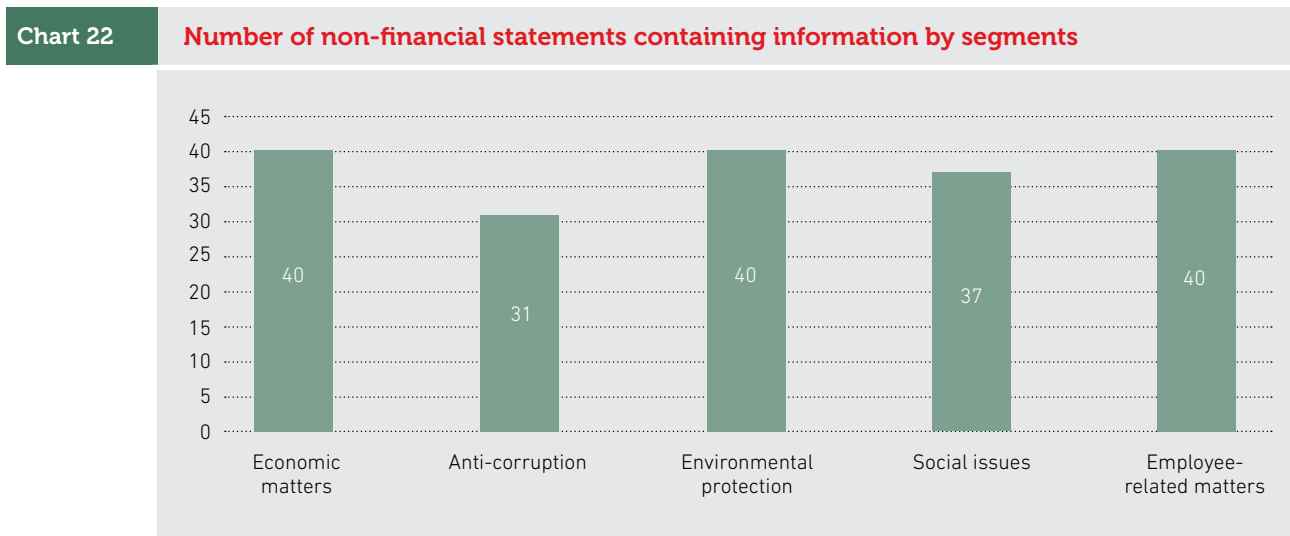
### 2. Capital expenditure

- 7 issuers do not have capital expenditure linked to taxonomy-eligible activities.
- Of the 17 issuers with expenditure linked to taxonomy-eligible activities, 12 reported that this share was higher than 10%.
- The average share of capital expenditure in taxonomy-eligible activities is 23.79%.
- 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 (to contribute to climate change mitigation), collection and transport of non-hazardous waste, electricity generation using solar photovoltaic technology, etc.

### 3. Operating expenditure

- 13 issuers do not have operating expenditure linked to taxonomy-eligible activities.
- Of the 11 issuers with operating expenditure linked to taxonomy-eligible activities, 3 reported that this share was higher than 20%.
- The average share of operating expenditure in taxonomy-eligible activities is 9.31%.
- 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, etc.

The following chart contains information on the content of non-financial statements for 2021.



Source: Non-financial statements of issuers for 2021

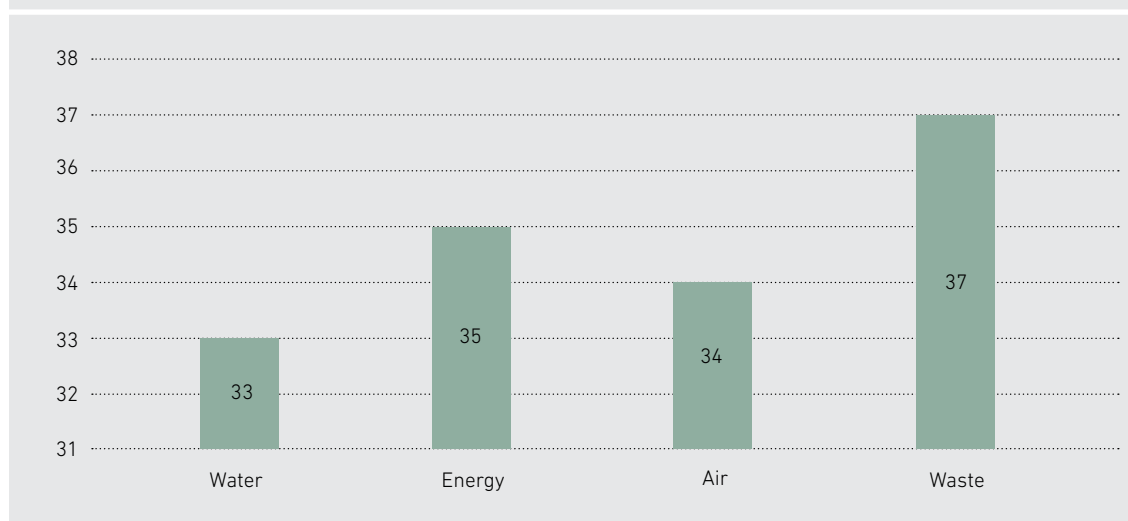
In non-financial statements for 2021, all issuers disclosed information on their performance and financial position, planned development and investments, as well as environmental protection and employee-related matters.

## Environmental factors

- All the issuers that published non-financial statements referred to environmental protection and described the activities they undertook in this regard.
- 31 issuers (78%) indicated that they hold certificates related to environmental protection (e.g. ISO 14001 – Environmental management, ISO 50001 – Energy management systems).
- Some issuers indicated the amount of investments in environmental protection, which relate for example to the procurement and installation of energy-efficient solutions.

Chart 23

### Number of non-financial statements containing information on the environmental protection, by segments



Source: Non-financial statements of issuers for 2021

#### a) Water

- Most frequently, issuers disclosed information on annual water consumption. Some issuers also disclosed water consumption depending on its source as well as water consumption by purpose.
- Normally, information on water consumption is published for the reporting year and the previous period from which the trend in reducing water consumption can be seen.
- Certain issuers indicated that they have water policy.

#### b) Energy

- 28 issuers disclosed information on the annual consumption of energy, such as electricity, fuel, fuel oil, gas, etc., with some issuers indicating both the consumption from renewable and non-renewable resources.
- Energy intensity was indicated by 4 issuers.
- 4 issuers indicated that they have solar systems in certain units or use solar energy.
- 2 issuers indicated that they obtain electricity from 100% renewable sources for the whole business or for a certain part of their capacity.

#### *c) Air*

- 34 issuers disclosed carbon dioxide (CO<sub>2</sub>) emission data, which showed a decreasing or an increasing trend in direct and indirect greenhouse gas emissions, depending on the issuer.
- 1 issuer stated that they engaged an external partner to confirm the accuracy of the calculation method for greenhouse gas emissions.

#### *d) Waste*

- Information on waste management and disposal was published by 37 issuers.
- Issuers provided information on the effective sorting and disposal of waste, the amount of waste depending on its type, the reduction of waste such as paper, IT waste, chemicals, and similar.
- Two issuers stated that they carried out a process of digitising documentation, reducing the amount of paper used.

## **Governance factors**

#### *a) Anti-corruption*

- Disclosures on anti-corruption mainly contain information about the implementation of the highest ethical standards of corporate governance and the individual behaviour of employees, as well as about adopted policies for preventing and sanctioning bribery and corruption.
- 31 issuers published information about anti-corruption.
- One issuer indicated that they hold the ISO 45001 certificate – Anti-bribery management systems.

#### *b) Corporate governance*

- All the issuers that published non-financial statements described their governance structure.
- Issuers indicated that they comply with the Code and some issuers indicated that they adopted internal codes of conduct and/or ethical codes that all employees are required to comply with.
- Issuers also provided information on their core values and mission and vision.

## **Social factors**

#### *a) Employee-related matters*

- All the issuers that published 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 indicated that they hold the ISO 45001 certificate – Occupational health and safety management systems, including promotion/protection of physical and mental health.
- Some issuers also provided information on the average salary.
- 6 issuers published data on the number and type of injuries of their employees, occupational diseases and fatalities.
- One issuer stated that they conducted a survey of employee attitudes for 2021.
- 35 issuers stated that they implemented the policy of protecting human rights, diversity and equal opportunities, i.e. anti-discrimination during hiring process.

#### *b) Social activities*

- Issuers mostly stated that they were actively involved in helping the communities in which they operate.
- 22 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.

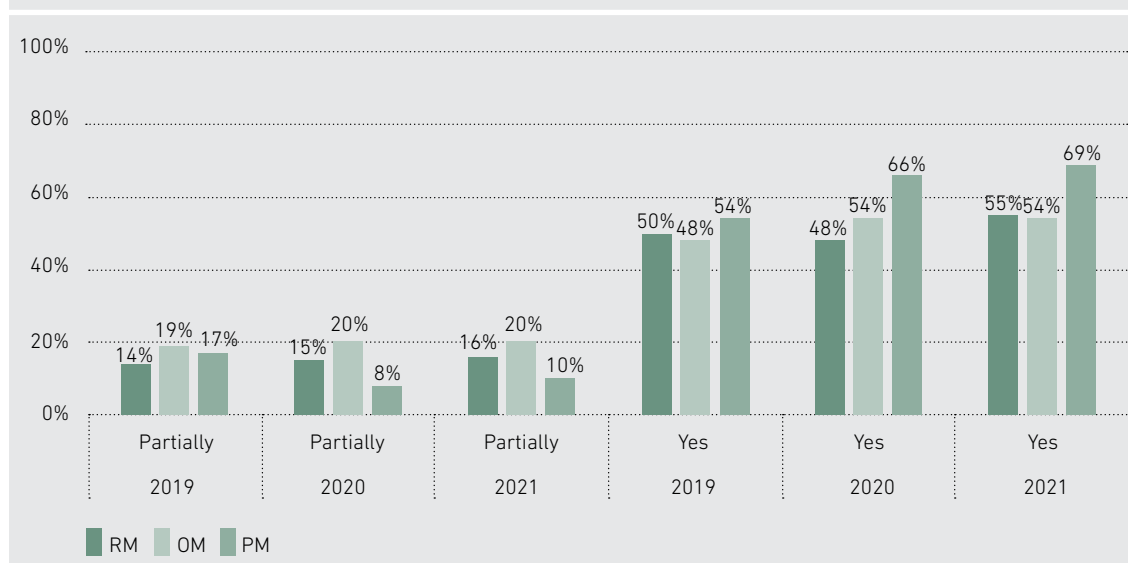
## Compliance of the issuers whose shares are admitted to the ZSE with the section Corporate social responsibility

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 24

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



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

The comparison of the responses received for 2021 with those received for 2019 and 2020 shows an increase in share issuers' compliance with the section "Stakeholders and corporate social responsibility" in all segments of the regulated market. 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 statute, etc. Moreover, a significant number of issuers stated in their explanations that they plan to adopt these policies in the next reporting period.

In 2021, the compliance of issuers in the Prime Market stood at 69%, in the Official Market 54% and 55% in the Regular Market.



## Share issuers' compliance with the Corporate Governance Code

In this Annual Report on Corporate Governance, Hanfa provides, for the third time, information on the compliance of companies whose shares are admitted to trading on the regulated market of the ZSE (hereinafter: issuers) with the new Corporate Governance Code. The Code is applicable to the period starting from 1 January 2020; however, the 2019 Annual Report on Corporate Governance 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 issuers of closed-ended investments fund shares; they are therefore not obliged to submit the compliance questionnaire. As at 31 December 2021, there were 94 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which three were closed-ended investment funds. A total of 91 share issuers were therefore obliged to submit the compliance questionnaire for 2021 (96 share issuers in 2020).

The compliance questionnaire was submitted to Hanfa by all of the companies 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 submitted their compliance questionnaires did not cover the issuers whose shares were removed from trading on the regulated market in 2022 (4 share issuers) and the issuers whose answers provided to the questions in the compliance questionnaire were not correct or consistent (4 issuers whose shares are admitted to trading on the Regular Market), which was proved by a comparison between the answers provided and publicly available data. The sample serving as the basis for calculating overall compliance covered therefore 83 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 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 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 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);
- 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).

The sum of compliance scores by individual sections determined the overall compliance of issuers with the Code for the year 2021.

Furthermore, this Annual Report on Corporate Governance provides for the first time Hanfa's **assessment of the progress in issuers' compliance with the Code**. The compliance scores were assigned on the basis of compliance questionnaires for 2020 and 2021.

For the purpose of calculating compliance progress, 12 issuers excluded from the sample for calculating compliance in 2020 and the issuers whose shares were admitted to the regulated market during 2020 were excluded from the total number of issuers covered by the sample for calculating overall compliance in 2021 (83). Therefore, the number of issuers used for the assessment of compliance progress reached 71.

The model for assessing progress in issuers' compliance in 2021 relative to 2020 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 the 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:

- The 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);
- The 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 2021 compared with 2020 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 2020 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 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 individual issuer per section.

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

Tables 6, 7 and 8 show issuers' compliance with individual sections of the Code by segments of the regulated market in 2021. The order 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, while only 2 issuers on the Regular Market showed full compliance.
- Pursuant to answers provided in questionnaires related to corporate governance, in 2020, as many as 8 issuers complied fully with the Code (2 issuers whose shares are admitted to the Prime Market, 2 issuers whose shares are admitted to the Official Market and 4 issuers whose shares are admitted to the Regular Market).
- Pursuant to answers provided in questionnaires related to corporate governance, in 2021, 9 issuers complied fully with the Code (3 issuers whose shares are admitted to the Prime Market and 6 issuers whose shares are admitted to the Regular Market). In the year observed, there were no issuers on the Official Market that complied fully with the Code.
- This points to a significant improvement as regards the compliance of share issuers with the Code in 2021.

Table 6

### Prime Market issuers' compliance scores by individual sections of the Code for the year 2021

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
Hrvatski Telekom 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
AD Plastik d.d.	2	1	2	2	2	2	2	1	1	2
Arena Hospitality Group d.d.	1	1	2	2	2	2	2	1	2	2
Podravka d.d.	2	2	2	2	2	2	2	1	1	-1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

Table 7

**Official Market issuers' compliance scores by individual sections of the Code for the year 2021**

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
CROATIA osiguranje d.d.	2	2	2	2	2	2	2	1	2	2
Meritus ulaganja d.d.	2	2	2	2	2	2	2	1	2	2
Luka Ploče d.d.	2	2	2	2	2	2	2	1	1	2
Končar - Elektroindustrija d.d.	2	2	1	2	2	2	2	2	1	2
Hrvatska poštanska banka d.d.	2	2	2	2	2	2	2	2	2	0
Zagrebačka burza d.d.	1	2	2	2	2	2	2	1	1	2
CIAK Grupa d.d. za upravljanje društvima	1	0	1	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	1	0
INA - Industrija nafte d.d.	1	0	1	2	2	0	2	2	2	2
Ilirija d.d.	2	2	-1	2	2	1	1	0	2	2
SUNCE HOTELI d.d. za turizam i ugostiteljstvo	1	1	2	1	2	-1	1	2	2	2
Stanovi Jadran d.d. za poslovanje nekretninama	1	-1	2	1	1	1	1	2	2	2
Dalekovod d.d.	2	2	-1	2	0	-1	2	1	2	2
SPAN d.d.	2	2	-1	2	2	-1	2	1	2	-1
Granolio d.d.	2	2	0	0	2	-1	1	1	0	2
Medika d.d.	2	2	-1	1	2	0	1	2	1	-1
Varteks d.d.	1	1	0	1	2	2	0	1	1	0
TANKERSKA NEXT GENERATION d.d.	2	1	2	1	-1	2	-1	1	1	0
Luka Rijeka d.d.	2	-1	-1	0	2	-1	-1	1	1	-1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

Table 8

**Regular Market issuers' compliance scores by individual sections of the Code for the year 2021**

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Ericsson Nikola Tesla 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
Tehnika 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
ADRIATIC OSIGURANJE d.d.	2	2	2	2	2	2	2	1	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
Slatinska banka d.d.	2	2	2	2	2	2	2	1	2	2
INGRA d.d.	2	2	2	2	2	2	2	1	1	2
Istarska kreditna banka Umag d.d.	2	1	2	2	2	2	2	2	2	0

Solaris d.d.	2	2	1	2	2	2	2	0	2	2
Adris Grupa d.d.	2	2	0	2	2	2	2	0	2	2
Atlantska plovidba d.d.	2	1	2	-1	2	1	2	2	2	2
Croatia Airlines d.d.	2	1	-1	2	2	1	2	2	2	2
Jadroagent d.d.	2	2	2	2	0	2	2	2	2	-1
Koestlin d.d.	1	1	2	2	2	-1	2	1	2	2
Kraš d.d.	2	2	-1	2	2	-1	2	2	2	2
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	2	1	0	1	2	2	2	2	1	0
HTP Korčula d.d.	1	2	1	1	2	1	2	0	2	0
HTP Orebić d.d.	1	2	1	1	2	1	2	0	2	0
AGRAM BANKA d.d.	2	2	0	1	2	1	2	1	1	0
Čateks d.d.	2	2	2	1	-1	-1	2	2	1	2
Kutjevo d.d.	2	2	-1	1	2	2	1	1	0	2
3. MAJ Brodogradilište d.d.	2	2	2	2	2	0	-1	0	0	2
THE GARDEN BREWERY d.d.	2	2	-1	2	2	-1	2	0	1	2
Brodomerkur d.d.	2	2	-1	0	2	0	1	1	1	2
FTB TURIZAM d.d.	1	1	-1	1	2	1	1	1	1	2
Maistra d.d.	1	2	-1	1	0	2	2	0	1	2
Tekstilpromet d.d.	1	1	-1	1	2	1	2	0	1	2
Imperial Riviera d.d.	1	1	-1	2	2	2	1	0	1	0
Adriatic Croatia International Club d.d.	2	2	-1	1	-1	2	1	0	2	0
MEDORA HOTELI I LJETOVALIŠTA d.d.	1	2	0	1	-1	0	2	1	2	0
Turisthotel d.d.	2	1	-1	1	0	2	0	0	1	0
Jadroplov d.d.	1	1	-1	1	0	-1	1	1	1	2
Jadranski naftovod d.d.	2	2	-1	1	0	-1	1	1	1	0
Plava laguna d.d.	0	-1	-1	1	2	2	1	1	1	0
Bilokalnik - IPA d.d.	1	0	0	1	2	-1	0	1	1	0
Čakovečki mlinovi d.d.	0	0	1	1	0	2	0	0	1	0
Primo Real Estate d.d.	2	2	-1	1	0	1	-1	1	0	-1
Saponia d.d.	1	2	-1	-1	-1	-1	1	2	2	0
VILLA DUBROVNIK HOTELSKO - TURISTIČKO DIONIČKO DRUŠTVO	2	2	-1	1	0	-1	-1	0	0	2
ALPHA ADRIATIC pomorski promet dioničko društvo	0	1	-1	1	0	-1	1	0	1	0
AUTO HRVATSKA d.d.	1	2	-1	-1	2	-1	0	0	1	-1
ĐURO ĐAKOVIĆ GRUPA d.d.	0	0	-1	0	0	-1	1	2	1	-1
Lošinjska plovidba - Holding d.d.	2	-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
Brionka d.d.	0	-1	-1	1	0	-1	-1	0	1	-1
Liburnia riviera hoteli d.d.	1	-1	-1	1	-1	-1	-1	0	1	-1

PROFESSIO ENERGIA d.d.	-1	-1	-1	1	0	-1	-1	1	1	-1
Viro tvornica šećera d.d.	-1	1	-1	-1	-1	2	-1	0	0	-1
Zagrebačke pekarnice Klara d.d.	0	0	-1	-1	-1	-1	-1	2	0	-1
Žitnjak d.d.	0	-1	-1	-1	-1	-1	-1	1	1	-1
Zvečevo d.d.	-1	1	-1	-1	-1	-1	-1	0	0	-1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

Viewed by issuers' compliance by individual sections, and taking account of the highest level of compliance with the Code, the 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 2021

Issuer	Regulated market segment	Total	Number of provisions the issuer fully complies with	Number of employees
Atlantic Grupa d.d.	PM	20	138	179
CROATIA osiguranje d.d.	OM	19	114	2,321
Ericsson Nikola Tesla d.d.	RM	20	131	2,669

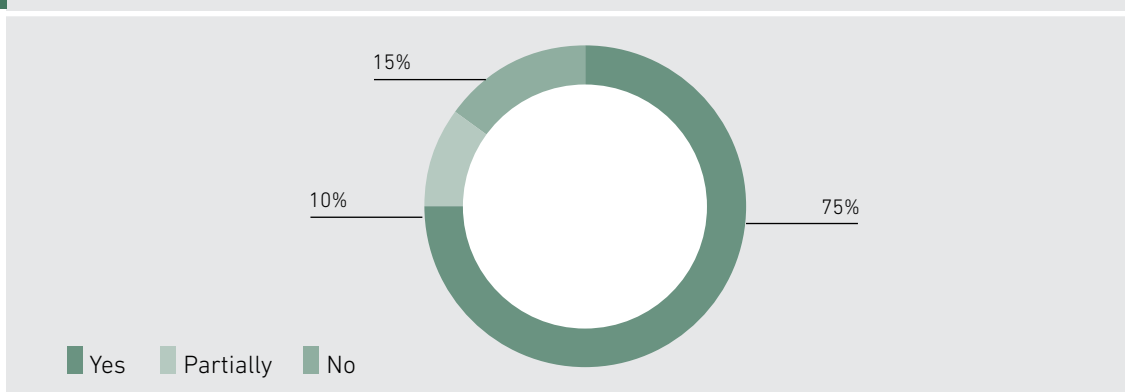
Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

The highest level of compliance with the Code in 2021 was reached by Atlantic Grupa d.d on the Prime Market and by Ericsson Nikola Tesla d.d. on the Regular Market. There was no issuer on the Official Market that fully complied with the Code; however, according to the criteria relating to the largest number of "YES" answers and the criteria relating to the number of employees as at 31 December 2021, CROATIA osiguranje d.d. was declared the issuer with the highest level of the compliance with the Code compared to other issuers on the Official Market.

Charts 25 - 45 show the percentage of issuers' compliance by individual sections and the overall compliance of issuers with the Code for the year 2021.

## Issuers' compliance with sections of the Code

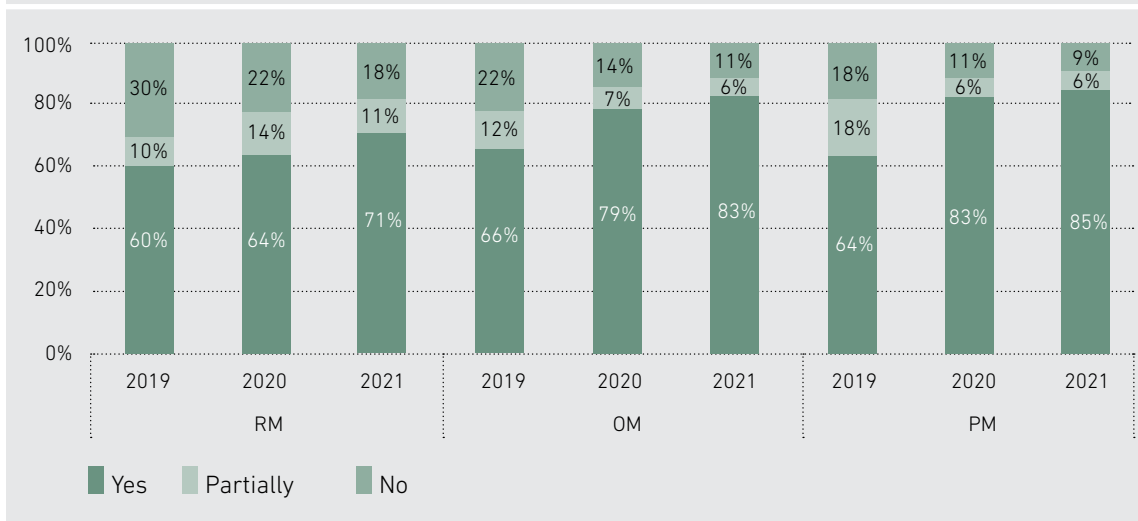
**Chart 25** Share issuers' compliance with the section "Leadership" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 26

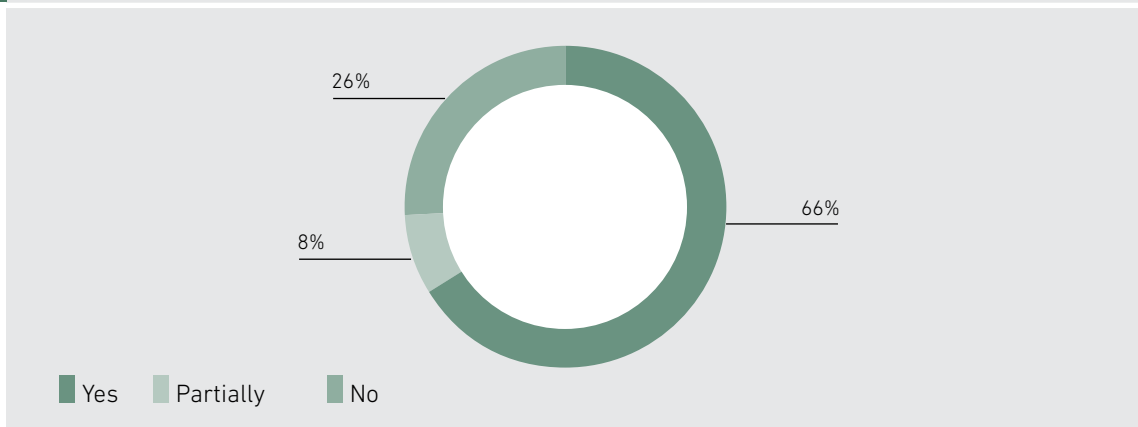
Share issuers' compliance with the section "Leadership" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 27

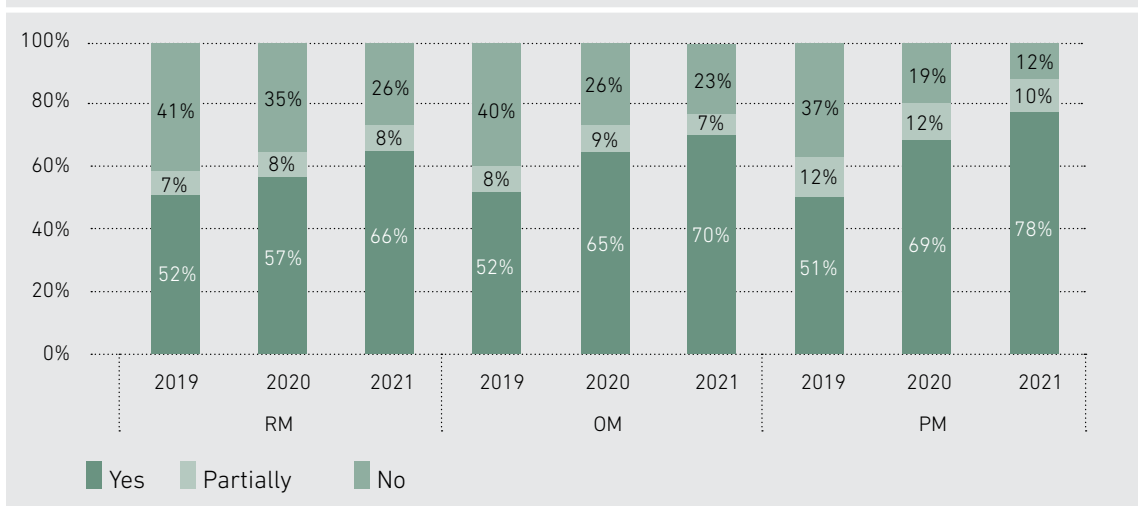
Share issuers' compliance with the section "Duties of board members" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 28

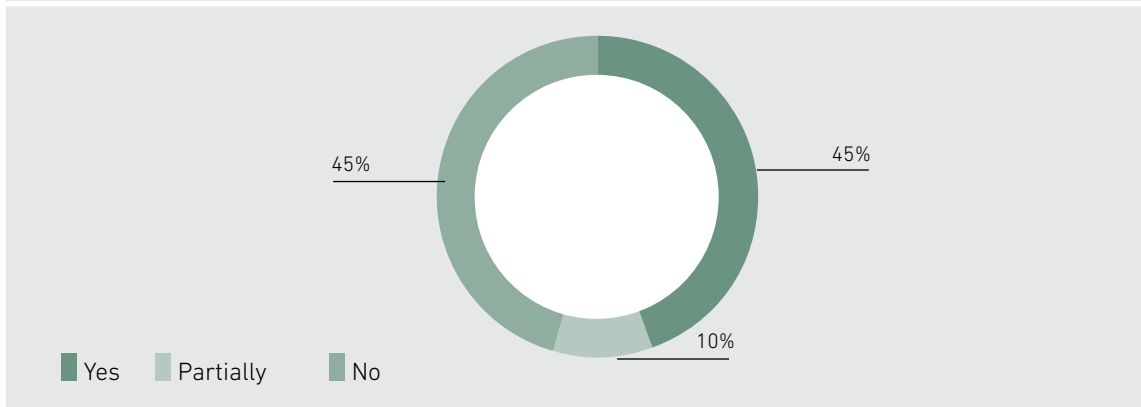
Share issuers' compliance with the section "Duties of board members" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 29

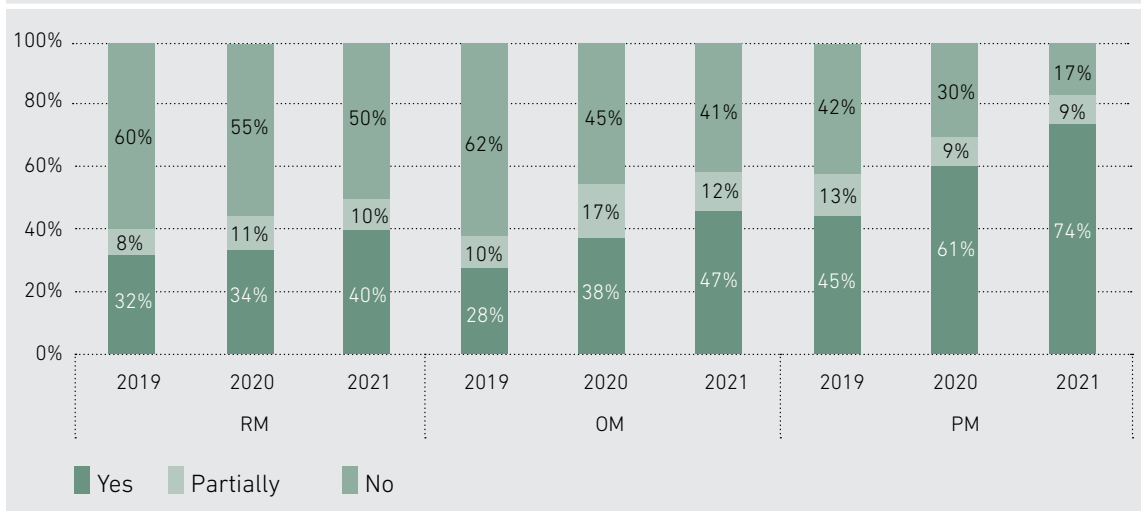
Share issuers' compliance with the section "Appointment of board members" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 30

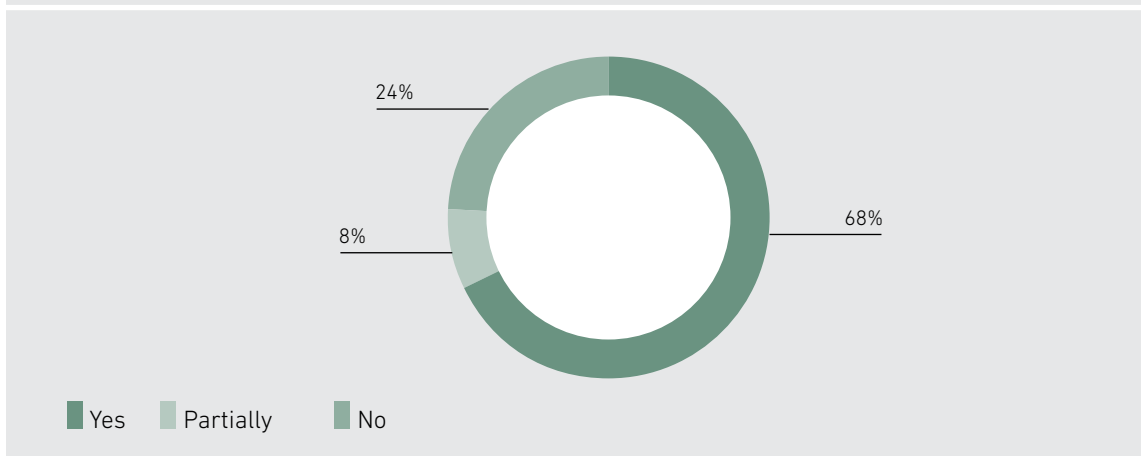
Share issuers' compliance with the section "Appointment of board members" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 31

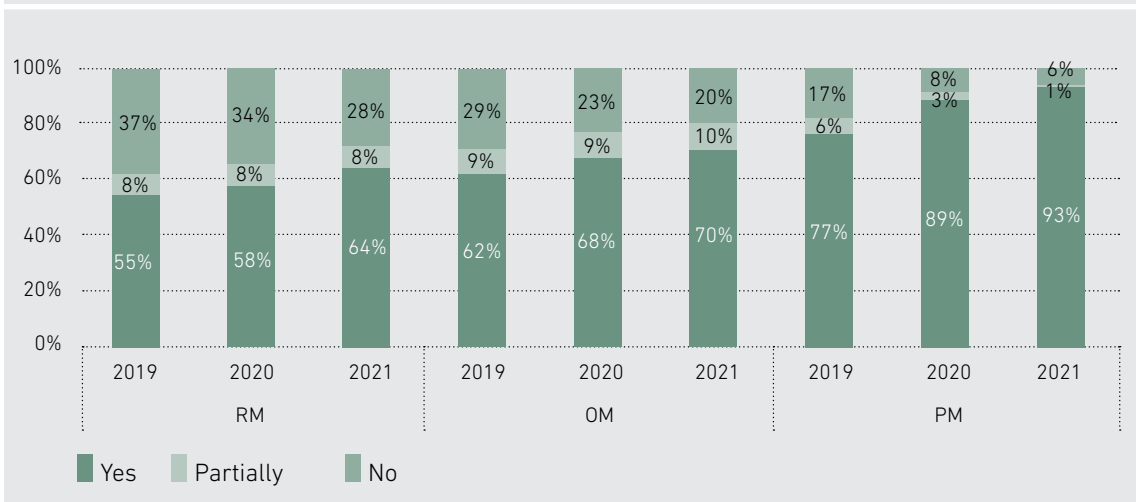
Share issuers' compliance with the section "Supervisory board and its committees" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 32

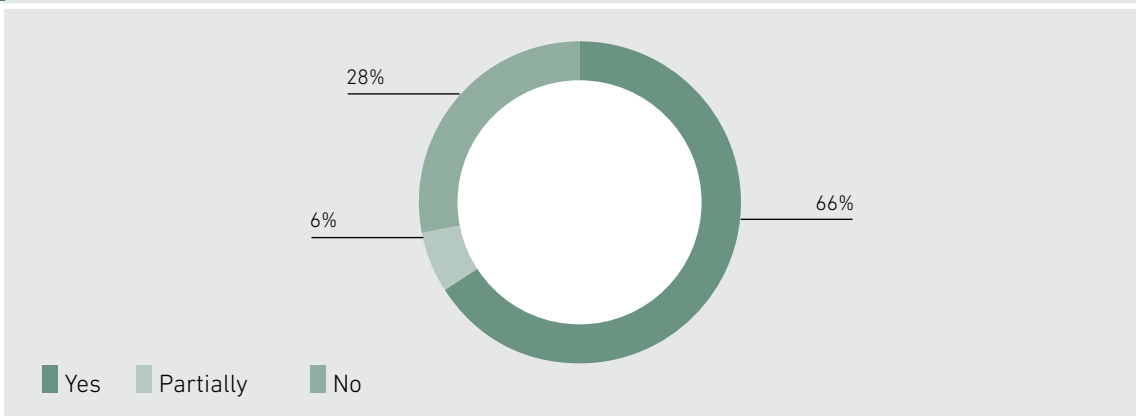
Share issuers' compliance with the section "Supervisory board and its committees" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 33

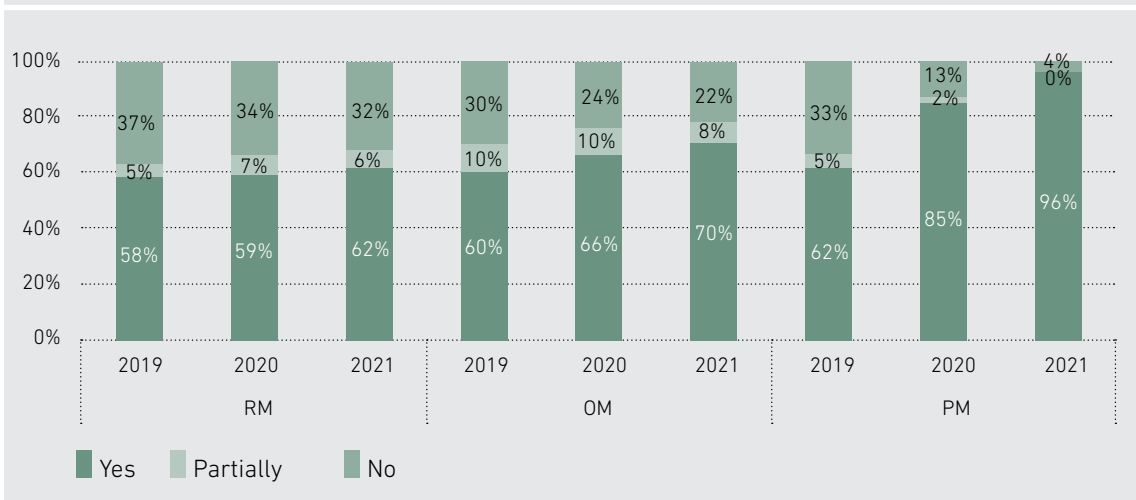
Share issuers' compliance with the section "Management board" for the year 2021



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

Chart 34

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

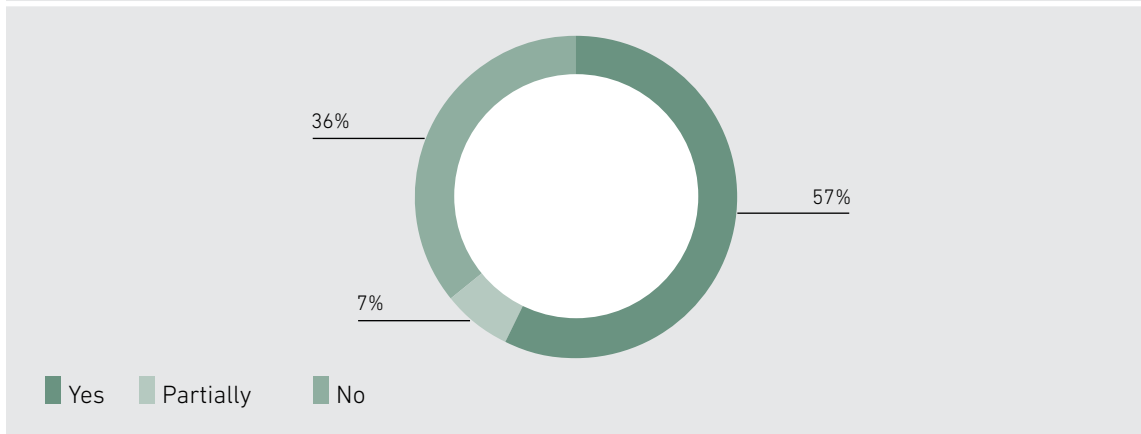


Source: Compliance questionnaire 2019, 2020 and 2021, internal calculation



Chart 35

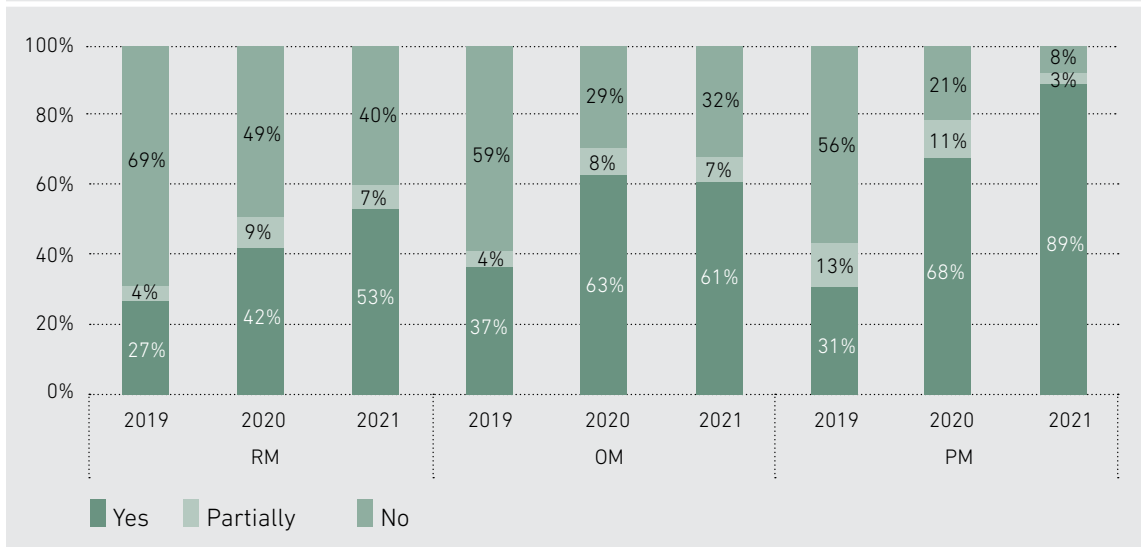
Share issuers' compliance with the section "Remuneration of board members" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 36

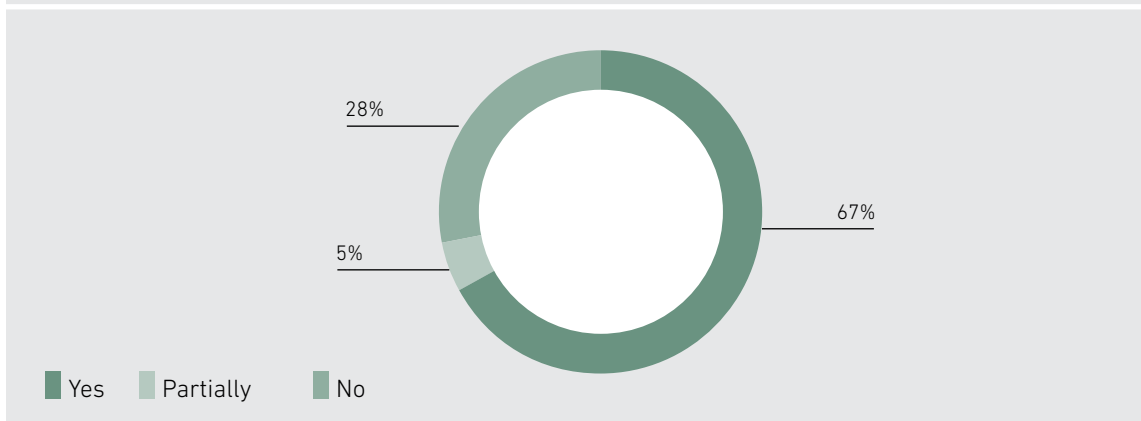
Share issuers' compliance with the section "Remuneration of board members" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 37

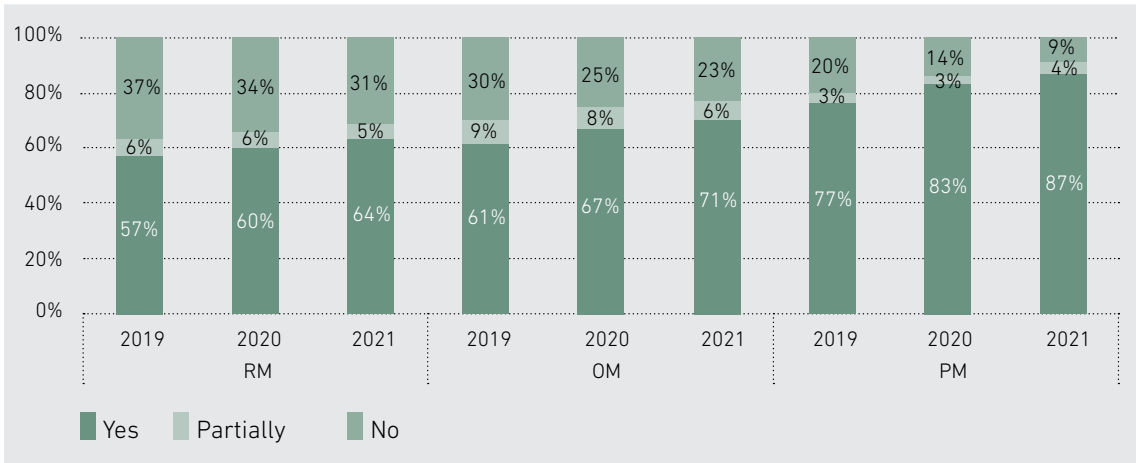
Share issuers' compliance with the section "Risks, internal control and audit" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 38

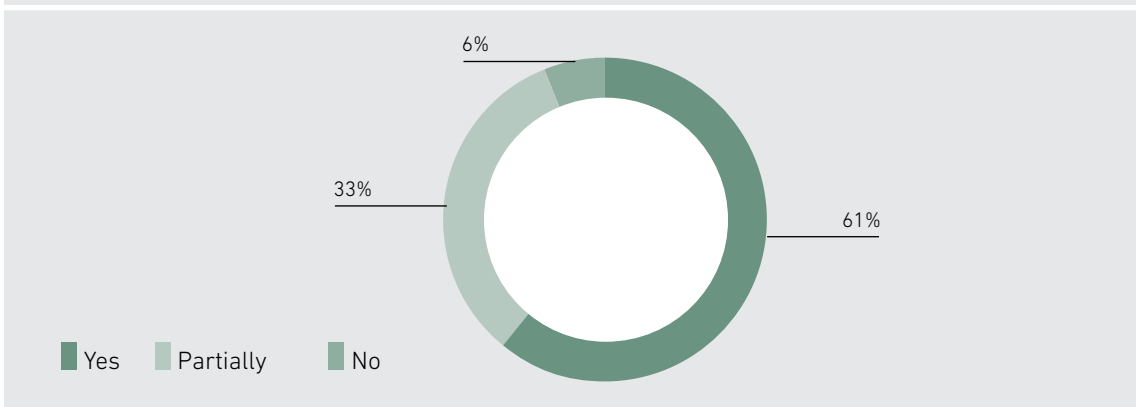
Share issuers' compliance with the section "Risks, internal control and audit" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 39

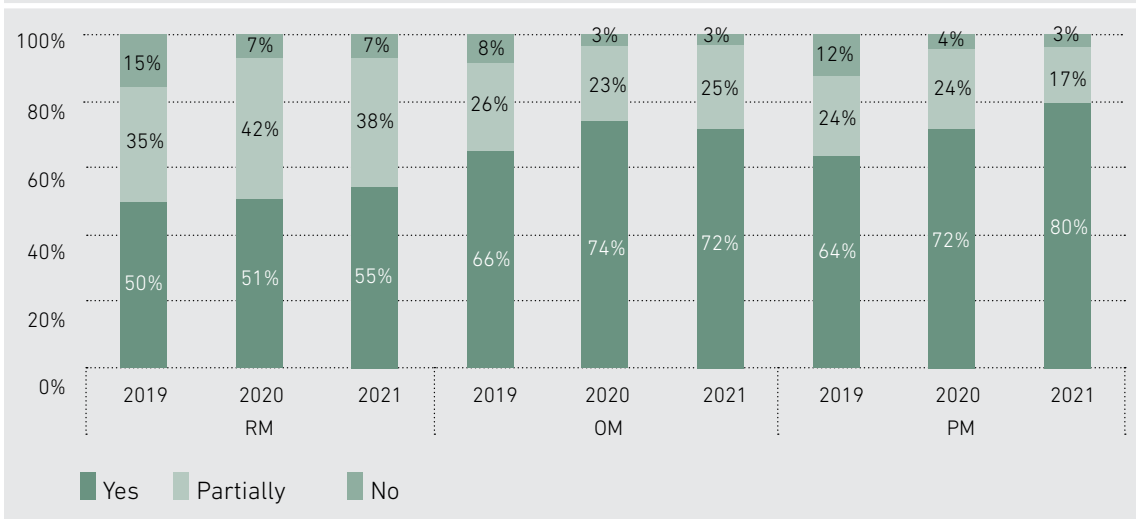
Share issuers' compliance with the section "Disclosure and transparency" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 40

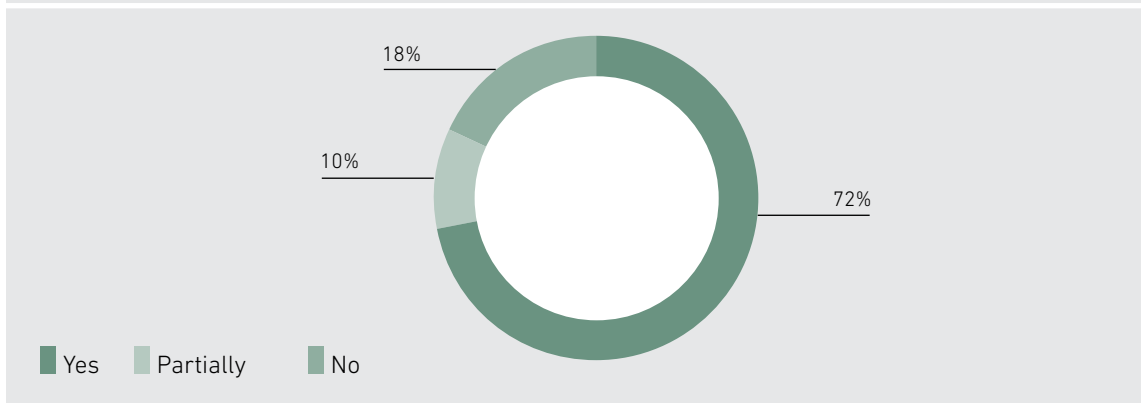
Share issuers' compliance with the section "Disclosure and transparency" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 41

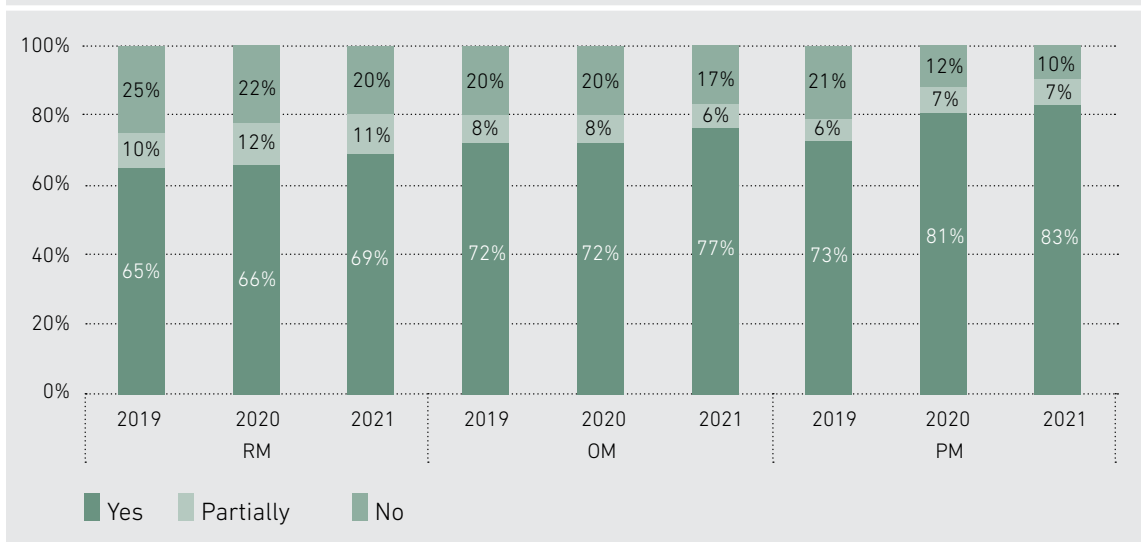
Share issuers' compliance with the section "Shareholders and the general meeting" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 42

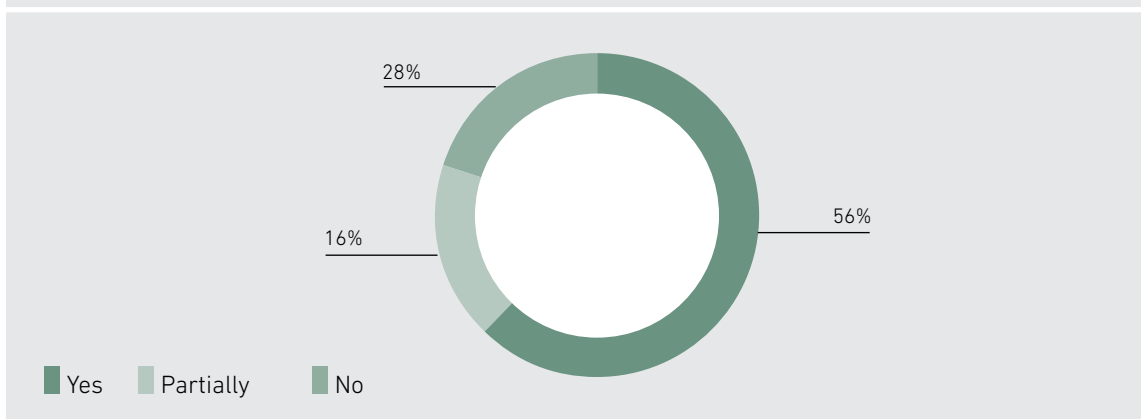
Share issuers' compliance with the section "Shareholders and the general meeting" in 2019, 2020 and 2021 by segments of the regulated market



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

Chart 43

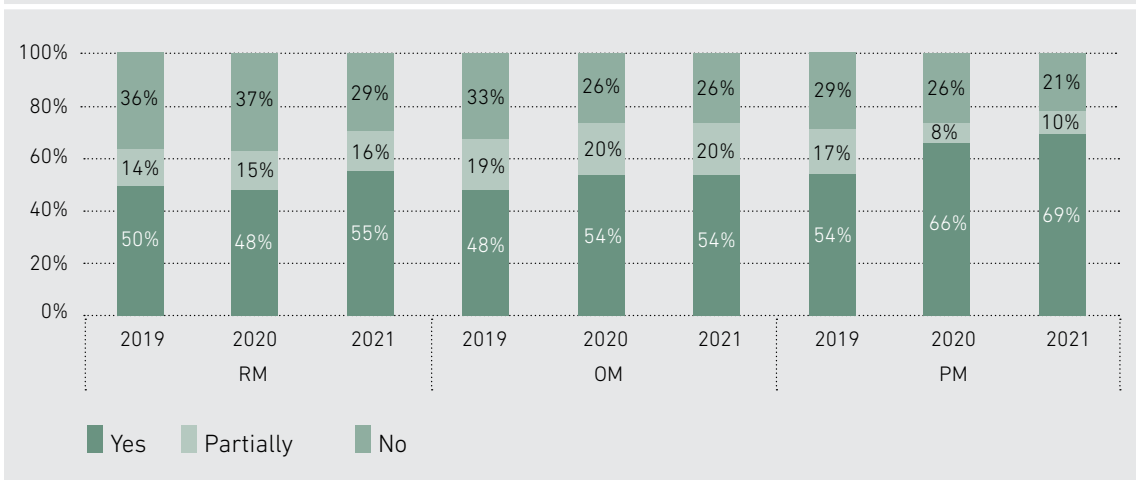
Share issuers' compliance with the section "Stakeholders and corporate social responsibility" for the year 2021



Source: Compliance questionnaire 2021, internal calculation

Chart 44

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



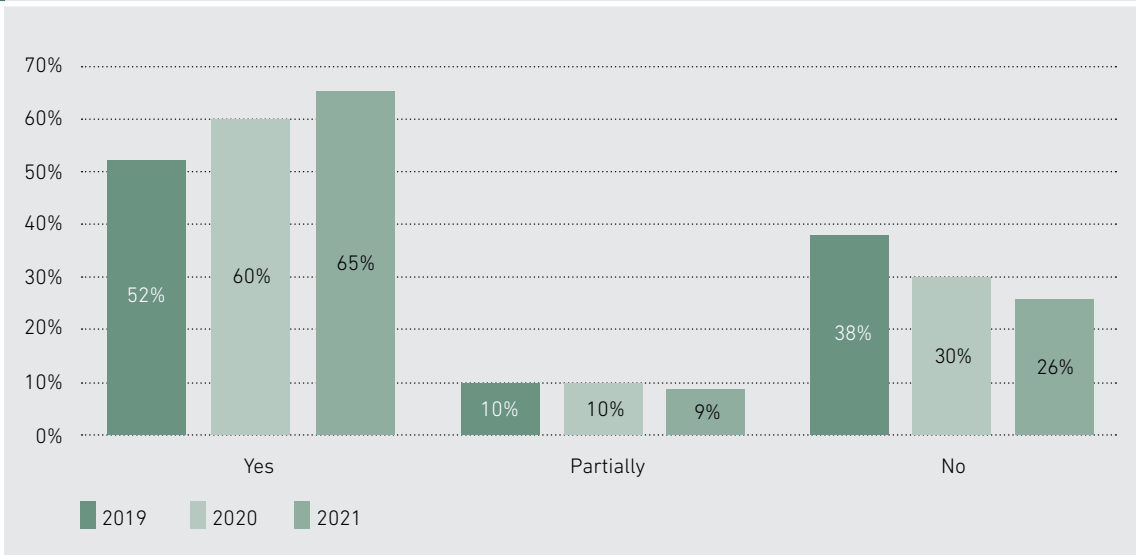
Source: Compliance questionnaire 2019, 2020 and 2021, internal calculation

**Overall compliance of issuers with the Code for the year 2021**

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

Chart 45

**Overall compliance of issuers with the Code for the year 2021**



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

A total of 65% of all the questions in the 2021 compliance questionnaire were answered "YES" and 26% of the questions were answered "NO" (in 2020, 60% of all the questions in the compliance questionnaire were answered "YES" and 30% of the questions were answered "NO").

- According to data submitted in the compliance questionnaire for the year 2021, issuers comply most with the sections “Leadership” and “Shareholders and the general meeting”.
- According to data submitted in the compliance questionnaire for the year 2021, 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 previous year was recorded with respect to the section “Remuneration of board members”. A significant rise in the level of issuers’ compliance in 2021 relative to 2020 was also recorded with respect to the section “Duties of board members”.
- Taking account of the sharpest increase in the level of share issuers’ compliance in 2021 relating to Section 6 “Remuneration of board members”, the following articles of the Code relating to the company’s remuneration policy that received “YES” answers by more than 70% issuers have been highlighted:
  - The level of remuneration paid to management board members should take account of the strategy agreed, risk appetite, economic environment the company is operating in, and the pay and working conditions of the company’s employees.
  - The remuneration policy should include provisions specifying the circumstances in which part of a management board member’s remuneration would be withheld or recovered.
  - 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 Article 57 of the Code.
- As regards the section “Supervisory board and its committees”, a higher level of compliance with the following provisions was recorded:
  - The supervisory board has established a nomination committee, a remuneration committee and an audit committee and has defined the mandate and activities of each of its committees.
  - The company should include a report on the work of each committee in its annual report. This should include information on the number of meetings held and members of the committees.
  - The terms of reference of each of the supervisory board’s committees should be made freely available on the company’s website.
  - In its annual report, the company should publish a record of each member’s attendance at the supervisory board and committee meetings.
  - The annual report includes a report on the evaluation of the supervisory board and its committees, which evaluates all the circumstances referred to in Article 41 of the Code.
- The largest share of issuers (83 issuers or 100%) complied with the provision of the Code relating to:
  - the holding of supervisory board meetings (Supervisory board meetings may be held without the presence of management board members when the supervisory board finds it appropriate.)
  - relations with shareholders (The company has ensured that all shareholders, irrespective of the number or class of shares they hold, have equal access to information on the company and on how they can exercise and protect their rights.)
  - voting at the general meeting (The articles of association and/or other internal acts provide shareholders with the opportunity to exercise their voting rights by proxy without any restrictions.)
- The smallest share of issuers (11 issuers or 13%) complied with the provision of the Code relating to the following:
  - The supervisory board has set a target percentage of female members on the supervisory and management board to be achieved within the next five years, it has adopted a plan for achieving that goal and has published it on its website.
  - A progress report was published in the annual report.

## 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 2021 compared to 2020. The order 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 carried out showed that the largest share of issuers made progress in compliance with Section 3 "Appointment of board members" (20 issuers or 28%) and Section 6 "Remuneration of board members" (19 issuers or 27%).

Table 10

### Prime Market issuers' compliance progress scores by individual sections of the Code for the year 2021

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	1	2	1	2	2	0	1	0	0
Arena Hospitality Group d.d.	1	0	0	0	0	0	1	0	0	0
Podravka d.d.	0	0	0	0	0	2	0	0	-1	0
Atlantic Grupa d.d.	0	0	0	0	0	0	0	0	0	0
Hrvatski Telekom d.d.	0	0	0	0	0	0	0	0	0	0
Valamar Riviera d.d.	0	0	0	0	0	0	0	0	0	0

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

Table 11

### Official Market issuers' compliance progress scores by individual sections of the Code for the year 2021

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
CROATIA osiguranje d.d.	0	0	2	0	0	0	0	0	0	2
Medika d.d.	2	0	0	0	1	0	0	0	1	0
Dalekovod d.d.	0	0	0	0	0	0	0	0	2	0
Granolio d.d.	0	0	1	0	0	1	0	0	0	0
Luka Ploče d.d.	0	1	0	0	1	0	0	0	0	0
Varteks d.d.	0	0	0	2	0	0	0	0	0	0
CIAK Grupa d.d. za upravljanje društvima	0	0	0	0	0	0	1	0	0	0
Ilirija d.d.	0	0	1	0	0	0	0	0	0	0
Hrvatska poštanska banka d.d.	0	0	1	0	0	0	0	0	0	-1
Končar - Elektroindustrija d.d.	0	0	-1	0	0	0	0	0	1	0
Meritus ulaganja d.d.	0	0	0	0	0	0	0	0	0	0
Stanovi Jadran d.d. za poslovanje nekretninama	0	0	0	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
Zagrebačka burza d.d.	0	0	0	0	0	0	0	0	0	0
JADRAN d.d.	0	0	0	0	0	0	0	0	-1	0
Luka Rijeka d.d.	0	0	0	-1	0	0	0	0	0	0

INA - Industrija nafte d.d.	-1	-1	2	-1	0	-1	0	0	0	0
TANKERSKA NEXT GENERATION d.d.	0	-1	0	-1	0	0	0	0	-1	0

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

Table 12

**Regular Market issuers' compliance progress scores by individual sections of the Code for the year 2021**

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Solaris d.d.	2	1	2	2	0	2	2	0	2	0
HTP Orebić d.d.	2	2	1	1	0	2	0	0	2	1
HELIOS FAROS d.d.	0	0	2	1	0	2	2	2	0	1
Adriatic Croatia International Club d.d.	2	2	1	1	-1	0	2	0	0	2
Atlantska plovdba d.d.	0	2	1	0	0	2	1	0	0	2
Adris Grupa d.d.	2	0	1	2	0	2	0	0	0	0
HTP Korčula d.d.	0	0	1	0	0	2	0	0	2	0
Lošinjska plovdba - Holding d.d.	0	1	-1	2	2	0	1	0	0	0
Maistra d.d.	1	0	1	1	0	2	0	0	0	0
THE GARDEN BREWERY d.d.	0	0	1	2	0	1	1	0	-1	0
Bilokalnik - IPA d.d.	0	0	1	1	0	1	0	0	0	0
Ericsson Nikola Tesla d.d.	0	0	0	0	0	2	1	0	0	0
Jadroagent d.d.	2	0	0	0	0	0	0	0	0	1
Končar - Distributivni i specijalni transformatori d.d.	0	0	0	0	0	0	0	0	2	1
Saponia d.d.	0	0	1	0	0	0	2	0	0	0
Turisthotel d.d.	1	1	0	1	0	0	0	0	0	0
ALPHA ADRIATIC pomorski promet dioničko društvo	0	0	0	0	0	0	0	0	2	0
Zagrebačke pekarne Klara d.d.	0	1	0	1	0	0	0	0	0	0
AUTO HRVATSKA d.d.	0	0	0	0	0	1	0	0	0	0
Brodmerkur d.d.	0	0	1	0	0	0	0	0	0	0
Čakovečki mlinovi d.d.	0	0	1	0	0	0	0	0	0	0
Imperial Riviera d.d.	0	0	1	0	0	0	0	0	0	0
MODRA ŠPILJA d.d.	0	0	0	1	0	0	0	0	0	0
Slatinska banka d.d.	0	0	0	0	0	0	0	1	0	0
Vodoprivreda Zagreb d.d.	0	0	0	0	0	1	0	0	0	0
3. MAJ Brodogradilište 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
Čateks d.d.	0	0	0	0	0	0	0	0	0	0
Croatia Airlines d.d.	0	-1	0	0	0	1	0	0	0	0
ĐURO ĐAKOVIĆ GRUPA d.d.	0	0	0	0	0	0	0	0	0	0
FTB TURIZAM 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
Kraš 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
Tekstilpromet d.d.	0	0	0	-1	0	1	0	0	0	0
Viro tvornica šećera d.d.	0	0	0	0	0	0	0	0	0	0
Vis d.d.	0	0	0	0	0	0	0	0	0	0
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	0	0	0	-1	0	1	0	0	0	0
Žitnjak d.d.	0	0	0	-1	0	1	0	0	0	0
Zvečevo d.d.	0	0	0	0	0	0	0	0	0	0
Brionka d.d.	0	0	0	0	0	0	0	0	-1	0
Istarska kreditna banka Umag d.d.	0	-1	0	0	0	0	0	0	0	0
Jadranski naftovod d.d.	0	0	0	0	0	0	0	0	-1	0
Maraska d.d.	0	0	0	0	0	0	0	-1	0	0
Liburnia riviera hoteli d.d.	0	0	0	-1	0	0	-2	0	0	1
AGRAM BANKA d.d.	0	0	-2	-2	0	0	0	0	-1	-2
PROFESSIO ENERGIA d.d.	-2	-2	-1	-1	-2	0	-2	0	-1	1

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

The model set showed that the highest compliance progress score by segments of the regulated market was recorded by the following issuers:

Table 13

**List of issuers according to their compliance progress scores for 2021 by segments of the regulated market**

Issuer	Regulated market segment	Total	Number of provisions the issuer fully complies with
AD Plastik d.d.	PM	9	116
CROATIA osiguranje d.d.	OM	4	114
Solaris d.d.	RM	13	109

Source: Internal calculation by Hanfa based on the compliance questionnaire for 2021

The highest compliance progress score in 2021 was achieved by AD Plastik d.d. on the Prime Market, CROATIA osiguranje d.d. on the Official Market, and Solaris d.d. on the Regular Market. Taking account of the above-mentioned facts and the criteria relating to the largest number of "YES" answers, AD Plastik d.d. was declared the issuer that made the most significant progress in compliance with the Code on the regulated market.



## Recommendations for improving the quality of corporate governance reporting

Compliance questionnaires were received from issuers by Hanfa for the first time for the year 2019. Questions from the compliance questionnaire were answered "YES", "NO" or "Partially", which was the case in 2021 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 14

### Examples of explanations from the compliance questionnaire for share issuers for the year 2021

Provision of the Code	Examples of adequate explanations	Examples of inadequate explanations
The company's statute and/or internal acts provide shareholders with the opportunity to exercise their voting rights electronically without any restrictions.	The company is planning to change the statute so as to enable electronic voting within the period of two years.	The provision is being considered.  The company will consider the adoption of this regulation.
The supervisory board evaluated the performance of its individual members in the last 12 months.	The provision will be complied with within a short period of time.	Ocjena rada članova Nadzornog odbora proizlazi iz odluke o razrješnici.  Nije propisano.
The management board has adopted, and the supervisory board has approved the rules of procedure of the management board, that defines all the issues referred to in Article 43 of the Code.	The Management Board of the company consists of a single member. The statute of the Company stipulates that rules of procedure of the Management Board shall be adopted in the case where the Management Board consists of two members.  The Management Board intends to adopt rules of procedure of the Management Board within a reasonable period of time, and the Supervisory Board intends to approve the rules of procedure of the Management Board as referred to in Article 43 of the Code.	Not our practice.  No, as there is no legal obligation in relation thereto.
The fair value of each material transaction shall be approved by an independent expert prior to each transaction and their report shall be available free of charge on the website of the company.	The company has no such internal act and intends to adopt it as soon as possible.  The company publishes related party transactions pursuant to IAS 24 on an annual basis. Such disclosures are part of the company's annual financial statements. Material transactions and relations with related legal persons are the subject of the transfer pricing study.	There were no such transactions.  The regulation in force does not lay down such an obligation.  Not laid down.

Source: 2021 Compliance questionnaire

The explanation provided for "NO" or "Partially" answers is extremely important as issuers have an opportunity to provide their own reasons that led to non-compliance or partial compliance. The 2021 compliance questionnaire, just as the compliance questionnaires for 2019 and 2020, show 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 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 the case of non-compliance with the manner and deadlines specified, Hanfa is authorised to request issuers to submit information, data, statements, reports and documentation relating to corporate governance and the application of the Corporate Governance Code.



# Annual report on corporate governance for share issuers

## Introduction

Data shown in this Annual Report on Corporate Governance for 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, and relate to the Supervisory board and its committees (Sections 3 and 4 of the Code), Management board (Section 5 of the Code), Duties of board members (Sections 1 and 2 of the Code), Remuneration of board members (Section 6 of the Code), Risk, internal control and audit (Section 7 of the Code), General meeting (Section 9 of the Code) and Transparency and corporate social responsibility (Sections 8 and 10 of the Code).

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 94 issuers whose shares were admitted to trading on the regulated market on 31 December 2021, 91 were obliged to submit to Hanfa their governance practices questionnaire and compliance questionnaire for 2021, while 3 were obliged to submit only their governance practices questionnaire.

Out of 91 issuers obliged to submit their governance practices questionnaire and compliance questionnaire, 90 issuers (99% of the submitters) met the obligation to submit their governance practices questionnaire within the prescribed deadline. Out of 3 share issuers obliged to submit to Hanfa their governance practices questionnaire only, 3 share issuers (100% of the submitters) submitted the 2021 questionnaire. Therefore, governance practices questionnaire was submitted by 93 issuers (99% of submitters) within the prescribed deadline.

Data shown in this chapter cover the data from the 2021 governance practices questionnaire and compliance questionnaire for all the share issuers that submitted their questionnaires to Hanfa within the given deadline (data from the governance practices questionnaire for 93 issuers and data from the compliance questionnaire for the 90 issuers that submitted their 2021 compliance questionnaire). One issuer submitted both questionnaires after the prescribed time limit. As this is an issuer whose shares were removed from trading on the regulated market in 2022, the information from these questionnaires is not included in this chapter.

The regulated market of the ZSE is divided into three segments: Prime Market, Official Market, and Regular Market, which differ in the level of requirements to be met by 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 2021, the ZSE turnover amounted to HRK 2.5bn, decreasing by 19% compared with the previous year. The share turnover reached HRK 1.7bn, 24% less in comparison with 2020. At end-2021, there were 94 share issuers admitted to trading on the regulated market of the ZSE (5 share issuers fewer compared with 31 December 2020), and the number of issuers has been decreasing continuously since 2015. In 2021, shares of 8 issuers were removed from the regulated market (all from the Regular Market), and shares of 3 issuers were admitted to trading (1 on the Official Market, 2 on the Regular Market).

In 2021, more than half of the total securities turnover in the amount of HRK 2.5bn was accounted for by trading in shares (HRK 1.7bn, i.e. 68%). The largest share turnover was recorded on the Prime Market (43% of the total share turnover), but it decreased relative to the previous year, when it stood at 47%. Trading in shares admitted to the Regular Market accounted for 40% of the total share turnover in 2021, while trading in shares admitted to the Official Market accounted for 17%. In 2021, the share turnover in the Prime Market amounted to HRK 750m, decreasing by 31% relative to the previous year, when it reached HRK 1.1bn.

Market capitalisation of shares increased by 1% compared to the end of 2020, and at the end of 2021 amounted to HRK 139.4bn. The market value measured by market capitalisation is higher than in the previous year in the Prime Market (by 9%) and the Official Market (by 21%), while in the Regular Market it is lower by 14%. This was due to the delisting of shares of 8 issuers, all of which were on the Regular Market: Karlovačka banka d.d., PIK d.d., Dukat d.d., Privredna banka Zagreb d.d., Hoteli Živogošće d.d., Hoteli Jadran d.d., MAGMA d.d. and Spačva d.d. In addition, one issuer listed shares on the Official Market (SPAN d.d.), two on the Regular Market (Primo Real Estate d.d. and Villa Dubrovnik d.d.), and one issuer changed the market segment from the Official Market to the Regular Market (Viro tvornica šećera d.d.).

The CROBEX stock index concluded the year 2021 at the level of 2,079.35 points, which was by 20% higher relative to the previous year. All stock indices grew in 2021 compared to 2020, with the exception of CROBEXkonstrukt (which fell by 31%).

Most traded shares were those of Podravka d.d., Hrvatski telekom d.d., Valamar Riviera d.d., Atlantska plovodba d.d. and Adris Grupa d.d.; their total turnover reached HRK 873,677,020, accounting for 50% of the total share turnover in 2021.

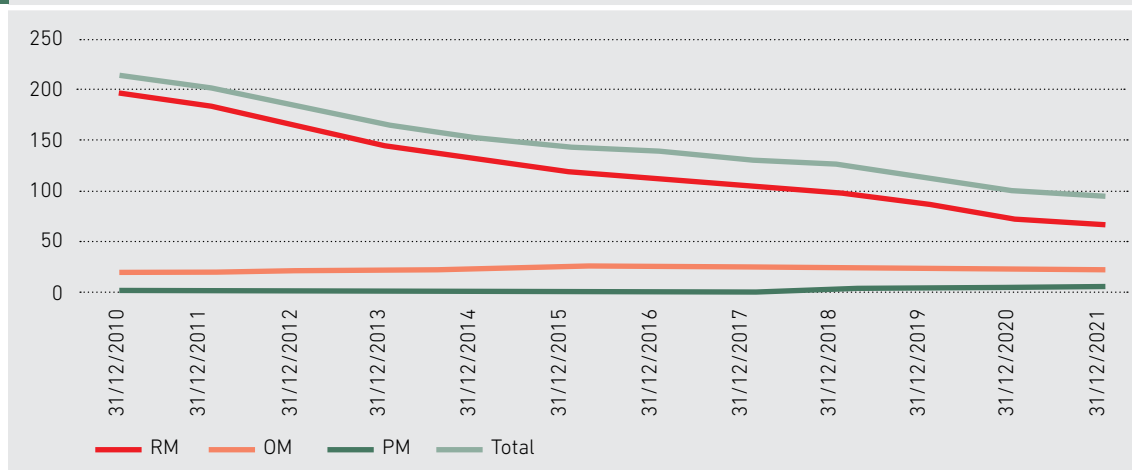
## Short overview on share issuers

### Number of share issuers

The 2010-2021 period is marked by a visible **trend in the decrease in the number of issuers** on the regulated market of the ZSE. A total of 8 companies removed their shares from trading on the regulated market in 2021 (all of them from the Regular Market). The following chart provides an illustrative overview of the number of issuers by segments on the regulated market of the ZSE.

Chart 46

Number of issuers per segments of the regulated market, 2010 – 2021



Source: ZSE, internal calculation

There is a significant decrease in the total number of the issuers whose shares are admitted to the regulated market of the ZSE, which has been further contributed over the years by the decrease in the number of the issuers whose shares are admitted to the Regular Market of the ZSE.

In addition, there is a slight decrease in the number of the issuers whose shares are admitted to the Official Market of the ZSE, and a slight increase in the number of the issuers whose shares are admitted to the Prime Market of the ZSE. The Prime Market has existed since 2018, and as at 31.12.2021 there were 6 issuers admitted to this market segment.

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 15

**Number of share issuers on the regulated market of the ZSE from 2015 to 2021, as at 31 December**

RM	2015			2016			2017			2018			2019			2020			2021		
	Number	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)		
PM	-	-	-	-	-	4	-	5	25	6	20	6	-								
OM	26	27	3.8	26	-3.7	24	-7.7	23	-4.2	22	-4.3	22	-								
RM	118	112	-5.1	105	-6.3	98	-6.7	86	-12.2	71	-17.4	66	-7								
<b>Total</b>	<b>144</b>	<b>139</b>	<b>-3.5</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>								

Source: ZSE, internal calculation

At the end of 2021, there were 94 share issuers, 5.1% fewer compared to 31 December 2020, when there were 5 issuers more having their shares admitted to the regulated market. Broken down by regulated market segments, the largest decrease in the number of issuers was recorded on the Regular Market (5 issuers fewer than at the end of 2020). In 2021, one issuer transferred from the Official Market to the Prime Market.

## Shares not traded at all

- The following shares were not traded at all from their admission to trading on the regulated market of the ZSE until 31 December 2021:
  - ordinary share of the issuer Professio Energia d.d., bearing the symbol DLPR-R-A
  - preferential share of the issuer Plava laguna d.d., bearing the symbol PLAG-P-A
  - ordinary share of the issuer Stanovi Jadran d.d., bearing the symbol STJD-R-A
  - ordinary share of the issuer The Garden Brewery d.d, bearing the symbol GARB-R-A.

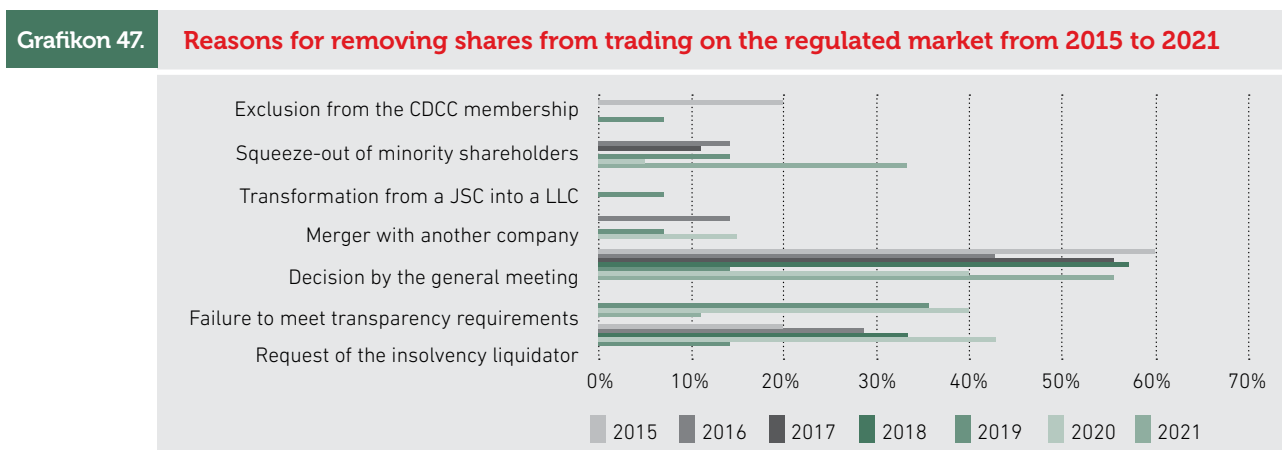
## Admissions to trading and removals from trading on the regulated market of the ZSE

- In 2021, shares of 3 issuers were admitted to trading on the regulated market of the ZSE:
  - ordinary shares of the company Villa Dubrovnik d.d. were admitted to trading on the Regular Market on 21 June 2021
  - ordinary shares of the company Primo Real Estate d.d. were admitted to trading on the Regular Market on 20 July 2021
  - ordinary shares of the company SPAN d.d. were admitted to trading on the Official Market on 21 September 2021.
- In 2020, shares of 5 issuers were admitted to trading on the regulated market of the ZSE:
  - ordinary shares of the company Helios Faros d.d. were admitted to trading on the Regular Market on 30 April 2020
  - ordinary shares of the company The Garden Brewery d.d. were admitted to trading on the Regular Market on 9 June 2020
  - ordinary shares of the company Modra Šplja d.d. were admitted to trading on the Regular Market on 1 October 2020
  - ordinary shares of the company Vis d.d. were admitted to trading on the Regular Market on 1 October 2020
  - ordinary shares of the company Ciak Grupa d.d. were admitted to trading on the Official Market on 29 December 2020.

In 2021, 8 issuers removed their shares from trading on the Regular Market, and no issuers did so from the Official Market or Prime Market (in 2020, 20 issuers removed their shares from trading on the Regular Market, 14 issuers did so in 2019 and 7 issuers in 2018).

The most common reasons for removing shares from trading on the Regular Market in 2021 were the decision of the general meeting (4 issuers) and failure to meet transparency requirements laid down by the ZSE Rules (1 issuer). Furthermore, three issuers underwent the procedure of the squeeze-out of minority shareholders.

The above-mentioned reasons for removing shares from trading on the regulated market from 2015 to 2021 are shown in the chart below.



Source: ZSE

In the period between 2015 and 2021, the largest number of shares (33) were removed from trading on the regulated market on the basis of a decision by the general meeting. One share was removed from trading on the regulated market in 2021 (8 shares in 2020) due to failure to meet transparency requirements, while in the preceding period, from 2015 to 2019, no shares were removed from trading on the regulated market due to this reason.

In the period observed, out of 76 shares that were removed from trading on the regulated market, 1 was removed from the Official Market, and the remaining 75 shares were removed from the Regular Market. Since 2018, when the Prime Market was established, no shares have been removed from trading from this segment of the regulated market.

## Classification of issuers by sectors

With respect to activities they carry out, issuers are classified into the financial and non-financial sector. The financial sector is comprised of financial institutions and closed-ended alternative investment funds, while the non-financial sector covers other activities. The classification of issuers by sectors in the period from 2015 to 2021 is shown in Table 16.

**Table 16 Classification of issuers by sectors in the period from 2015 to 2021, as at 31 December**

Sectors	2015		2016		2017		2018		2019		2020		2021	
	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)
Financial sector	17	11.8	15	10.8	14	10.7	12	9.5	12	10.5	12	12.1	11	11.7
Non-financial sector	127	88.2	124	89.2	117	89.3	114	90.5	102	89.5	87	87.9	83	88.3
Total	144	100	139	100	131	100	126	100	114	100	99	100	94	100

Source: ZSE

According to the publicly available data of the ZSE, as at 31 December 2021, the largest number of share issuers came from the tourism industry (22 of them, while at the end of 2020, this number was 23). They are followed by share issuers from financial and insurance activities (15 of them; 18 in 2020), share issuers from food industry and beverages and tobacco product manufacturing industry (10 of them; 12 in 2020) and from the transportation and storage sector (10 of them; 10 in 2020, as well). Other industries/activities counted less than 10 issuers per industry/activity, as at 31 December 2021.

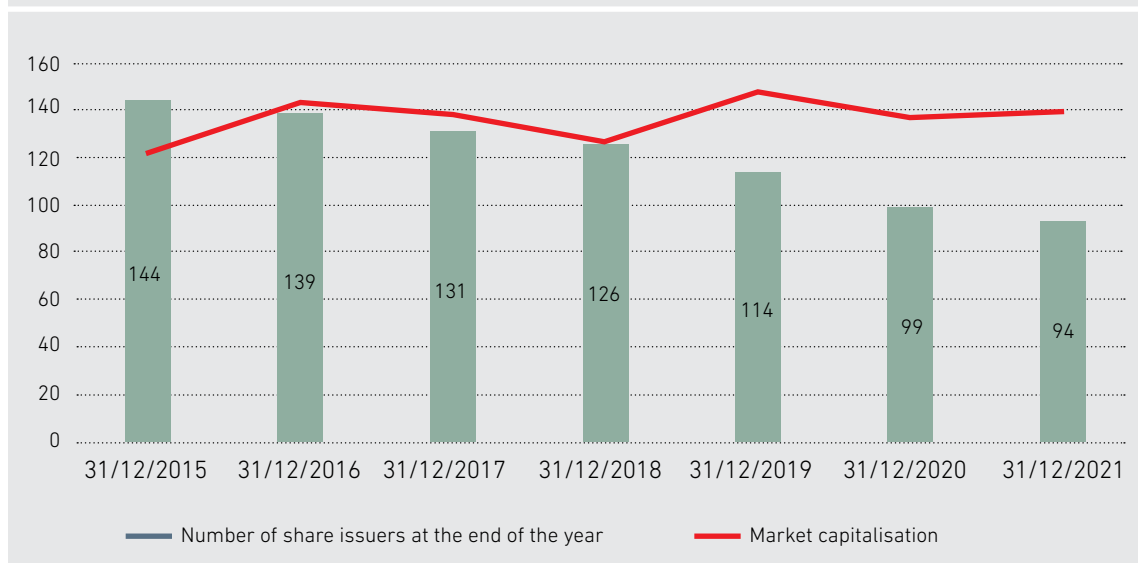
## Market capitalisation

- At the end of 2021, market capitalisation of shares admitted to trading on the Prime Market amounted to HRK 31,342,835,154, increasing by 9.1% compared to 31 December 2020 (as at 31 December 2020 it amounted to HRK 28,716,090,400), as a result of the increase in share prices.
- Market capitalisation of shares admitted to trading on the Official Market reached HRK 50,325,878,835 at the end of 2021, increasing by 21.1% relative to 31 December 2020, when it stood at HRK 41,567,941,436. This increase stems from the fact that one issuer was admitted to the Official Market (SPAN d.d.), but also from an increase in share prices.
- As at 31 December 2021, the total market capitalisation of shares admitted to the Regular Market (excluding closed-ended alternative investment funds) amounted to HRK 57,566,901,412, decreasing by around 14% compared to the end of the previous year, when it amounted to HRK 66,942,233,564, partly due to the removal from trading of shares of a large number of issuers.
- Market capitalisation of shares of the 93 issuers that submitted their 2021 governance practices questionnaire amounted to HRK 137,448,333,112 (99% of total market capitalisation of all the shares admitted to trading as at 31 December 2021).

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

Chart 48

**Market capitalisation of shares (in HRK bn) admitted to trading on the regulated market and the number of issuers at the end of each year, from 2015 to 2021**



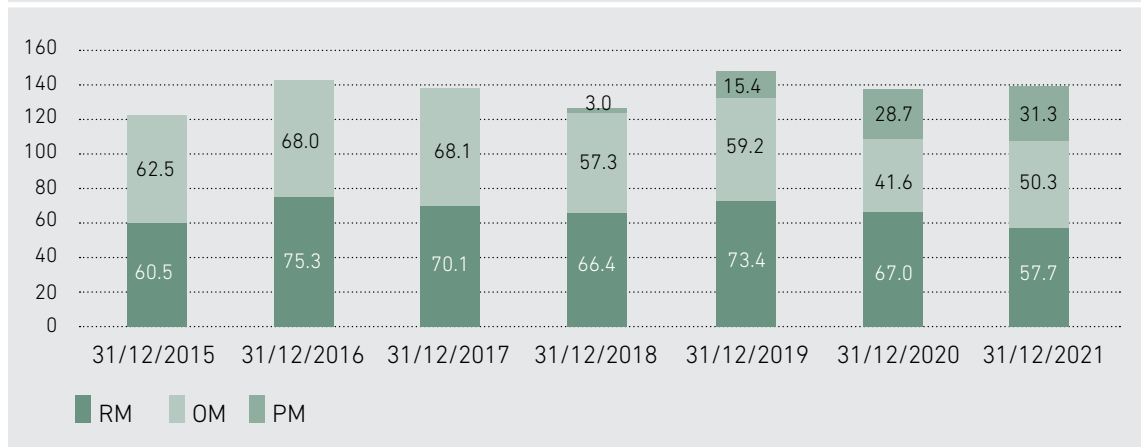
Source: ZSE



Market capitalisation of shares in the period from 31 December 2015 to 31 December 2021 by segments of the regulated market to which they are admitted is shown in the chart below.

Chart 49

**Market capitalisation of shares (in HRK bn) by segments of the regulated market from 2015 to 2021**

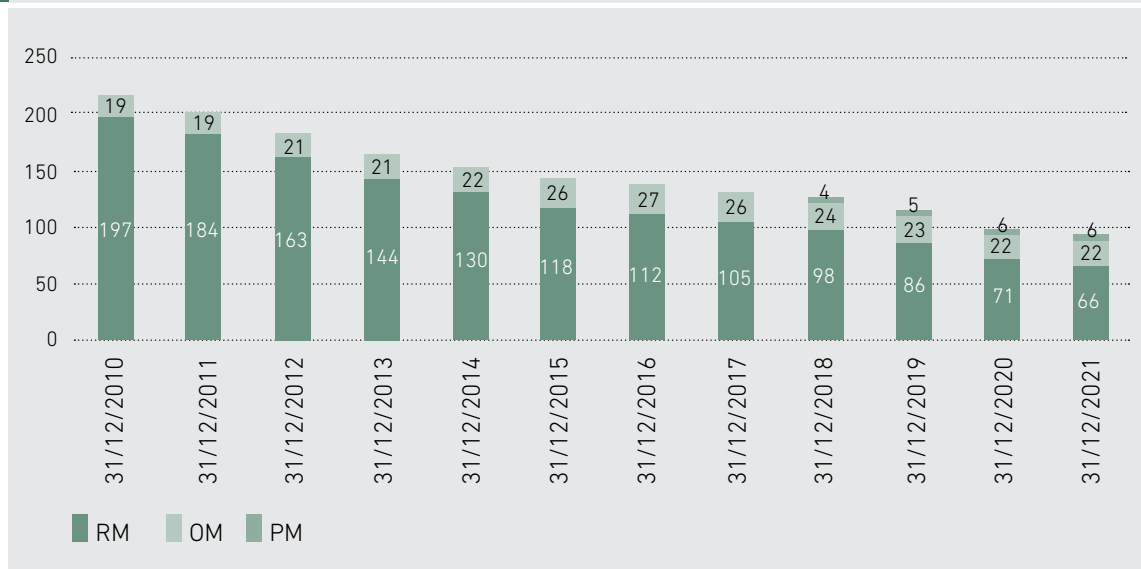


Source: ZSE

- The market capitalisation of shares admitted to the Regular Market decreased compared to 2020, mainly due to the fact that 9 shares of 8 issuers on the Regular Market were delisted from the regulated market in 2021.
- The increase in market capitalisation of shares admitted to the Official Market was primarily driven by the increase in share prices as well as by the admission of shares of one issuer.

Chart 50

**Number of share issuers by segments of the regulated market from 2010 to 2021**



Source: ZSE

- The number of share issuers on the regulated market of the ZSE has been declining continuously for the last 11 years, primarily issuers with shares admitted to the Regular Market. The number of issuers with shares admitted to the Official Market is the same as in 2020, but is in decline compared to other years. The Prime Market segment, that has existed since 2018, shows a slight increase in the number of issuers, but at the end of 2021 the number is the same as in the previous year. At the end of 2021, there were 66 issuers on the Regular Market, 22 issuers on the Official Market and 6 issuers on the Prime Market.

## Capital and its origin

The following text provides an overview of the initial capital of share issuers, ownership structure of share issuers and the origin of share issuers' capital from 2015 to 2021.

### Initial capital

- The initial capital of 94 share issuers at end-2021 reached HRK 54,285,816,080 ranging between HRK 2.5m and HRK 10.24bn (the initial capital of 99 share issuers at end-2020 amounted to HRK 55.8bn, ranging from HRK 3.6m to HRK 10.24bn).
- According to data from the court register, 11 issuers increased their initial capital during 2021 (3 issuers did so in 2020), while 2 issuers reduced their initial capital (one issuer did so in 2020).
- Net change in the capital of share issuers amounted to HRK 1,116,405,751 in 2021.

Table 17

**Number of the issuers whose shares are admitted to trading on the regulated market of the ZSE, initial capital and market capitalisation (in HRK bn) from 2015 to 2021**

Number of issuers							Initial capital and market capitalisation	2015	2016	2017	2018	2019	2020	2021
2015	2016	2017	2018	2019	2020	2021								
144	139	131	126	114	99	94	Initial capital (HRK bn)	61.4	60.5	60	60.7	64.9	55.8	54.3
							Market capitalisation (HRK bn)	122.9	143.2	138.3	137.2	148	137.3	139.4

Source: court register, ZSE

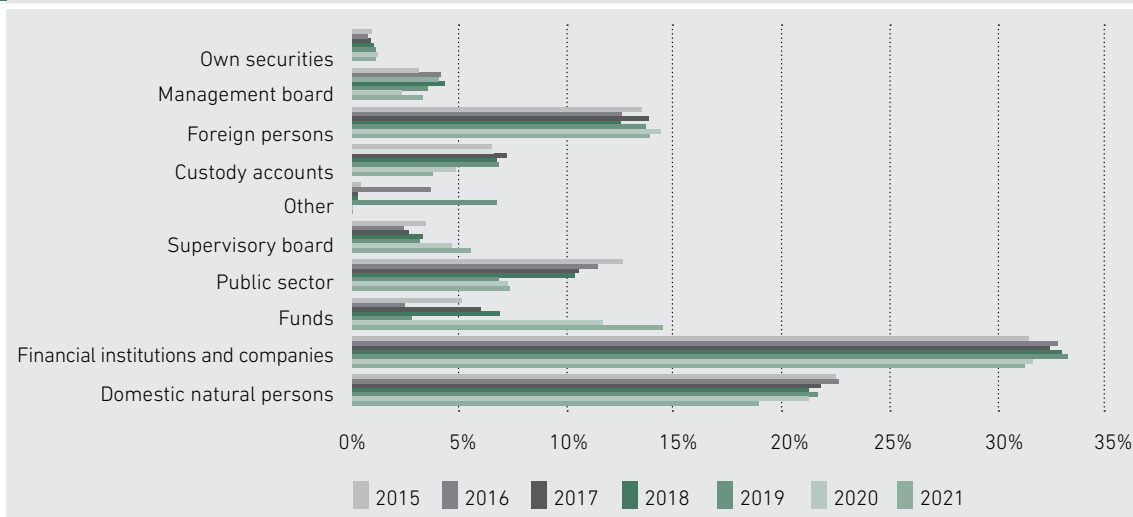
### Ownership structure

The ownership structure of share issuers has been developed on the basis of information received from the Central Depository and Clearing Company (hereinafter: CDCC). The ownership structure 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 shares; financial institutions and companies, funds (investment and pension funds with their registered offices in the Republic of Croatia), public sector (Republic of Croatia), management board members, supervisory board members, domestic natural persons (except for members of the management and supervisory board), foreign persons (except for members of the management and supervisory board), custody accounts and other.

The following chart shows the ownership structure of share issuers in the period from 2015 to 2021 by the above-mentioned categories.

Chart 51

Share issuers' ownership structure from 2015 to 2021



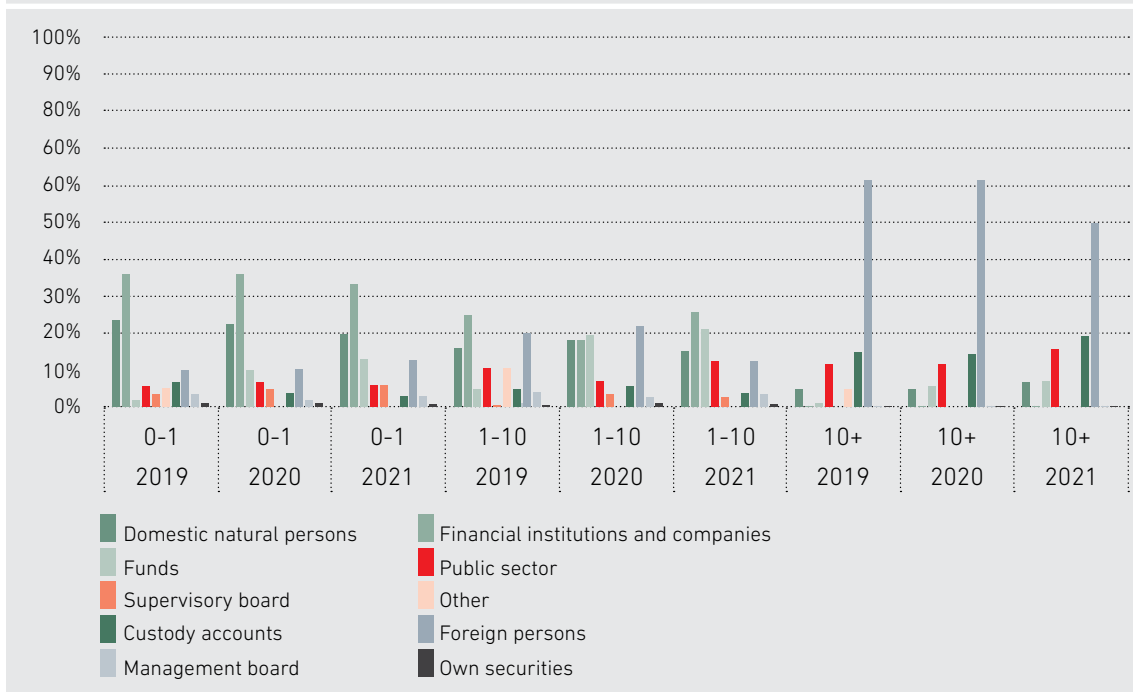
Source: CDCC

- As at 31 December 2021, the share issuers' ownership structure was dominated by financial institutions and companies with a 31% share (32% in 2020), followed by domestic natural persons with a 19% share (21% in 2020) and foreign persons with a 14% share (14% in 2020).
- The share of funds in the ownership structure of share issuers increased from 12% as at 31 December 2020 to 15% at the end of 2021.
- In the 2015-2021 period, the share issuers' ownership structure did not change significantly, and was dominated by financial institutions and companies with a share of about 31%, followed by domestic natural persons with a share of about 19%.

The following chart shows the share issuers' ownership structure at the end of 2019, 2020 and 2021, with respect to market capitalisation.

Chart 52

Share issuers' ownership structure in relation to market capitalisation (in HRK billion) as at 31/12/2019, 31/12/2020 and 31/12/2021



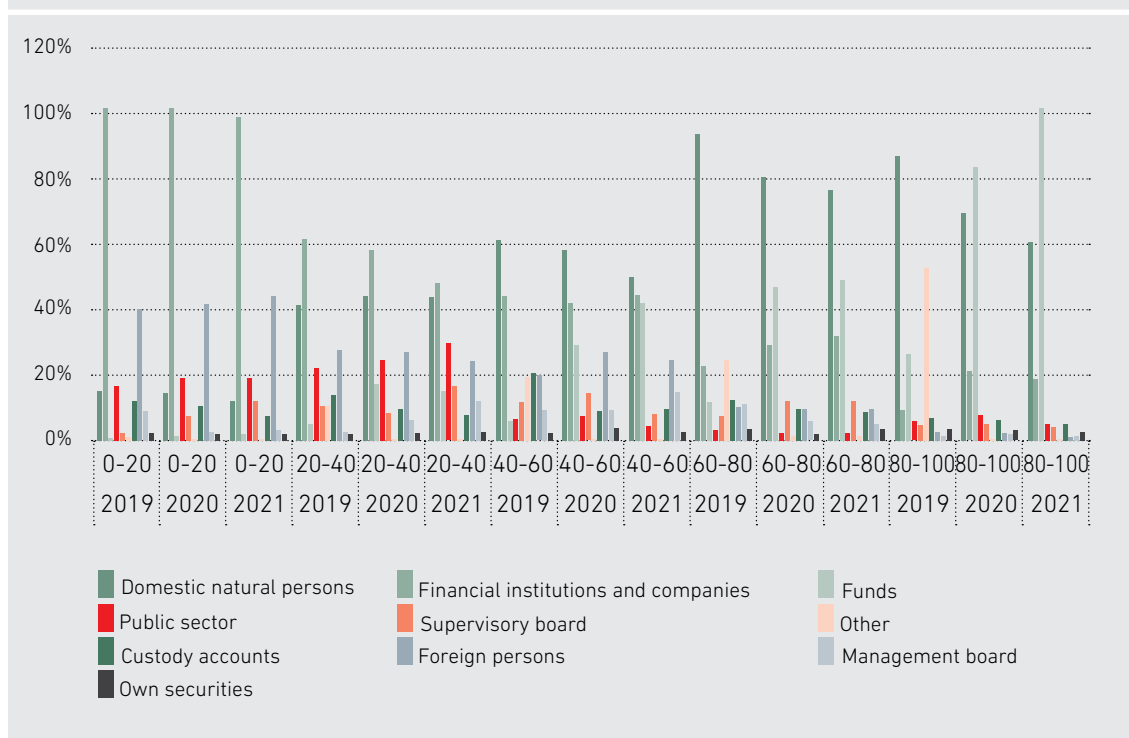
Source: CDCC

- At the end of 2021, the ownership structure of share issuers with a market capitalisation larger than HRK 10bn did not change significantly compared with the end of 2020. Foreign persons still dominated, with a 50% share, however, this share was smaller than at the end of the previous year (at the end-2020 the share of foreign persons stood at 62%). At the end of 2021, the share of funds increased to 7% (it was 6% at the end of 2020).
- As at 31 December 2021, financial institutions and companies accounted for a 26% share in the ownership structure of issuers with a market capitalisation reaching between HRK 1bn and HRK 10bn, and were followed by funds with a 21% share, domestic natural persons with a 16% share and public sector with a 13% share (the share of public sector amounted to 7% at end-2020).
- A 33% share in the ownership structure of issuers with a market capitalisation of up to HRK 1bn was accounted for by financial institutions and companies (at the end of 2020, financial institutions and companies made up a 36% share), followed by domestic natural persons (20%) and funds (13%).

The chart below shows the share issuers' ownership structure as at 31 December 2021 in relation to their free float.

Chart 53

**Share issuers' ownership structure in relation to free float as at 31/12/2019, 31/12/2020 and 31/12/2021**



Source: CDCC

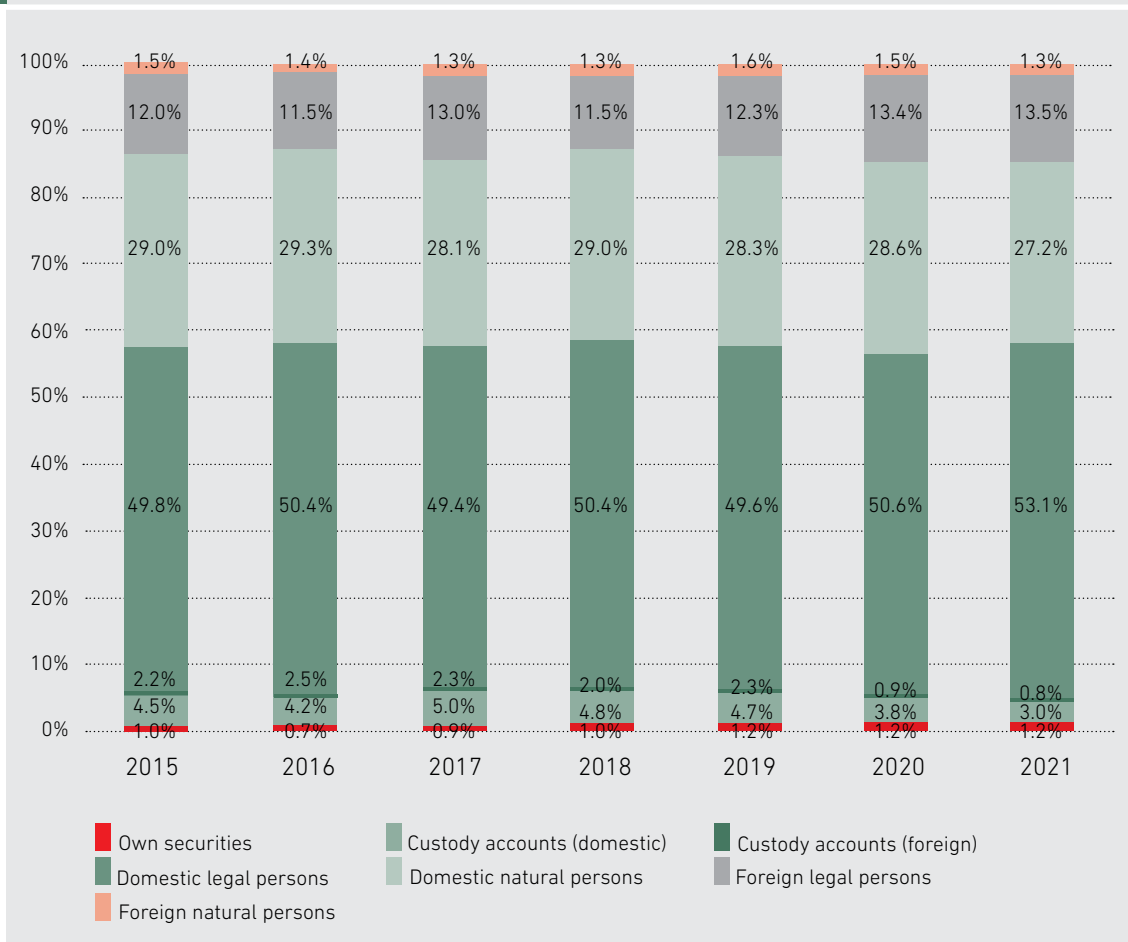
- As at 31 December 2021, the ownership structure of share issuers with a free float of up to 20% was dominated by financial institutions and companies with a 49% share, whereas foreign persons accounted for a 22% share (at the end of 2020, the ownership structure was dominated by financial institutions and companies with a 51% share).
- The ownership structure of share issuers with a free float ranging between 80% and 100% at end-2021 was dominated by funds with a 51% share (at the end of 2020, the share of funds stood at 42%). Domestic natural persons accounted for a 38% share in the ownership structure of share issuers with a free float ranging between 60% and 80%.

## Origin of share issuers' capital

The following chart shows the ownership of shares in the period from 2015 to 2021 by capital origin according to the following categories: domestic natural persons, domestic legal persons, custody accounts (HR), custody accounts (foreign), foreign natural persons, foreign legal persons and own securities.

Chart 54

Origin of issuers' capital at the end of 2015, 2016, 2017, 2018, 2019, 2020 and 2021



Source: CDCC

- In the period from 2015 to 2021, the origin of capital and shares of individual capital categories in share ownership did not change significantly. The largest proportion in the share ownership as at 31 December 2021 was accounted for by domestic legal entities with a 53% share (51% in 2020).
- At the end of 2021, the share of domestic capital amounted to 83% (83% at end-2020), while the share of foreign capital reached 16% (16% as at 31 December 2020).



# Duties and responsibilities of board members



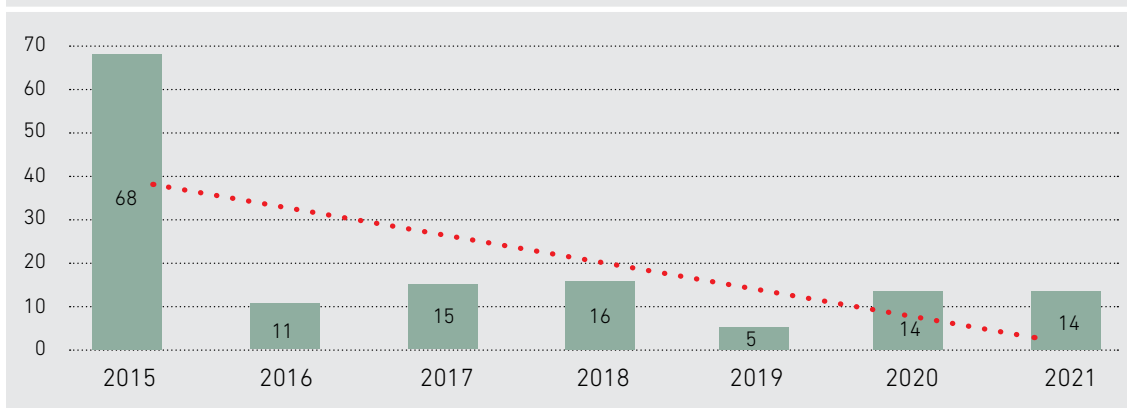
## Conflicts of interest

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 2021, there were 14 conflicts of interest (same number as in 2020) reported by 4 issuers:
  - 8 conflicts of interest were reported by 2 issuers whose shares are admitted to trading on the Official Market
  - 2 conflicts of interest were reported by one issuer whose shares are admitted to trading on the Prime Market, and
  - 4 conflicts of interest were reported by one issuer whose shares are admitted to trading on the Regular Market.
- All these reported cases of conflicts in 2021 involved persons who abstained from voting on entering related party transactions.
- In 2020, 14 cases of conflicts of interest were reported by 2 issuers whose shares were admitted to trading on the Official Market, one issuer whose shares were admitted to the Prime Market and one issuer on the Regular Market, and the persons involved abstained from voting on entering related party transactions (in 2019, 2 issuers whose shares were admitted to trading on the Official Market reported 5 cases of conflicts of interests, and the persons involved abstained from voting on entering related party transactions).
- In 2021, 4 issuers reported a total of 14 conflicts of interest. 7 cases of conflict of interest were reported by senior management, 7 cases by the management board and none by the supervisory board (in 2020, there were 14 reported cases of conflict of interest, 10 by senior management, 4 by the management board and none by the supervisory board).

Chart 55

**Number of cases of conflicts of interest reported during the year in the period from 2015 to 2021**



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

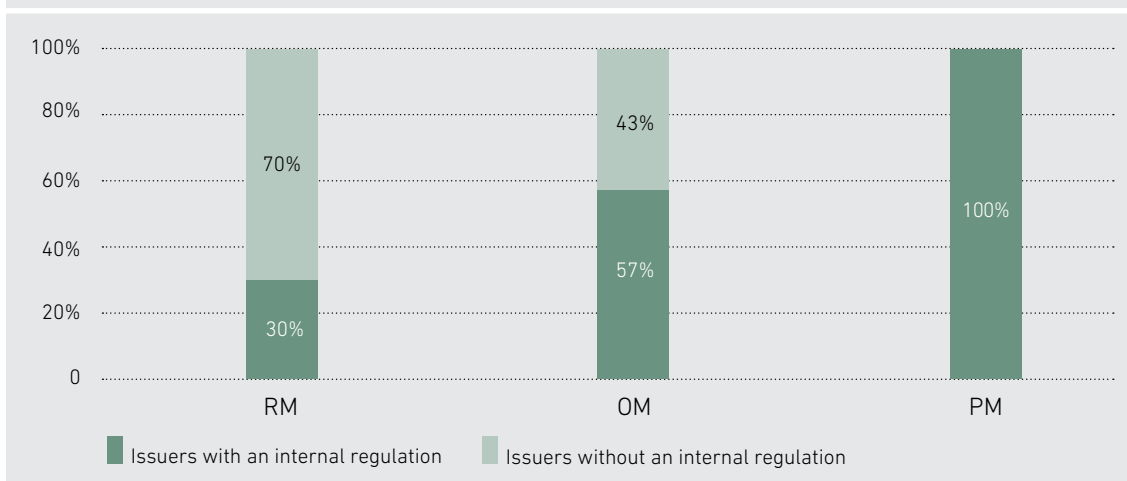
## Related party transactions

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 2020, as regards related party transactions, there is a visible improvement (according to the data from the governance practices questionnaire) since in 2021, 41% of the issuers have internal rules of procedure in cases of related party transactions (34% issuers in 2020).
- However, the majority of issuers still do not have internal rules of procedure in cases of related party transactions – 59% of them (65% in 2020).

Chart 56

**Share issuers that reported having/not having an internal regulation for cases of related party transactions in 2021 by regulated market segments**



Source: Governance practices questionnaire 2021

The table below sets out the average value of reported transactions concluded by the issuer in the period from 2015 to 2021 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 18

## Average value of reported related party transactions from 2015 to 2021

		Average gross value (in HRK) of related party transactions concluded by the issuer			
		with shareholders holding more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with the senior management of the issuer	within the group the issuer belongs to or is its parent
2021	Number of issuers having reported the transaction	39	18	10	49
	Transaction value	255,481,969	1,958,122	7,458,829	321,587,459
2020	Number of issuers having reported the transaction	38	22	13	46
	Transaction value	196,902,219	2,796,438	9,376,777	277,341,280
2019	Number of issuers having reported the transaction	38	21	10	49
	Transaction value	231,338,954	3,250,770	6,832,584	319,914,029
2018	Number of issuers having reported the transaction	40	20	10	45
	Transaction value	184,924,188	4,785,646	4,913,846	322,994,226
2017	Number of issuers having reported the transaction	34	19	8	45
	Transaction value	161,198,802	4,910,966	8,851,501	235,074,283
2016	Number of issuers having reported the transaction	36	22	12	46
	Transaction value	252,381,830	12,715,746	7,139,912	363,163,243
2015	Number of issuers having reported the transaction	37	19	9	50
	Transaction value	271,561,189	10,144,030	5,623,301	408,656,623

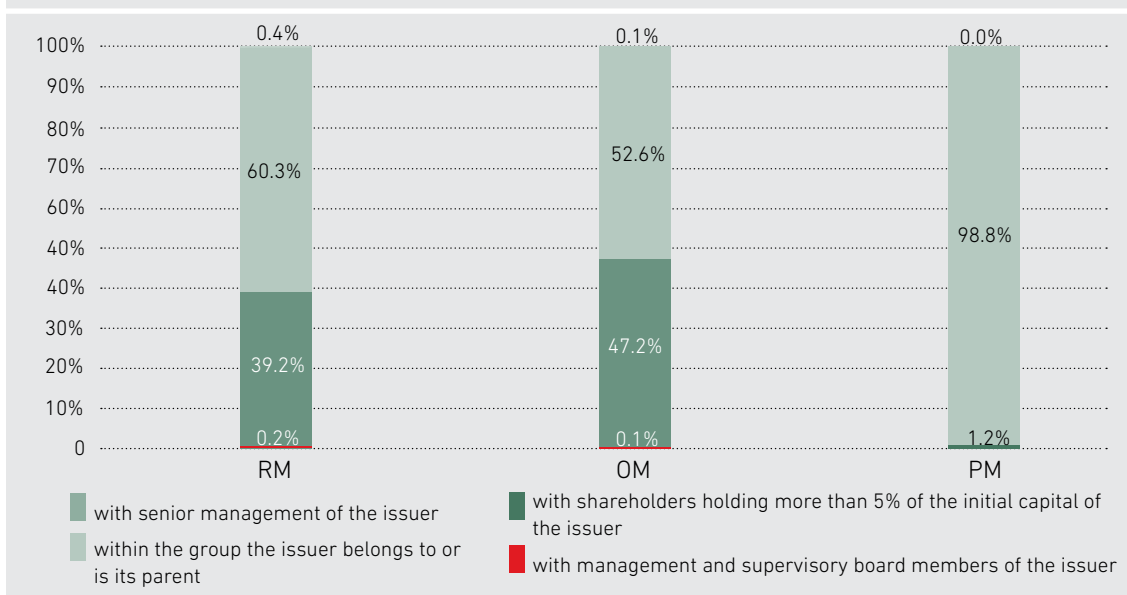
Source: Governance practices questionnaire 2019, 2020 and 2021, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- The total average gross value of related party transactions concluded by issuers in 2021 is higher relative to the past four years, and lower relative to 2015 and 2016.
- The average gross value of related party transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer and within the group the issuer belongs to or is its parent is higher in 2021 than in 2020.
- The average gross value of related party transactions concluded by issuers with management and supervisory board members of the issuer was lower in 2021 than in 2020.



Chart 57

**Share of individual types of related party transactions in the total amount of related party transactions per regulated market segment in 2021**



Source: Governance practices questionnaire 2021

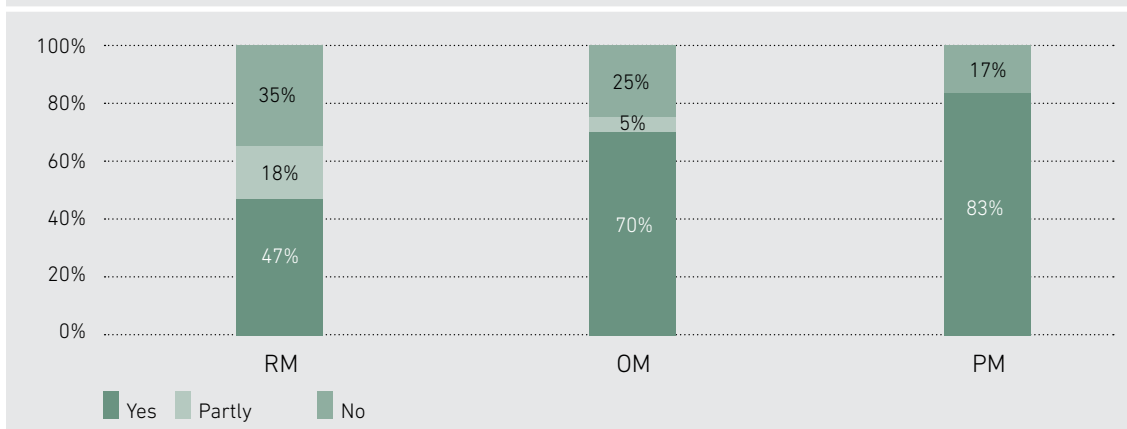
- Transactions within the group the issuer belongs to or is its parent account for a share of related party transactions in each market segment (60.3% on the Regular Market, 52.6% on the Official Market and 98.8% on the Prime Market). They are followed by transactions with shareholders holding more than 5% of the initial capital of the issuer. Transactions with 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 55% 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 (48% in 2020).

Chart 58

**Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2021**



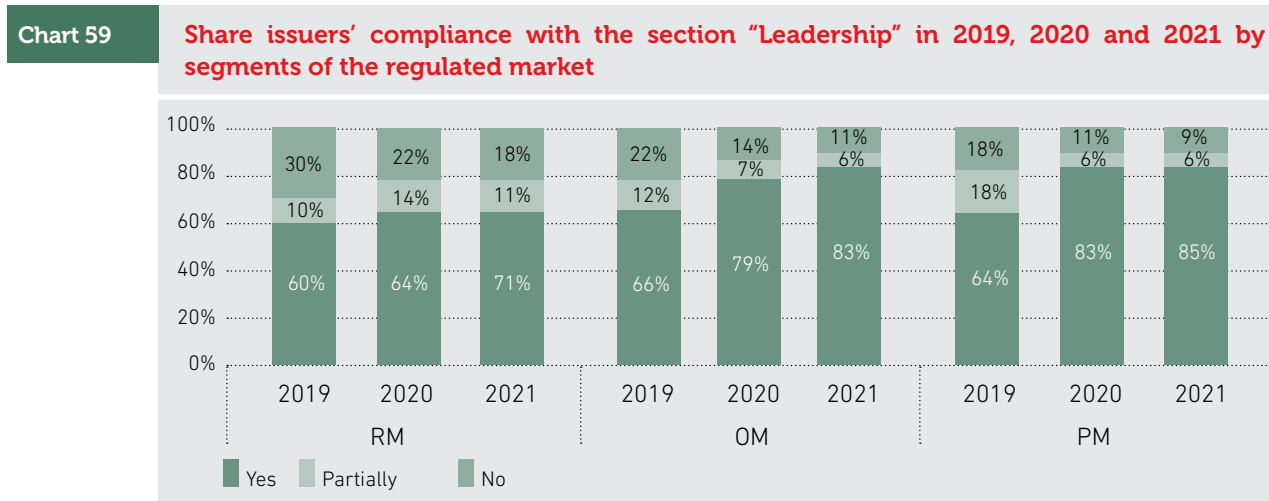
Source: 2021 Compliance questionnaire

- A total of 51% of the issuers published their codes of conduct for management and supervisory board members on their websites (39% in 2020).
- A total of 83% of the 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 (in 2020, 83% of the issuers whose shares were admitted to trading on the Prime Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company).
- A total of 70% of the issuers whose shares are admitted to trading on the Official Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge. Compared to 2020, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Official Market (in 2020, 62% of the issuers whose shares are admitted to trading on the Official Market had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company).
- A total of 47% of the 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 2020, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Regular Market (in 2020, 44% of the 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).

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

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

The chart below shows issuers' compliance with the section "Leadership" in 2021, compared to 2020 and 2019.



Source: Compliance questionnaire 2019, 2020 and 2021, 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 85%.
- The issuers whose shares are admitted to trading on the Official Market and Regular Market recorded average compliance reaching 83% and 71% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Leadership", compared to 2020 and 2019.



## Supervisory board and its committees

The supervisory board must have enough members in order to be able to fulfil its duties and duties of its committees effectively. 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.

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 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. Management board 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 94 issuers whose shares were admitted to trading on the regulated market as at 31 December 2021, 93 issuers submitted their questionnaires on corporate governance practices within the prescribed deadline, of which 2 issuers had a one-tier governance system, and the remaining 91 issuers reported having a two-tier governance system.
- Out of 99 issuers whose shares were admitted to trading on the regulated market as at 31 December 2020, 2 issuers had a one-tier governance system, and the remaining 97 issuers reported having a two-tier governance system.

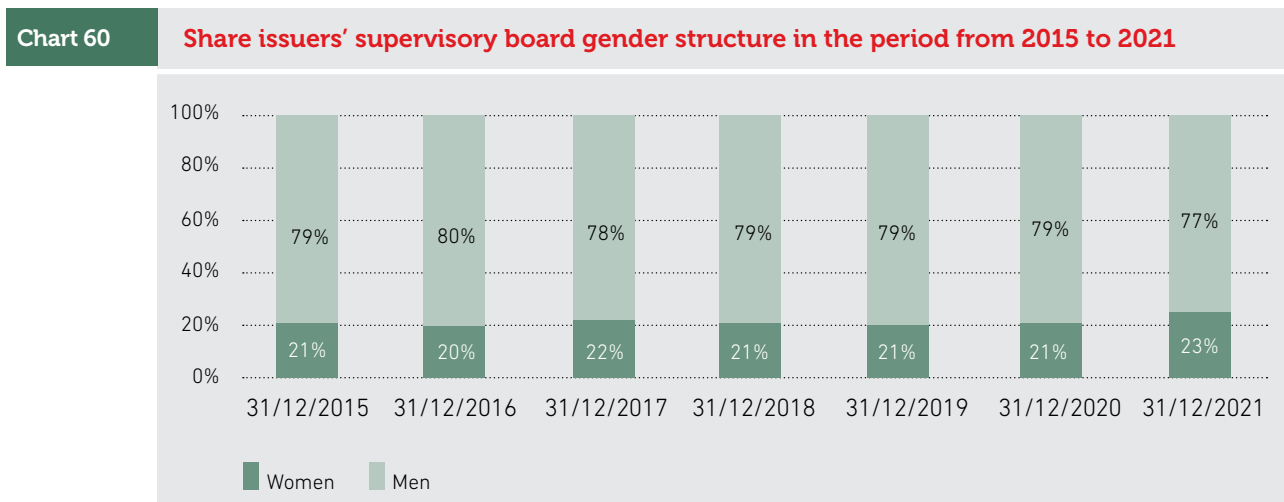
Data relating to executive directors and the chief executive director of issuers with a one-tier governance system are analysed along with data on management board members, while data relating to non-executive directors, deputy chair and chair of the board of directors are analysed along with data on 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 and 2021 according to the data from the court register.

## Number of members and composition of the supervisory board

- At the end of 2021, supervisory boards of share issuers consisted of 5 members on average (as in 2020).
- At end-2021, the proportion of women on supervisory boards was about 3 times larger than the proportion of women on management boards (at the end of 2020, the proportion of women on supervisory boards was also about 3 times larger than the proportion of women on management boards).

The following chart shows the proportion of women and men on supervisory boards of issuers in the period from 2015 to 2021.



Source: court register<sup>15</sup>

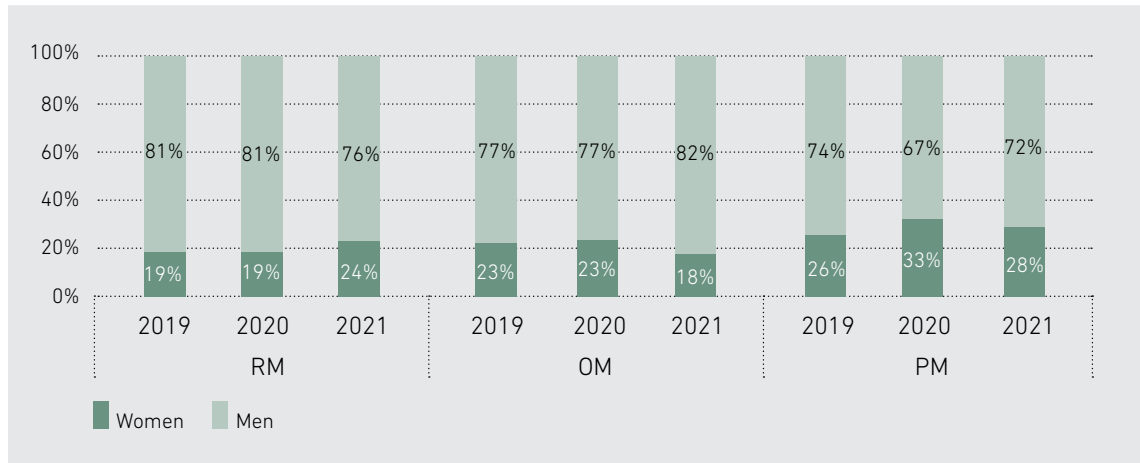
- At the end of 2021, the share of women on supervisory boards grew slightly compared to the previous year, while it did not change significantly during the observed period.
- Broken down by segments of the regulated market in 2021:
  - the share of women on supervisory boards of issuers on the Regular Market was 24%
  - the share of women on supervisory boards of issuers on the Official Market was 18%
  - the share of women on supervisory boards of issuers on the Prime Market was 28%.

<sup>15</sup>Data on the number and gender of supervisory board members have been analysed based on 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 following chart shows the representation of supervisory boards' female members in relation to the total number of issuers' supervisory board members in 2021 by segments of the regulated market.

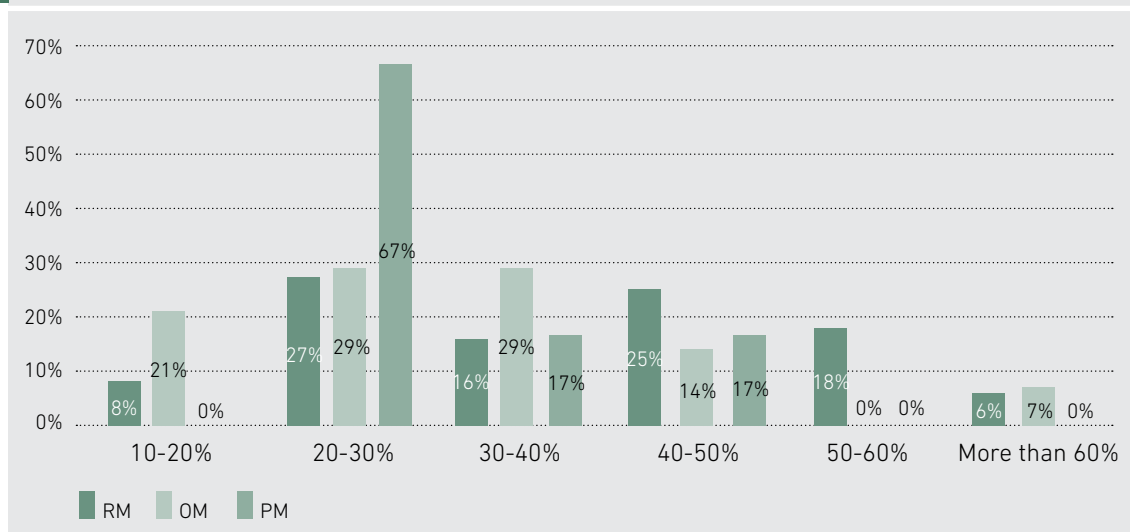
Chart 61

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



Source: court register

- The chart shows a change in the shares in all segments of the regulated market. On the Regular Market, the share of women increased from 19% to 24%, while the share of men decreased from 81% to 76%. On the Official Market and Prime Market, this share fell from 23% to 18% and from 33% to 28% respectively.
- The average proportion of women on supervisory boards in the 2015-2021 period amounted to about 21%.
- The governance practices questionnaire showed that 9.1% of female members had a PhD (8.3% in 2020).
- As at 31 December 2021, the majority of supervisory board members (41%) were over 56 years old (42% in 2020); 36% of them were between 46 and 55 years old (36% in 2020); 18% of them were between 36 and 45 years old (19% in 2020); while only 5% of supervisory board members were younger than 35 years of age (4% in 2020).
- As at 31 December 2021, the majority of supervisory board members (72%) had a university degree (74% in 2020), while 12% of supervisory board members had a PhD (10% in 2020).
- As at 31 December 2021, 18% of supervisory board members were foreign citizens (18% at the end of 2020).
- Supervisory boards of 61% of the share issuers evaluated their effectiveness in the previous 12 months (57% of the issuers in 2020). In 88% of these share issuers the evaluation was led by the chair or deputy chair of the supervisory board (in 2020, this share reached 80%).
- At the end of 2021, the average duration of supervisory board membership was 6 years (the same as in 2020).
- A total of 54 issuers (58%) had employee/trade union representatives in supervisory boards in 2021 (58 issuers, or 65%, in 2020).
- Supervisory boards of 71 issuers, i.e. 76%, set a target percentage of female supervisory board members (66 issuers, i.e. 67% in 2020).



Source: Governance practices questionnaire 2021

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
- 51 issuers on the Regular Market.

- Out of the total number of issuers on the Prime Market that set a target percentage of female supervisory board members in 2021, 67% of them set a target percentage ranging between 20% and 30%, while the remaining 33% set a target percentage between 30% and 40% and between 40% and 50%.
- About 60% of the issuers on the Official Market that set a target percentage of female supervisory board members in 2021 had the target percentage ranging between 20% and 30% and between 30% and 40%. A total of 7% of the issuers on the Official Market with a defined target percentage of female supervisory board members had the target percentage exceeding 60%.
- More than 50% of the issuers on the Regular Market that set a target percentage of female supervisory board members in 2021 had the target percentage ranging between 20% and 30% and between 40% and 50%. In addition to 7% of the issuers on the Official Market that set a target percentage of female supervisory board members in 2021, and whose target percentage exceeded 60%, there were 6% of such issuers on the Regular Market.

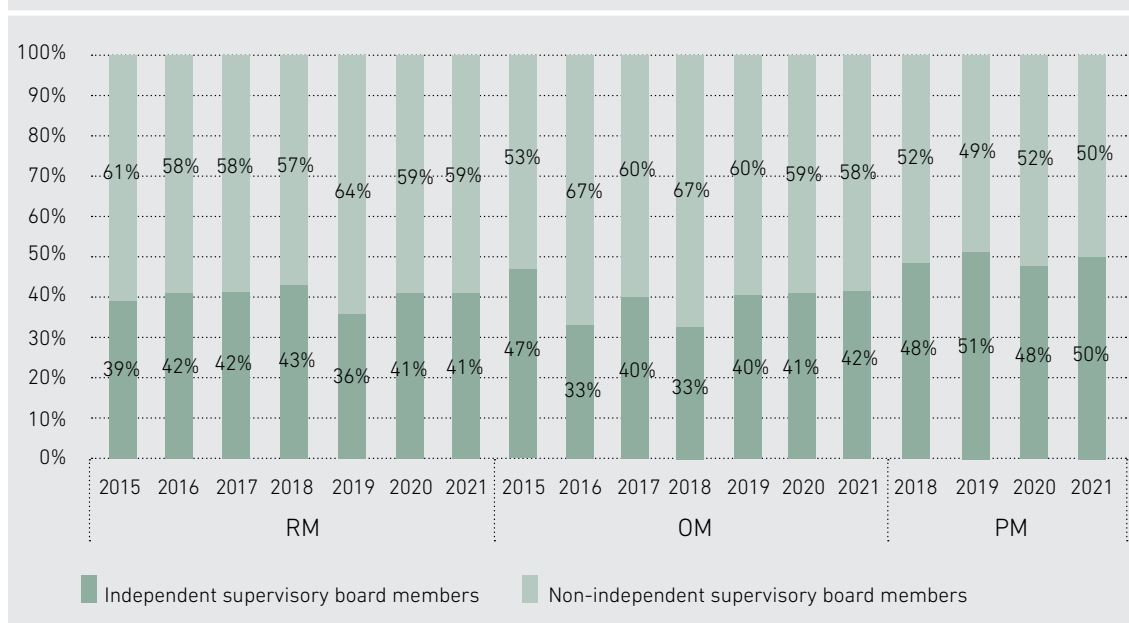
## Independence of supervisory board members

- According to data from the governance practices questionnaire, at end-2021, 42% of all supervisory board members were independent (41% of them were independent as at 31 December 2020).
- In 2021, 52 issuers (56%) had an independent chair or deputy chair of the supervisory board (in 2020, 43 issuers (43%)).
- At the end of 2021, supervisory boards of each of the issuers had 2 independent members on average (the same as in 2020).

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

Chart 63

Share of independent supervisory board members in the total number of supervisory board members by market segment, from 2015 to 2021



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

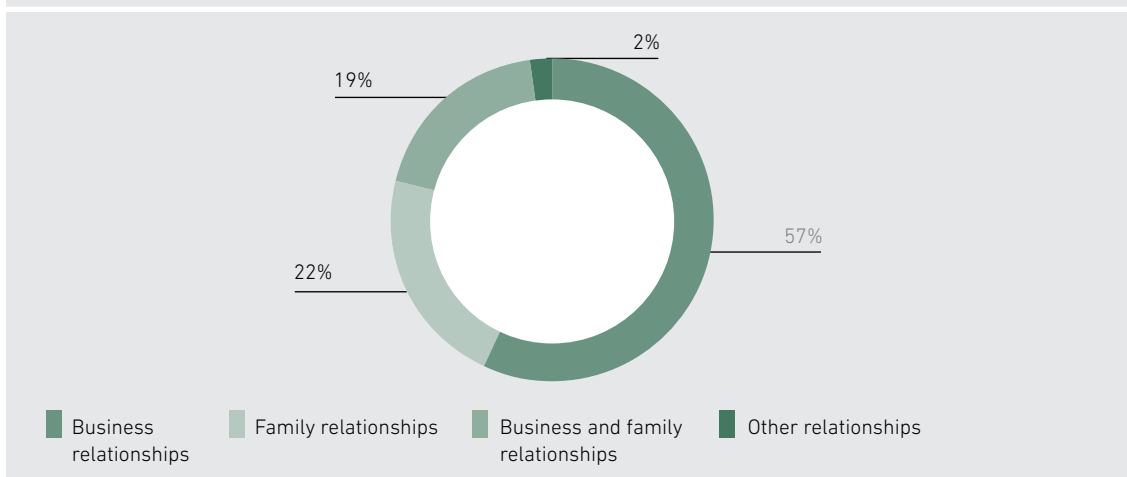
- The average number of independent supervisory board members in all segments of the regulated market from 2015 to 2021 amounted to 42%, while the average number of non-independent supervisory board members stood at 58%.
- All issuers (6) whose shares are admitted to trading on the Prime Market had at least one independent supervisory board member, with a total of 50% of independent board members. Out of the total number of supervisory board members of the issuers whose shares are admitted to trading on the Official Market, 42% were independent. Out of the total number of supervisory board members of the issuers whose shares are admitted to trading on the Regular Market, 41% were independent.
- The analysis of individual segments of the regulated market of the ZSE shows that as at 31 December 2021, 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 54 supervisory board members of 25 issuers were related to management board members in 2021 (56 supervisory board members and 24 issuers in 2020).
- The most common type of relationship was business relationship (57%), followed by business and family relationship (19%) and other types of relationships (2%) (in 2020, business relationships 53%, family relationships 23%, business and family relationships 22% and other types of relationships 2%).

Chart 64

**Relationship between issuers' supervisory board members and management board members in 2021**

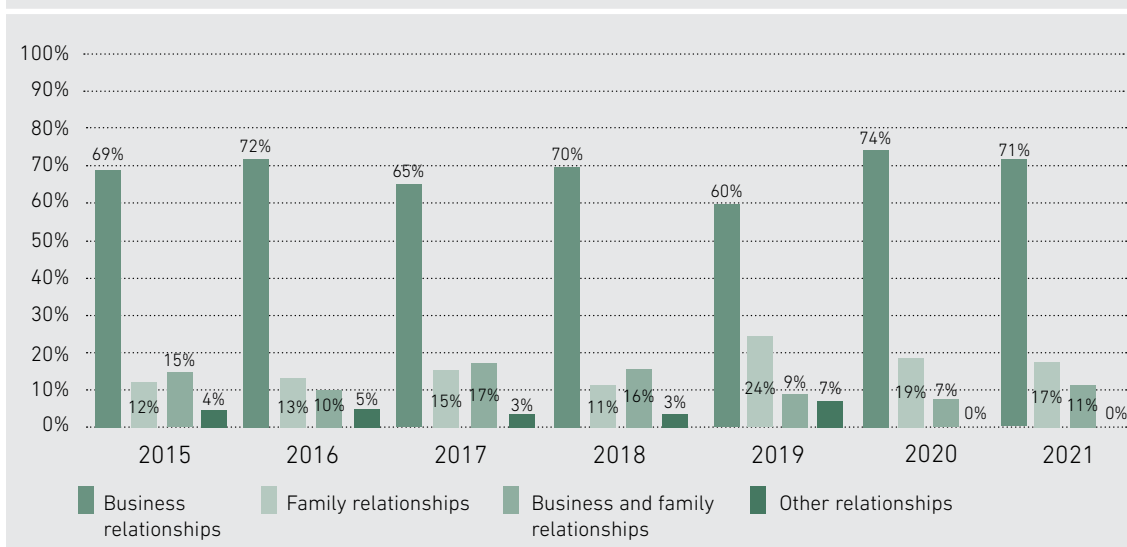


Source: Governance practices questionnaire 2021

- In 2021, 98 supervisory board members of 33 issuers were related to other supervisory board members (108 supervisory board members of 37 issuers in 2020).
- The majority of them were related by business relationships (71%), followed by family relationships (17%) and business and family relationships (11%) (in 2020, business relationships 74%, family relationships 19%, and business and family relationships 7%).

Chart 65

**Relationship between supervisory board members and other supervisory board members from 2015 to 2021**



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

**Supervisory board meetings**

- In 2021, the number of supervisory board meetings ranged between 1 and 44, with the average number of issuers' supervisory board meetings held during the year amounting to 9 (11 meetings in 2020). All supervisory boards held at least one meeting in 2021 (supervisory boards of 2 issuers held no meetings in 2020).
- Meetings of supervisory boards of 83 issuers (89%) were held at least once in three months (82 issuers (83%) in 2020).



- A total of 59 issuers (63%) reported having a schedule of meetings of the supervisory board for 2020 (56 issuers or 57% in 2020).
- A total of 79 issuers (85%) reported having an internal regulation on supervisory board activities (80 issuers, i.e. 81% in 2020); 11 issuers (14%) reported changes in the regulation during the year (18 issuers reported this in 2020).

## Supervisory board committees

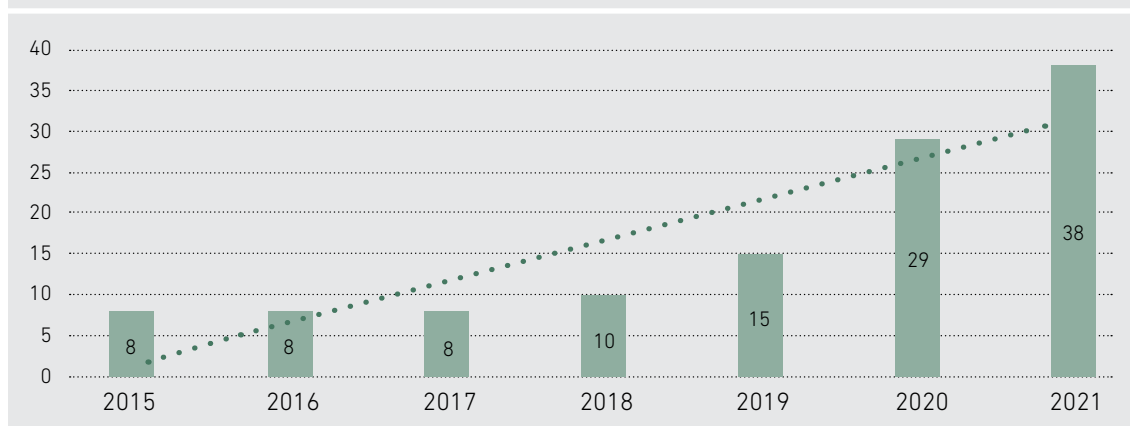
Pursuant to the Code, the supervisory board should establish at least an audit committee, a nomination committee and a remuneration committee. The supervisory committee should define the mandate and activities of each of the committees. Each supervisory board committee should have at least three members, 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 2021, a total of 38 issuers (41%) reported having established all the three supervisory board committees: a nomination committee, a remuneration committee and an audit committee (29 issuers or 29% in 2020).
- Broken down by segments of the regulated market, all the three supervisory board committees were established by:
  - all the 6 issuers whose shares are admitted to trading on the Prime Market
  - 11 issuers (out of 21) on the Official Market and
  - 21 issuers (out of 66) on the Regular Market.

The chart below shows the number of share issuers with all the three supervisory board committees (a nomination committee, a remuneration committee and an audit committee) in place from 2015 to 2021.

Chart 66

**Number of share issuers with all the three supervisory board committees in place in the 2015-2021 period**

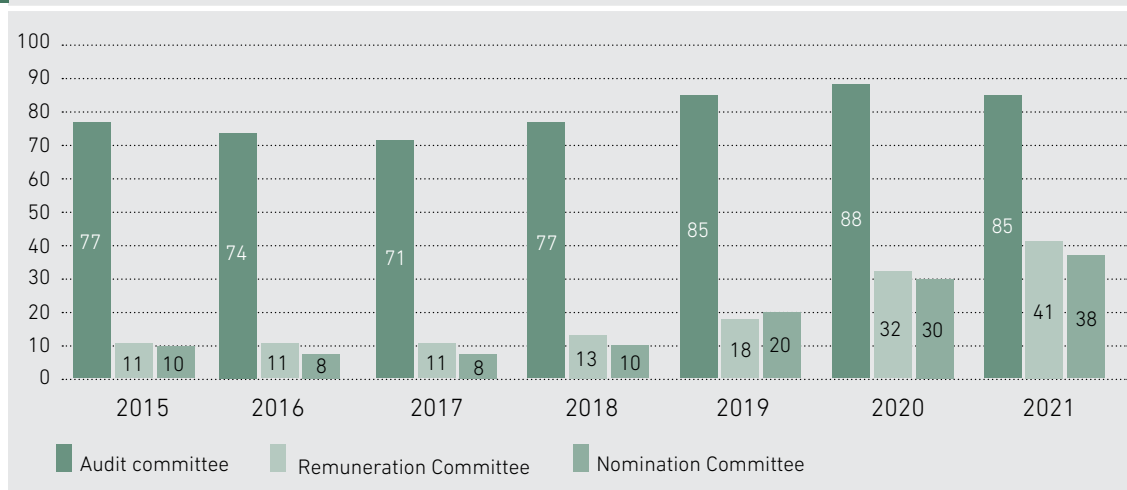


Source: Governance practices questionnaire 2019, 2020 and 2021, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- Broken down by individual supervisory board committees, 85 issuers (91%) reported having established an audit committee, 41 issuers (44%) reported having established a remuneration committee, while 38 issuers (41%) reported having established a nomination committee (in 2020, 88 issuers (89%) had an audit committee, 32 issuers (32%) had a remuneration committee, while 30 issuers (30%) had a nomination committee).

Chart 67

## Number of issuers with supervisory board committees in place in the 2015-2021 period



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

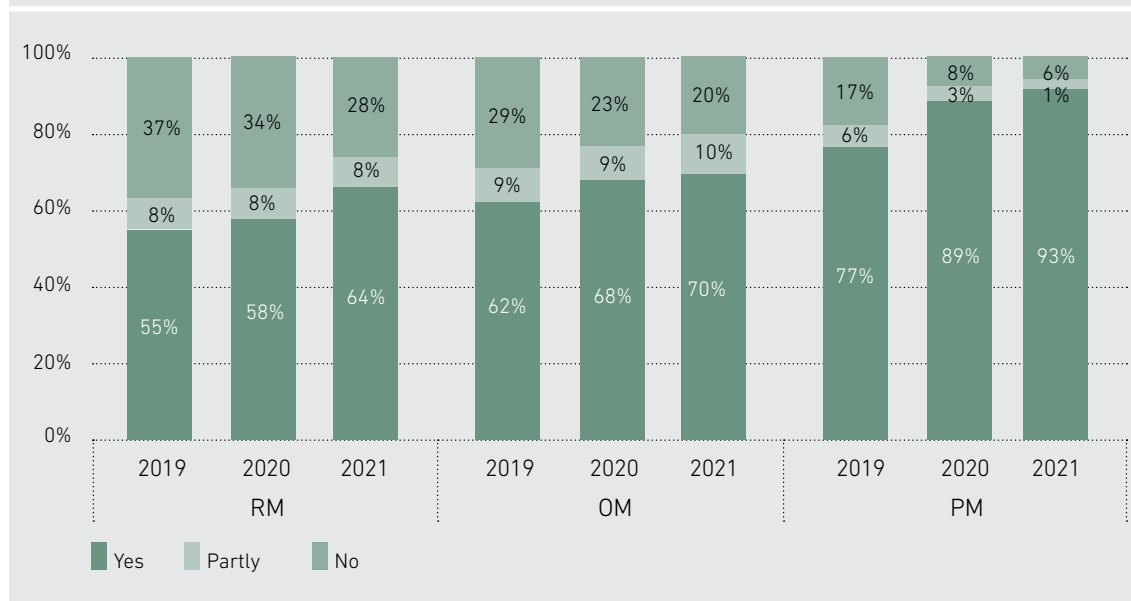
- Broken down by individual supervisory board committees:
  - 215 supervisory board members (44%) were audit committee members
  - 102 supervisory board members (21%) were remuneration committee members
  - 38 supervisory board members (14%) were nomination committee members
  - 203 supervisory board members (41%) were not members of any of the basic committees pursuant to the Code.
- In 2021, 17% of the share issuers had an additional committee in place (14% of the share issuers in 2020).
- The three supervisory board committees had 3 members each on average (in 2020, the audit committee had 3 members, while the remuneration committee and the nomination committee had 2 members each on average). One member of each of the committees was independent on average (the same as in 2020).
- A total of 60 issuers (71%) that had an audit committee in place also reported having established its internal working procedures; 57 of them (67%) reported the preparation of reports on the work of the audit committee, with 21 (37%) of the reports being available to the public (in 2020, out of 88 issuers with the audit committee in place 59 issuers reported having established its internal working procedures, while 55 issuers (63%) reported the preparation of reports on the work of the audit committee, with 36% of the reports being available to the public).
- A total of 31 issuers (76%) that had a remuneration committee in place also reported having established its internal working procedures, while 22 of them (54%) reported the preparation of reports on the work of the remuneration committee, with 55% of the reports being available to the public (in 2020, out of 32 issuers with a remuneration committee in place 23 issuers reported having established its internal working procedures, while 13 issuers (57%) reported the preparation of reports on the work of the remuneration committee, with 69% of the reports being available to the public).
- A total of 30 issuers (79%) with the nomination committee in place also reported having established its internal working procedures (in 2020, out of 30 issuers with the nomination committee in place 22 issuers reported having established its internal working procedures).
- In 2021, audit committees held 4 meetings on average, while remuneration committees and nomination committee held 3 meetings on average (the same as in 2020).
- Supervisory boards of 59% of the share 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 (78% of the issuers in 2020).
- Supervisory board committees of 87% of the share issuers met as often as necessary to perform their tasks effectively and reported to the supervisory board regularly on their activities (80% of the issuers in 2020).

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

The chart below shows share issuers' compliance with the section "Supervisory board and its committees" in 2019, 2020 and 2021. The data on compliance with this section were provided for 2019 for the first time as share issuers were obliged for the first time to submit their compliance questionnaire in 2019.

Chart 68

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



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

- In 2021, the issuers whose shares are admitted to the Prime Market reported the level of compliance with the section "Supervisory board and its committees" reaching 93% on average.
- Issuers on the Official Market reported the level of compliance with the section "Supervisory board and its committees" reaching 70% on average.
- Issuers on the Regular Market reported the level of compliance with the section "Supervisory board and its committees" reaching 64% on average.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Supervisory board and its committees" in comparison with 2020 and 2019 (the base year).



## 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.

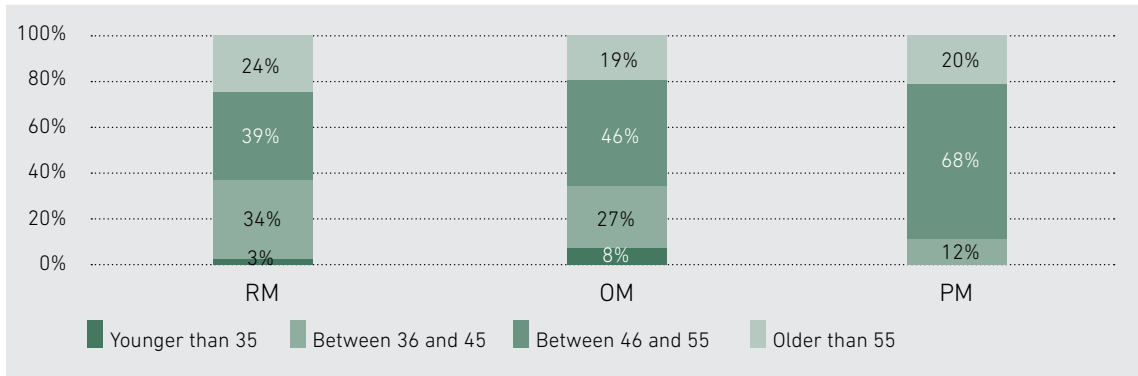
The following text presents the analysis of the data delivered in the 2021 governance practices questionnaire and compliance questionnaire.

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

- According to the governance practices questionnaire, as at 31 December 2021, the majority of management board members (87%) had a university degree (87% in 2020), while 3% of them had a PhD (5% in 2020).
- As at 31 December 2021, 10% of management board members were foreign citizens (12% in 2020).
- As at 31 December 2021, management boards of share issuers consisted of 2 members on average (2 members in 2020, as well).
- Out of the total number of female management board members, around 5% had a PhD.
- According to the data from the governance practices questionnaire, as at 31 December 2021, most management board members (44%) were between 46 and 55 years old (44% in 2020), 30% of them were between 36 and 45 years old (30% in 2020), 22% of them were over 56 years of age (23% in 2020), while 4% of them were younger than 35 years of age (3% in 2020). The age structure shows a rising trend in the number of management board members younger than 35 years of age.

Chart 69

Management board age structure as at 31/12/2021 by segments of the regulated market

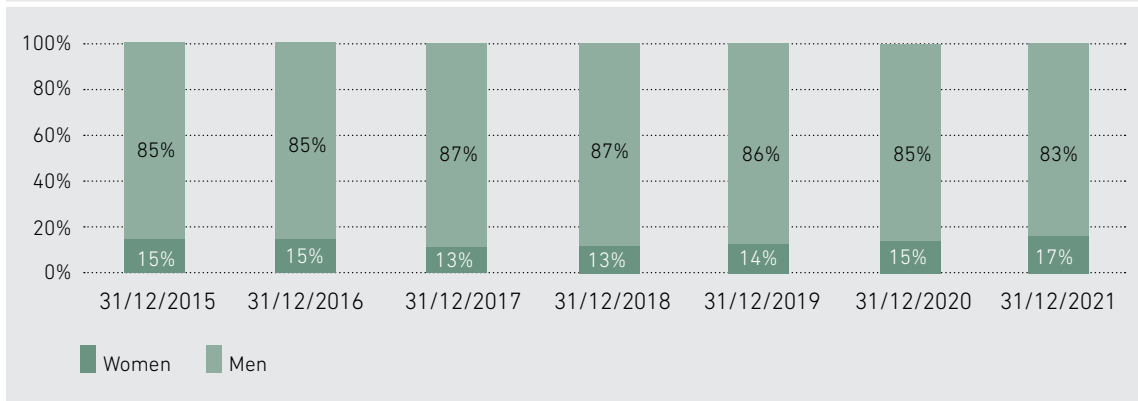


Source: Governance practices questionnaire 2021

- The majority of management board members between 46 and 55 years of age sat on management boards of the issuers whose shares are admitted to trading on the Prime Market (68%), a share significantly higher compared to the Official and Regular Market, where the percentages totalled 46% and 39% respectively.
- There were no members younger than 35 on management boards of the issuers whose shares are admitted to trading on the Prime Market.

Chart 70

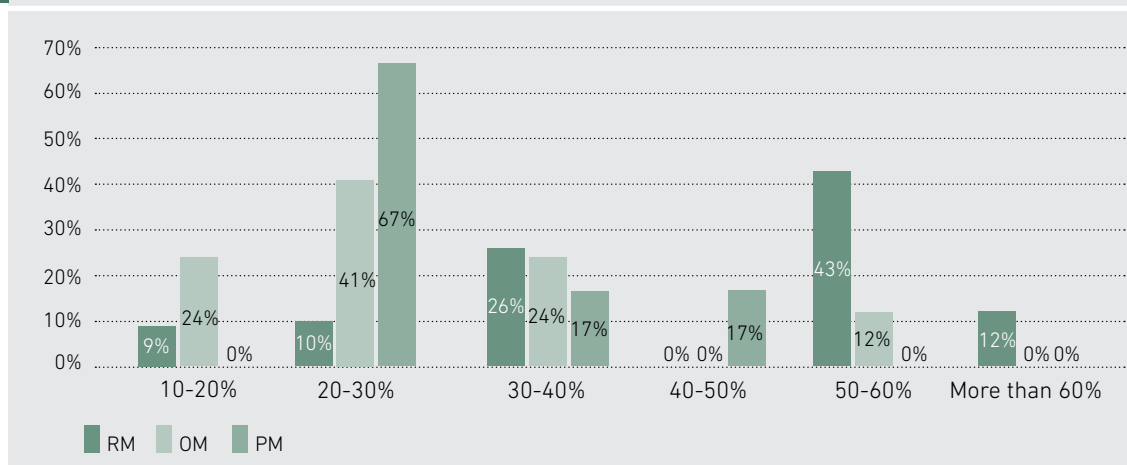
Share issuers' management board gender structure from 2015 to 2021



Source: court register<sup>16</sup>

- Management board gender structure did not change significantly during the observed period. The share of women on share issuers' management boards at the end of 2021 increased slightly relative to 2020 and 2019.

<sup>16</sup> Data on the number and gender of management board members were 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.



Source: Governance practices questionnaire 2021

- According to the corporate governance practices questionnaire, 81 issuers set a target percentage of female management board members (84 issuers in 2020).
- Most issuers (27 or 29%) set a target percentage of female management board members ranging between 50% and 60%, while 7 issuers on the Regular Market set a target percentage higher than 60% (in 2020, one issuer set a target percentage higher than 60%).
- Four issuers on the Prime Market (67%) set a target percentage of female management board members ranging between 20% and 30%.

## Meetings of the management board

- In 2021, the number of management board meetings held ranged from 1 to 243 (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 24 (in 2020, the number of management board meetings held ranged from 1 to 247 (the number of meetings held by one issuer on the Regular Market), while the average number of the meetings held during the year was 23).
- In 2021, 39 issuers (42%) reported having a schedule of meetings of the management board (37 issuers or 37% in 2020).
- A total of 65 issuers (70%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 16 issuers (25%) reported changes in this regulation having occurred during the year (in 2020, 68 issuers (69%) reported having an internal regulation on management board activities, and 17 of them (25%) 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 2021, the average duration of management board membership was 5 years (the same as in 2020).
- As at 31 December 2021, the average number of terms of office of management board members was 2.10 (2.16 in 2020). In 2021, the largest number of consecutive terms of office (9) was reported by 3 management board members (in 2020, the largest number of consecutive terms of office (10) was reported by 3 management board members).

- In 2021, a total of 20 issuers reported new appointments (first term of office – 35 newly appointed management board members). (In 2020, 34 issuers reported a total of 54 newly appointed management board members).
- Out of the 35 newly appointed management board members, 9 (26%) were women. (In 2020, out of the 54 newly appointed management board members, 10 (19%) were women.)

## Resignations of management board members

Resignations of management board members are submitted in writing.

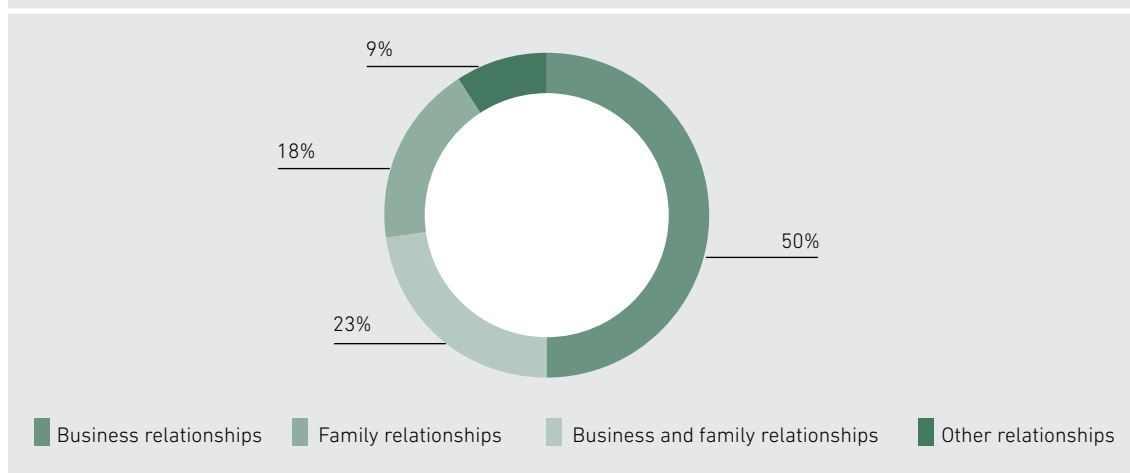
- In 2021, a total of 18 management board members resigned prior to the expiry of their terms, mostly due to personal reasons (18 management board members due to same reasons in 2020, as well).

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

The following chart shows the proportion of management board members related to other management board members in 2021 with respect to the type of relationship.

Chart 72

### Relationship between management board members and other management board members in 2021



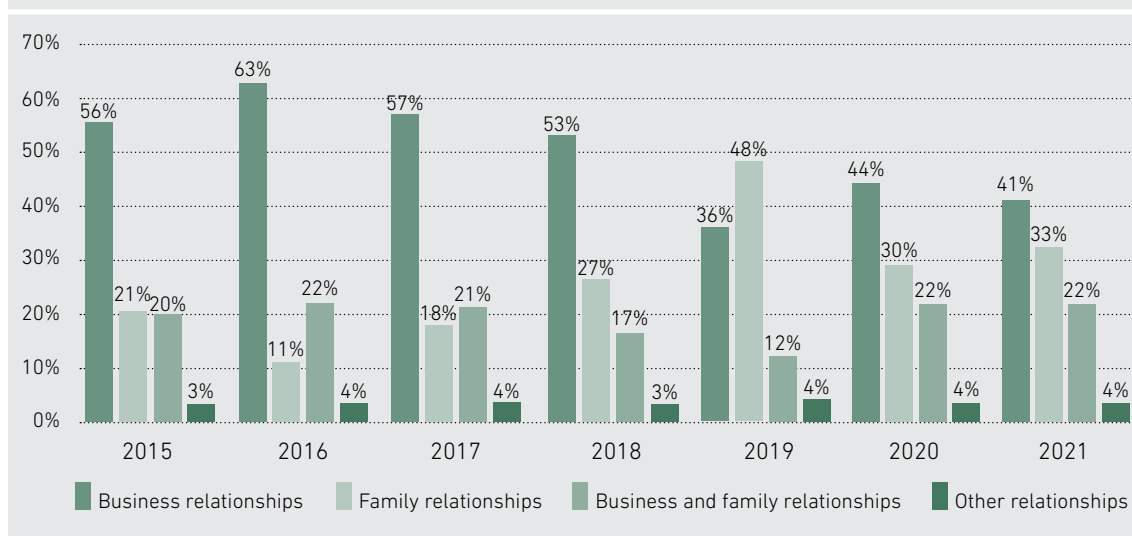
Source: Governance practices questionnaire 2021

- In 2021, a total of 22 management board members in 9 issuers were related to other management board members. The majority of management board members (11 of them, or 50%) were related by business relationships. The rest of them were related by family relationships (5 management board members, or 23%), business and family relationships (4 management board members or 18%) and other relationships (2 management board members, or 9%). In the preceding year, a total of 15 management board members in 7 issuers were related to other management board members. The majority of management board members (6 of them, or 40%) were related by business relationships, followed by family relationships (5 management board members, or 33%), business and family relationships (2 management board members, or 13%) and other relationships (2 management board members, or 14%).

The chart below shows the relationship between management board members and supervisory board members from 2015 to 2021, by type or relationship .

Chart 73

**Relationship between management board members and supervisory board members from 2015 to 2021**



Source: Governance practices questionnaire 2019, 2020 and 2021, 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 (50% on average), while 4% of management board members on average were related to supervisory board members by other relationships.
- In 2021, a total of 27 management board members in 18 issuers were related to supervisory board members. The majority of them were related by business relationships (11 management board members or 41%), followed by family relationships (9 management board members or 33%), business and family relationships (6 management board members or 22%) and other types of relationships (1 management board member or 4%). In 2020, a total of 27 management board members in 20 issuers were related to supervisory board members, with the majority of them being related by business relationships.
- In 2021, a total of 83 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 1 on average was a related company within the meaning of Article 473 of the Companies Act (in 2020, 76 management board members were at the same time management board members in 3 other companies on average, of which 0.4 on average were issuers on the regulated market, and 2 on average were related companies).
- In 2021, 69 management board members were at the same time supervisory board members in 2 other companies on average, of which 1.6 on average were related companies within the meaning of Article 473 of the Companies Act (in 2020, 79 management board members were at the same time supervisory board members in 2 other companies on average, of which 1.6 on average were related companies within the meaning of Article 473 of the Companies Act).
- In 2021, a total of 51% of the share issuers reported having in place rules of procedure of the management board which defines the division of responsibilities and cooperation among management board members and was approved by the supervisory board (54% in 2020).
- Supervisory boards of 92% of the 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 (93% in 2020).
- Supervisory boards of 76% of the share issuers evaluated the effectiveness of cooperation arrangements between the supervisory and management board in the preceding 12 months (73% in 2020).

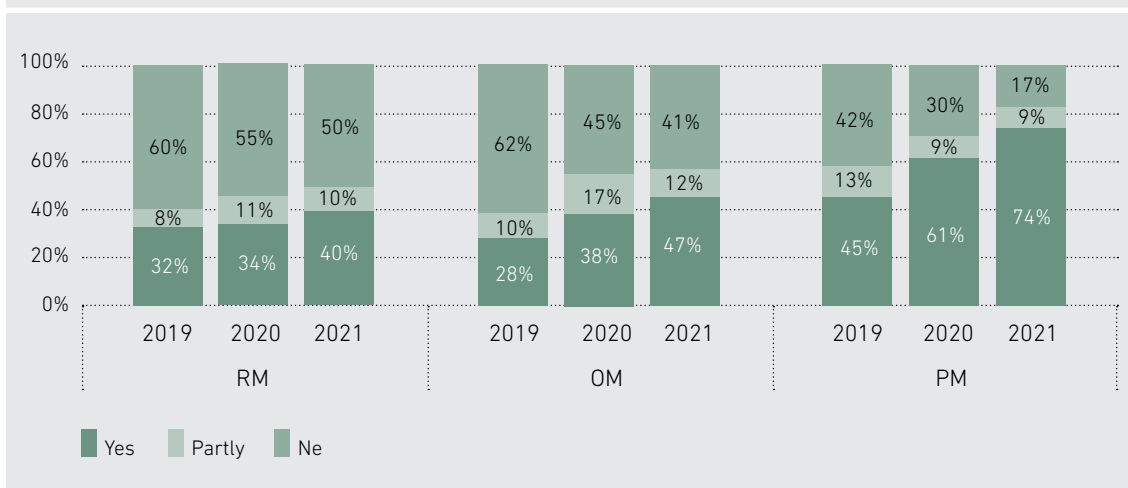


## Issuers' compliance with the Code in the area relating to the supervisory board and management board

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

Chart 74

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



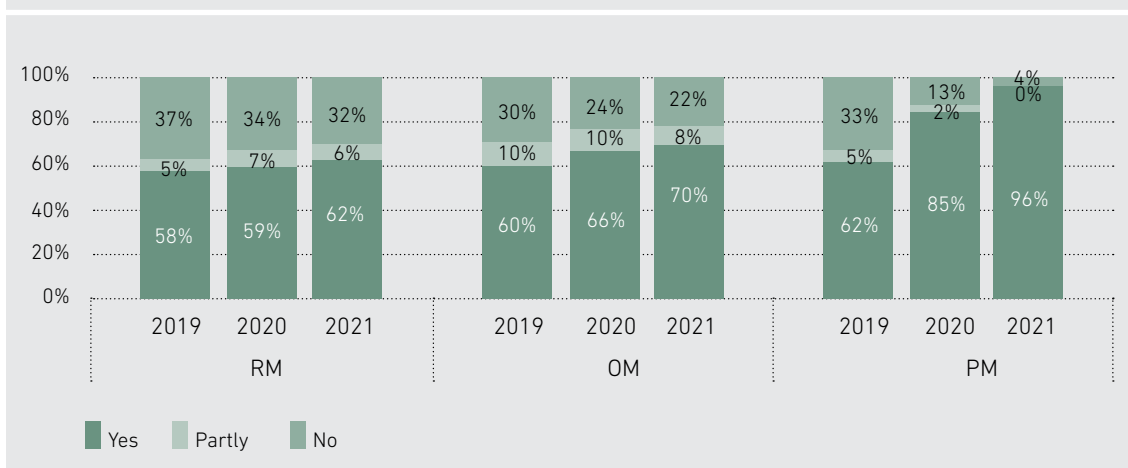
Source: Compliance questionnaire 2019, 2020 and 2021, internal calculation

- In 2021, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Appointment of board members" of 74%.
- The average level of compliance of issuers on the Official Market and Regular Market with the section "Appointment of board members" reached 47% and 40% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Supervisory board and its committees" in comparison with 2020 and 2019 (the base year).

Chart 75

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



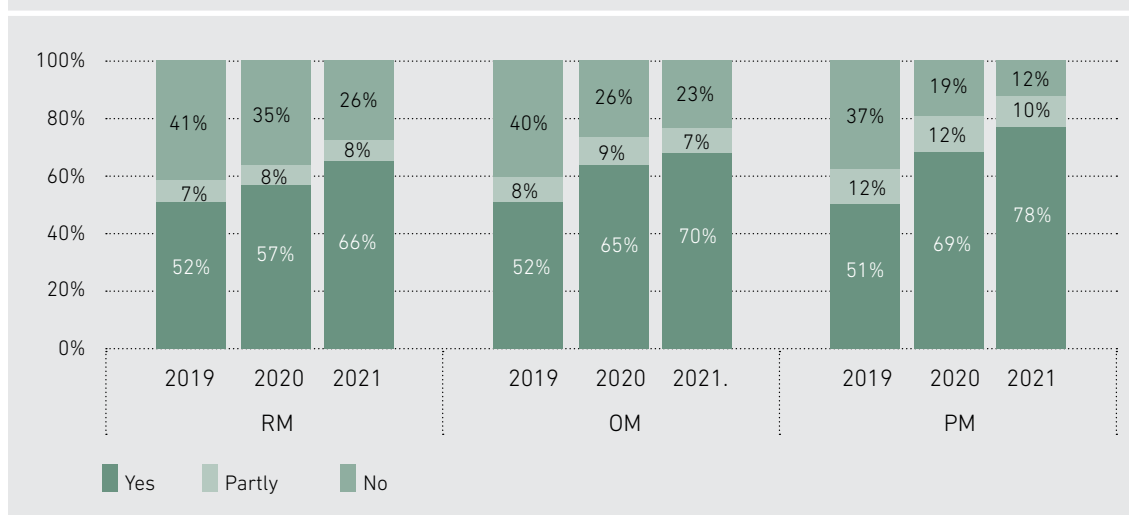
Source: Compliance questionnaire 2019, 2020 and 2021, internal calculation

- In 2021, 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 the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 71% and 62% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions relating to the section “Management board” in comparison with 2020 and 2019 (the base year).

Chart 76

**Share issuers' compliance with the section “Duties of board members” in 2019, 2020 and 2021 by segments of the regulated market**



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

- The issuers whose shares are admitted to trading on the Prime Market recorded compliance with the section “Duties of board members” reaching 78% on average.
- The level of compliance recorded by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 70% and 66% 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 bears a reasonable relationship to the work done by that management board member and to the financial position of the company.

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

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

The table below 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 2021. The amounts shown in Table 18 are average amounts paid to the entire management board (not to a single management board member).

Table 19

## Remuneration paid to share issuers' management board members in the 2015-2021 period

		Average gross amount of remuneration (in HRK)		Average amount of options held by management board members (in HRK)	Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration		
2021	Number of issuers	84	35	2	32
	Amount	2,062,674	1,328,955	1,781,782	295,011
2020	Number of issuers	86	36	3	31
	Amount	2,082,318	602,692	3,585,288	373,954
2019	Number of issuers	84	39	2	31
	Amount	2,257,302	2,031,888	1,114,077	822,969
2018	Number of issuers	73	19	3	1
	Amount	2,487,501	2,325,776	12,270,100	1,197,802
2017	Number of issuers	69	16	2	14
	Amount	2,175,208	1,899,286	12,811,131	1,186,087
2016	Number of issuers	72	19	3	7
	Amount	2,236,450	1,752,400	11,886,341	1,349,549
2015	Number of issuers	85	20	4	7
	Amount	1,918,047	2,845,726	10,673,739	463,883

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

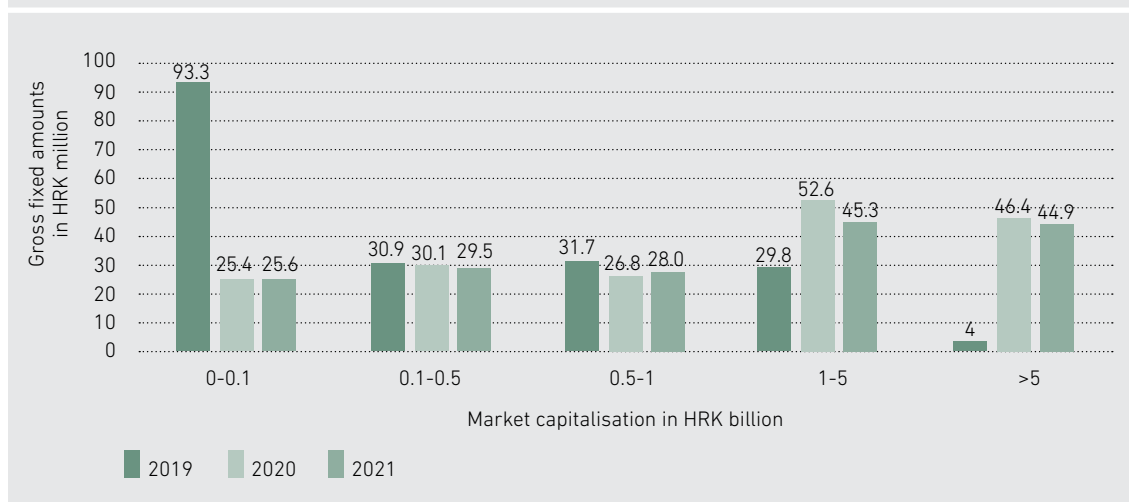
- In 2020, 84 issuers paid a gross fixed amount of remuneration to management board members totalling HRK 173,264,650 (in 2020, 86 issuers paid a gross fixed amount of remuneration to management board members totalling HRK 181,161,668).
- The average gross fixed amount of remuneration paid to management board members in 2021 is higher only relative to 2015, totalling HRK 2,062,674 (in 2018 it was the highest, while in 2015 it was the lowest).
- The gross fixed amount of remuneration paid to management board members in 2021 ranged from HRK 108 thousand to HRK 19.6m (from 52 thousand to 19m in 2020). As in the previous year, the highest gross amounts of fixed remuneration in 2021 were paid to management board members in the banking sector, while the lowest amount was paid by an issuer engaged in management activities of holding companies.
- A total of 35 issuers paid gross variable remuneration to management board members reaching HRK 46,513,433 (in 2020, the amount totalling HRK 52,434,174 was paid by 36 issuers).
- The gross amounts of variable remuneration paid to management board members in 2021 reached HRK 1,328,955 on average (HRK 602,692 in 2020).
- The gross variable amount of remuneration paid to management board members in 2021 ranged from HRK 3.3 thousand to HRK 8.2m (from HRK 3.4 thousand to HRK 8.0m in 2020).
- In 2021, the highest gross amounts of variable remuneration were paid to management board members of issuers from the food industry, while the lowest amounts were paid in the accommodation and food service activities (in 2020, the highest amount was paid in the banking sector and the lowest in the defence sector).
- Two issuers from food industry granted options to management board members in the amount of HRK 3,563,564, with single amounts of the options granted ranging between HRK 1.4m and HRK 2.2m (in 2020, 3 issuers from tourism sector and food industry granted options to management board members in the amount of HRK 10,755,865, with single amounts of the options granted ranging from HRK 1.9m to HRK 6.4m).
- A total of 32 issuers paid other benefits to management board members in the amount reaching HRK 9,440,363 (in 2020, other benefits totalling HRK 11,592,571 were paid by 31 issuers). The gross fixed amount of other benefits paid to management board members in 2021 ranged from HRK 500 thousand to HRK 2.4m (in 2020, it ranged from HRK 852 thousand to HRK 2.0m).

- A total of 74 issuers reported having submitted the annual management board remuneration report to the general meeting (60 issuers in 2020).

The chart below shows a comparative overview of the total gross fixed remuneration paid to management board members (in HRK million) in relation to the market capitalisation of issuers for 2019, 2020 and 2021.

Chart 77

**Total gross amounts of fixed remuneration paid to management board members (in HRK m) in relation to market capitalisation of issuers (in HRK bn) in 2019, 2020 and 2021**

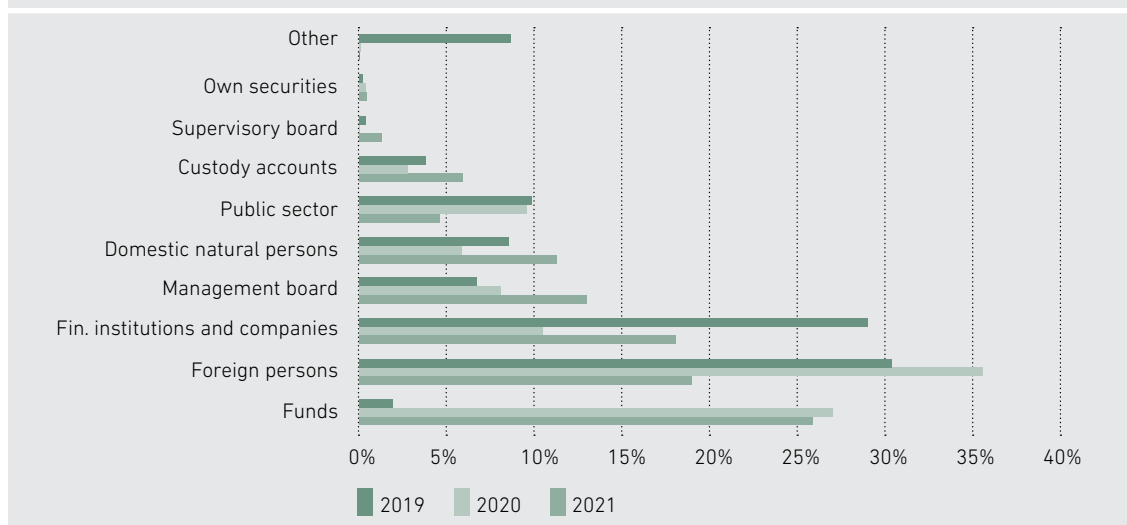


Source: Governance practices questionnaire for 2019, 2020 and 2021, ZSE

In 2021, management board members were paid gross fixed remuneration in the amount reaching HRK 173,264,650 (in 2020, the amount totalled HRK 181,161,668). The largest amount of gross fixed remuneration reaching HRK 19,616,478 was paid to management board members by issuers with the market capitalisation in the amount > HRK 5bn, while the smallest amount of gross fixed remuneration reaching HRK 107,984 was paid to management board members by issuers with their market capitalisation between HRK 0 and 0.1bn.

- Compared to 2020, the greatest difference in total gross fixed remuneration paid to management board members is evident among issuers with a market capitalisation from HRK 1 to 5bn and HRK 0.5 to 1bn.
- In 2021, compared to 2020, the increase in gross fixed remuneration paid to management board members amounted to 4% for share issuers with market capitalisation from HRK 0.5bn to HRK 1bn.
- The decrease in gross fixed remuneration paid to management board members in 2021, compared to 2020, amounted to 14% for share issuers with market capitalisation from HRK 1 to 5bn.

### Ownership structure of the share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m in 2019, 2020 and 2021



Source: Governance practices questionnaire for 2019, 2020 and 2021, CDCC

- The ownership structure of the share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m in 2021 was dominated by funds with a 26% share, followed by foreign persons with a 19% share (In 2020, the ownership structure of the share issuers that paid gross fixed remuneration to management board members totalling more than HRK 5m was dominated by foreign persons with a 36% share).

## Management board remuneration policy

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

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

Furthermore, provision 53 of the Code stipulates that, where shares are awarded to a management board member as part of the remuneration package, the management board member should not dispose of those shares for at least two years following the day on which they were awarded the shares. Where a member of the management board is awarded options to buy shares as part of the remuneration package, the management board member should not exercise the options prior to

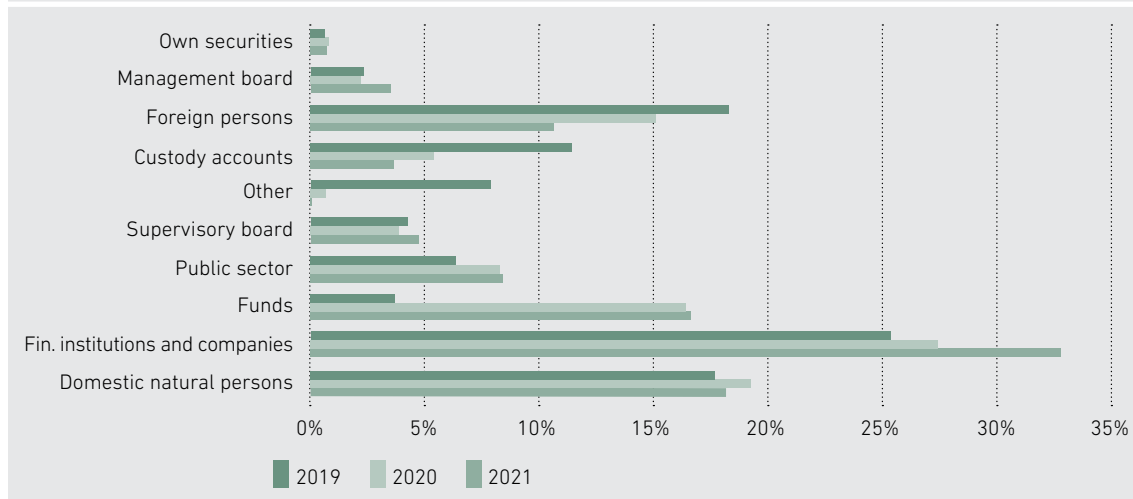
the expiry of two years following the day on which they were awarded the options. The remuneration policy should include provisions specifying circumstances in which part of the management board member's remuneration would be withheld or recovered.

- In 2021, 76% 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 47 issuers on the Regular Market (in 2020, 64% of the issuers reported having in place a remuneration policy, of which 4 issuers on the Prime Market, 18 issuers on the Official Market and 41 issuers on the Regular Market).
- A total of 94% out of the 71 issuers that had in place a remuneration policy for management board members publicly disclosed their policy (in 2020, 87% out of 63 issuers with a remuneration policy in place publicly disclosed their policy).
- The remuneration policy was approved by shareholders at the general meeting of 78% of the issuers (in 2020, this number reached 56%).
- The remuneration policy of 46% 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 (40% in 2020).
- A total of 92% 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 (90% of the issuers in 2020).

The ownership structure of the issuers that reported having in place a remuneration policy for management board members in 2019, 2020 and 2021 is shown in the chart below.

Chart 79

**Ownership structure of share issuers with a remuneration policy for management board members in place in 2019, 2020 and 2021**



Source: Governance practices questionnaire for 2019, 2020 and 2021, CDCC

- The issuers that reported having in place a remuneration policy for management board members at the end of 2021 were mostly owned by financial institutions and companies with a 33% share (28% in 2020) and domestic natural persons with an 18% share (19% in 2020).

### Severance allowance for management board members

- In 2021, 10% of the issuers reported having agreed the amount of severance allowance for management board members totalling HRK 23,354,521 (in 2020, 16% reported having agreed the amount of severance allowance for management board members totalling HRK 41,223,825).

- In 2021, the amounts of severance allowance agreed ranged from HRK 129.6 thousand to HRK 9.3m (from HRK 37.5 thousand to HRK 9.9m in 2020).
- A total of 9% of the issuers paid severance allowance to management board members in 2021 (15% of the issuers in 2020).

## 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. In addition, the remuneration of supervisory board members should not include variable or other elements relating to business performance.

- In 2021, 55% 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 31 issuers on the Regular Market), of which 47 issuers (92%) reported having publicly disclosed the policy.

Table 20

### Manner of determining the level of remuneration for supervisory board members in 2019, 2020 and 2021

	2019	2020	2021
General meeting	70%	76%	90%
Statute	15%	16%	8%
Other	12%	6%	2%

Source: Governance practices questionnaire 2019, 2020 and 2021

- In 2021 (as in 2020), the level of remuneration for supervisory board members was most often determined by the general meeting (90% of the issuers), followed by the statute (8% of the issuers) and other manners of determining the level of remuneration for supervisory board members of issuers (2% of the issuers).
- In 2021, fixed amounts of remuneration totalling HRK 42,770,667 were paid to supervisory board members by 83% of the issuers (the amount of HRK 40,079,582 was paid by 80 % of the issuers in 2020).

The following table shows the amounts of remuneration paid to supervisory board members in the period from 2015 to 2021.



Table 21

**Remuneration paid to supervisory board members of share issuers in the 2015-2021 period**

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2021	Number of issuers	77	/	17
	Amount	555,463	/	861,294
2020	Number of issuers	79	/	18
	Amount	507,336	/	1,024,842
2019	Number of issuers	75	/	12
	Amount	510,977	/	293,127
2018	Number of issuers	78	7	1
	Amount	477,511	249,462	3,267
2017	Number of issuers	71	4	0
	Amount	431,817	291,696	0
2016	Number of issuers	78	5	0
	Amount	406,855	774,894	0
2015	Number of issuers	89	5	1
	Amount	391,127	479,791	0

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

- In 2021, 77 share issuers paid remuneration to supervisory board members in the total amount of HRK 42.8m, while 17 issuers paid other benefits to supervisory board members in the total amount of HRK 14.6m.
- In 2021, fixed amounts of remuneration paid to supervisory board members ranged from HRK 24.8 thousand to HRK 3.8m (from HRK 2.3 thousand to HRK 16.1m in 2020).
- A total of 75% of the issuers reported having submitted the annual supervisory board remuneration report to the general meeting (60% of the issuers in 2020).
- Levels of remuneration of the chair and members of the supervisory board of the majority of the issuers (69%) reflected the time commitment and responsibilities of their roles (68% of the issuers in 2020).
- Remuneration policies and/or internal regulations of 59% of the issuers prohibit the inclusion of variable or other elements relating to business performance in the remuneration of supervisory board members (45% of the issuers in 2020).
- A total of 72% of the issuers reported having included data on the remuneration of individual supervisory board members in the annual remuneration report (63% of the issuers in 2020).

## Remuneration paid to the senior management

- In 2021, 70% of the share issuers paid fixed remuneration to their senior management in the total amount of HRK 369,732,805, with single amounts of the remuneration ranging from HRK 80.3 thousand, reported by an issuer engaged in management activities of holding companies, to HRK 29.4m, reported by an issuer from financial and insurance activities (in 2020, 68% of the share issuers paid fixed remuneration to their senior management in the total amount of HRK 380,463,655, with single amounts of the remuneration ranging from HRK 80.3 thousand, reported by an issuer engaged in management activities of holding companies, to HRK 32.9m, reported by an issuer from the food industry).

Table 22

**Remuneration paid to share issuers' senior management in the 2015-2021 period**

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2021	Number of issuers	65	27	20
	Amount	5,688,197	2,097,201	579,003
2020	Number of issuers	67	29	19
	Amount	5,678,562	839,042	459,632
2019	Number of issuers	62	31	23
	Amount	6,245,898	2,381,780	387,702
2018	Number of issuers	57	15	11
	Amount	5,439,305	2,271,969	709,008
2017	Number of issuers	55	16	8
	Amount	2,722,802	1,579,774	1,038,411
2016	Number of issuers	60	16	8
	Amount	5,119,443	1,622,029	1,333,959
2015	Number of issuers	66	/	/
	Amount	4,802,968	/	/

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

- In 2021, 27 issuers paid variable remuneration to their senior management in the total amount of HRK 31,808,620, with single amounts of variable remuneration ranging from HRK 8.8 thousand, reported by an issuer from food industry, to HRK 12.1m, reported by an issuer from the refined petroleum product manufacture sector (in 2020, 29 issuers paid fixed remuneration to their senior management in the total amount of HRK 56,215,808, with single amounts of the remuneration ranging from HRK 14.2 thousand, reported by an issuer engaged in management activities of holding companies, to HRK 6.7m, reported by an issuer from the banking sector).
- Other benefits in the average amount of HRK 579,003 were paid to the senior management by 20 issuers (in 2019, other benefits in the average amount of HRK 459,632 were paid to the senior management by 19 issuers).
- 1 issuer granted options to the senior management in the total amount of HRK 2,991,081 (2 issuers in 2020, with the total amount reaching HRK 3,746,942, and the average value of options granted totalling HRK 1.8m).

## Severance allowance for the senior management

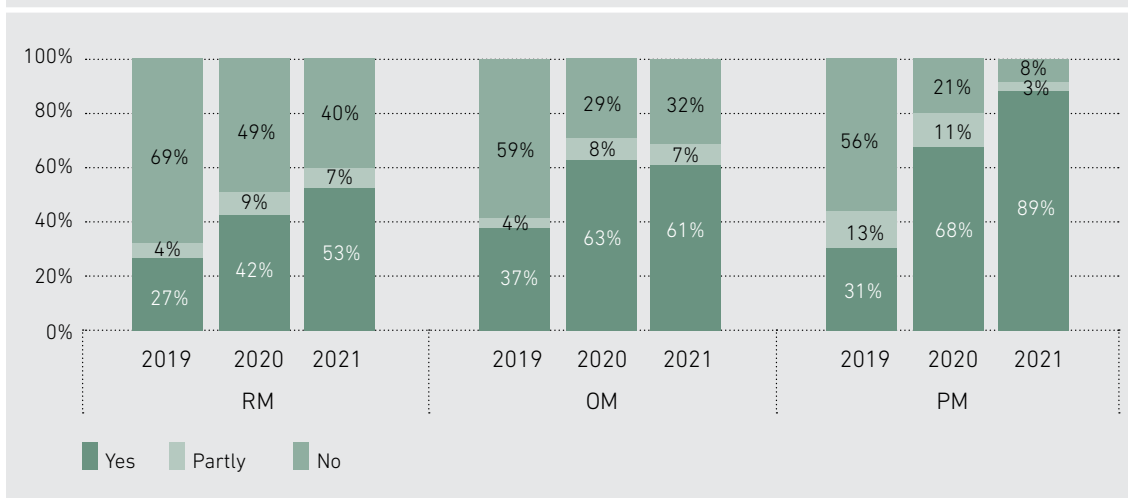
- In 2021, 7 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 16,121,849, with single amounts ranging from HRK 129.6 thousand to HRK 6.2m (in 2020, 13 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 24,924,358, with single amounts ranging from HRK 180.0 thousand to HRK 6.1m).
- In 2021, severance allowance in the total amount of HRK 10,894,264 was paid to the senior management by 7 issuers, with single amounts of the severance allowance ranging from HRK 8.0 thousand to HRK 6.6m (in 2020, severance allowance in the total amount of HRK 8,230,419 was paid to the senior management by 11 issuers, with single amounts of the severance allowance ranging from HRK 108.1 thousand to HRK 2.4m).

## 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 issuers with the section "Remuneration of board members" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2019, 2020 and 2021.

Chart 80

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



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

- The level of compliance with the section "Risks, internal control and audit" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 89% on average.
- The level of compliance recorded by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 61% and 53% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Remuneration of board members" in comparison with 2019.



## Risks, internal control and audit

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

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

- In 2021, 31% of the issuers reported having a person in charge of risk management (33% of the issuers in 2020)
  - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2020)
  - 7 issuers on the Official Market (7 issuers on the Official Market in 2020)
  - 17 issuers on the Regular Market (19 issuers on the Regular Market in 2020).
- Out of the 29 issuers that reported having a person in charge of risk management in 2021, the majority (9) were from the financial sector (in 2020, the majority (11) of the 33 issuers that reported having appointed a person in charge of risk management were also from the financial sector).
- The most frequent risk faced by issuers in 2021 was macroeconomic environment risk, same as in 2020.
- The most frequent risks faced by issuers in 2021 were:
  - macroeconomic environment risk (reported by 23 issuers)
  - liquidity risk (19 issuers)
  - operational risk (reported by 12 issuers)
  - credit risk (10 issuers).
- In 2021, the majority of the issuers (93%) reported maintaining an effective risk management system that ensures reliable risk identification, measurement and monitoring (88% of the issuers in 2020).

## 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 2021, 55% of the issuers reported having in place an internal control system (53% of the issuers in 2020). 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 2020)
  - 14 issuers on the Official Market (15 issuers on the Official Market in 2020), and
  - 31 issuers on the Regular Market (31 issuers on the Regular Market in 2020).
- In 2021, there are on average 15 employees in the internal control system (same as in 2020).
- The majority of the issuers that reported having in place an internal control system in 2021 were from the tourism industry (12 issuers), followed by 11 issuers from the financial sector and 4 issuers from the food industry (in 2020, the majority of the issuers that reported having in place an internal control system were from the tourism industry (13 issuers), followed by 10 issuers from the financial sector and 5 issuers from the food industry).

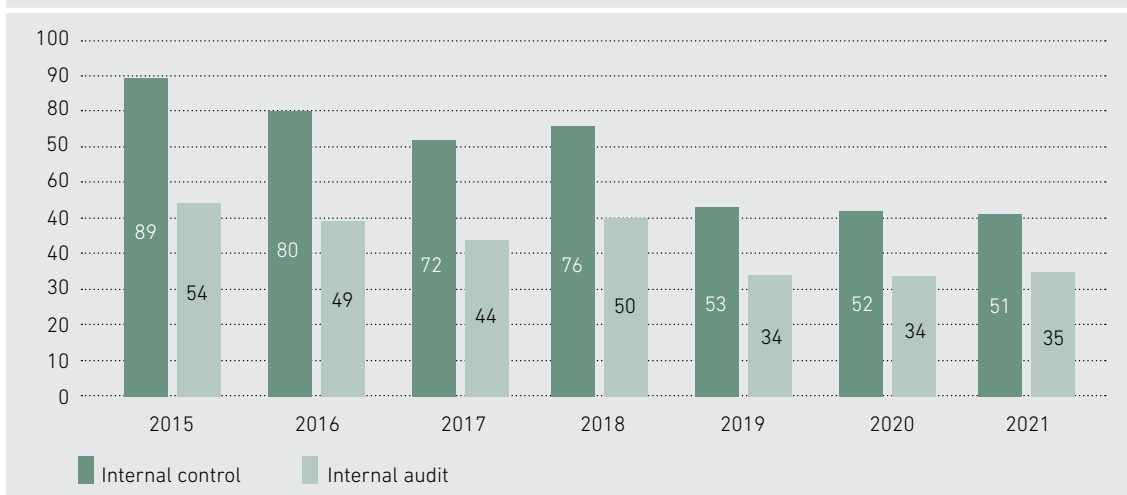
### Internal audit system

- In 2021, 38% of the issuers reported having in place an internal audit system (34% of the issuers in 2020). Broken down by segments of the regulated market, this system was established by:
  - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2020)
  - 14 issuers on the Official Market (12 issuers on the Official Market in 2020), and
  - 16 issuers on the Regular Market (17 issuers on the Regular Market in 2020).
- In 2021, there were 4 employees in each internal audit system on average (5 employees in 2020).
- The majority of the issuers that reported having in place an internal audit system in 2021 were from the financial sector (9 issuers), followed by 4 issuers from the tourism industry and 2 issuers from the food industry (the majority of the issuers that reported having in place an internal audit system in 2020 were from the financial sector (11 issuers), followed by 4 issuers from the tourism industry and 3 issuers from the food industry).
- The audit committee of 34% 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 (69% of the issuers in 2020).
- The audit committee of 37% 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 (92% of the issuers in 2020).
- The market capitalisation of shares of the 35 issuers that had in place an internal audit system in 2021 amounted to HRK 105.1bn as at 31 December 2021 (market capitalisation of shares of the 34 issuers that had in place an internal audit system in 2020 amounted to HRK 110.1bn as at 31 December 2020).

The following chart shows the number of the issuers that reported having in place internal audit and control systems in the period from 2015 to 2021.

Chart 81

**Number of share issuers with internal audit and control systems in place in the 2015-2021 period**



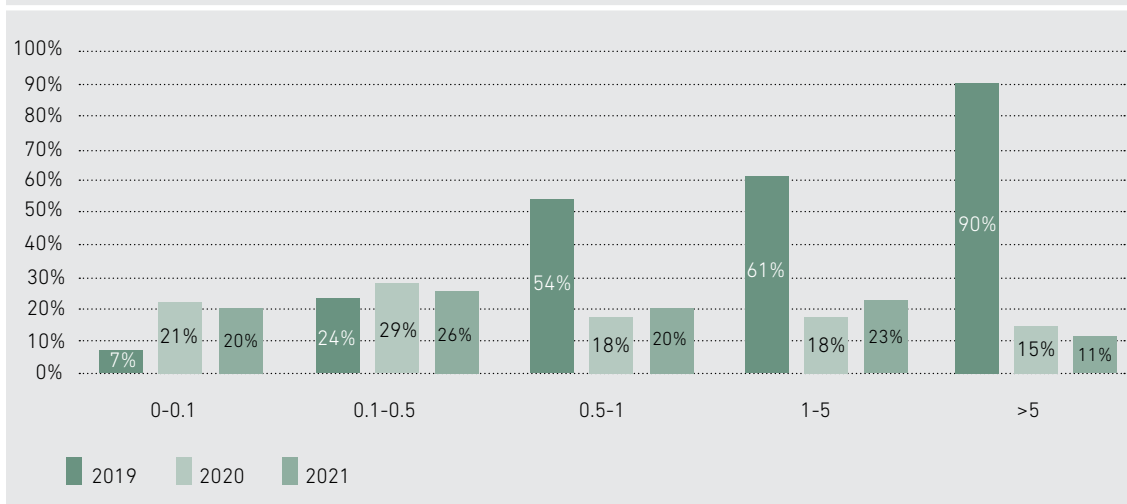
Source: Governance practices questionnaire 2019, 2020 and 2021, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- All the 6 issuers with shares admitted to the Prime Market in 2021 reported having an internal control system in place, and 83% of them also have an internal audit system in place (same as in 2020).
- Out of the 21 issuers on the Official Market, 67% had in place an internal control system, and the same percentage had in place an internal audit system (in 2020, out of 21 issuers on the Official Market, 71% had in place an internal control system, while 57% of them had in place an internal audit system).
- Out of the 66 issuers on the Regular Market, 47% had in place an internal control system, while 24% of them had in place an internal audit system (in 2020, out of 72 issuers on the Regular Market, 43% had in place an internal control system, while 24% of them had in place an internal audit system).

The following chart shows the share of the issuers that had in place an internal audit system in 2021 in relation to their market capitalisation.

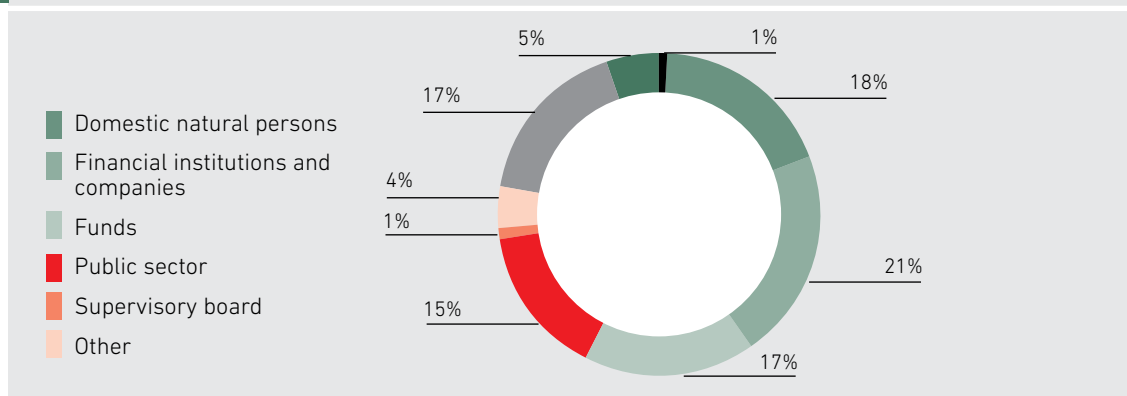
Chart 82

**Share of issuers having in place an internal audit system in 2019, 2020 and 2021 in relation to their market capitalisation (in HRK billion)**



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

- It is evident that in 2020 and 2021, the share of issuers with an internal audit system is equally present in all classes of market capitalisation.



Source: Governance practices questionnaire 2021, CDCC

- The largest share in the ownership structure of the issuers that had an internal audit system in place in 2021 was accounted for by financial institutions and companies (21%), while the share of domestic natural persons amounted to HRK 18% (the largest share in the ownership structure of the issuers that had an internal control system in place in 2020 was accounted for by financial institutions and companies (28%), while the share of domestic natural persons amounted to HRK 19%).

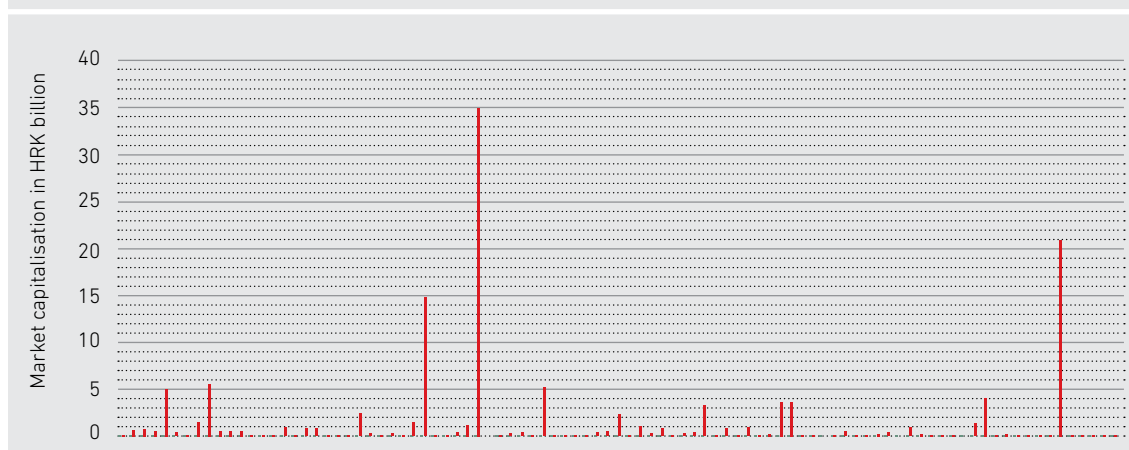
## External audit

- The process of selecting the external auditor is overseen by the audit committee, which makes recommendations to the supervisory board on the selection of the external auditor and the terms of their appointment. In accordance with the Code and legal requirements, the company should have an external auditor, whose main function is to ensure that financial statements of the company adequately reflect its current financial position. Independent external auditors are not related through ownership or other interests with the company. In 2020, 52% of the issuers received financial statement audit services from one of the four largest audit firms.
- Broken down by segments of the regulated market, financial statement audit services were provided in 2021 by one of the four largest audit firms for:
  - 6 issuers on the Prime Market (6 issuers on the Prime Market in 2020)
  - 14 issuers on the Official Market (17 issuers on the Official Market in 2020), and
  - 28 issuers on the Regular Market (28 issuers on the Regular Market in 2020).
- The majority of issuers (14) that received financial statement audit services from one of the four largest audit firms belonged to the tourism industry (in 2020, the majority of issuers (11) that received financial statement audit services from one of the four largest audit firms also belonged to the tourism industry).
- At end-2021, market capitalisation of the issuers that used services provided by the four largest audit firms totalled HRK 94.6bn and accounted for 69% of the total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2021 (at end-2020, market capitalisation of the issuers that used services provided by the four largest audit firms totalled HRK 106.3bn and accounted for about 77% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2020).
- A total of 6 issuers used services of the same audit firm for 7 years or longer (3 issuers from the Regular Market for more than 20 years), of which 3 issuers on the Official Market and 6 issuers on the Regular Market (in 2020, a total of 6 issuers used services of the same audit firm for longer than 7 years, of which 1 issuer on the Prime Market, 3 issuers on the Official Market and 2 issuers on the Regular Market).
- The average length of time during which issuers used services of the same audit firm was 4 years (4 years in 2020, as well).

- The average length of time during which issuers used services of the same certified auditor in the same audit firm was 3 years (same as in 2020).
- The average gross amount paid to an audit firm for audit services provided in 2021 reached HRK 371 thousand (HRK 363.5 thousand in 2020), with all the amounts ranging between HRK 25 thousand and HRK 2.7m (between HRK 29 thousand and HRK 3.4m in 2020).
- In 2021, audit firms provided services other than audit services to 23 issuers, with the average gross amount paid to an audit firm for other services during the year amounting to HRK 223.6 thousand (in 2020, other services were provided by audit firms to 23 issuers, with the average gross amount paid to an auditor for other services totalling HRK 202.1 thousand).

Chart 84

**Gross amount paid to audit firms for audit services provided during 2021 in relation to market capitalisation of issuers**



Source: Governance practices questionnaire 2021, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2021 and market capitalisation of the issuers amounted to 0.7510 (in 2020, it stood at 0.7985).

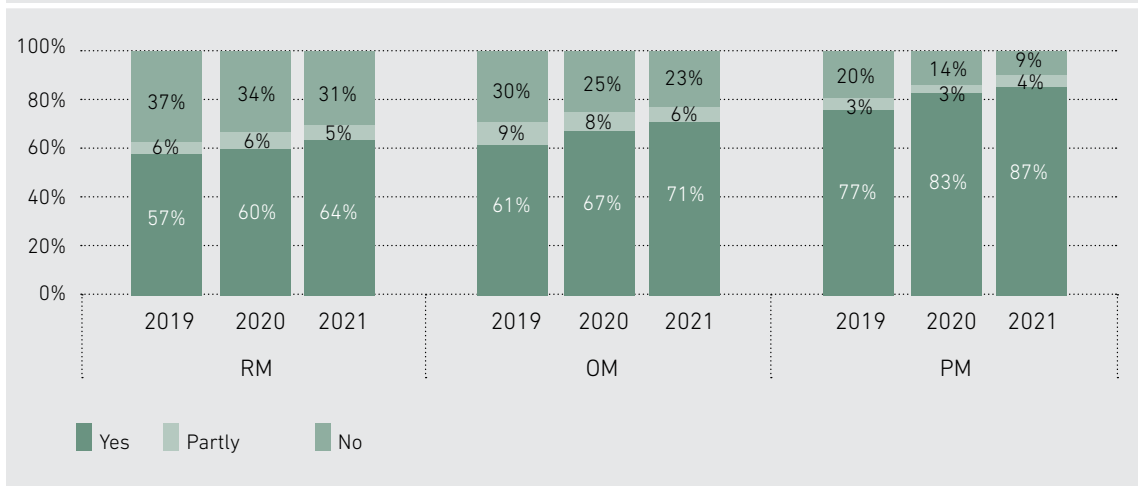
## Issuers' compliance with the Code in the area relating to risks, internal control and audit

The following chart shows the compliance of 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 and 2021.



Chart 85

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



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

- The level of compliance with the section "Risks, internal control and audit" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 87%.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 71% and 64% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Risks, internal control and audit", in comparison with 2020 and 2019.



## General meeting

The obligation to act in the best long-term interest of the company instead of in the interest of certain individuals or entities requires management and supervisory board members to take account of the impact of their decisions on all shareholders during the decision-making process. It is therefore important to ensure that all shareholders, irrespective of the size of their holdings, 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 2021, a total of 41% of the 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 26 issuers on the Regular Market (in 2020, 40% of the issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 7 issuers on the Official Market and 29 issuers on the Regular Market).
- Out of the 38 issuers that had in place rules of procedure of the general meeting, 2 issuers reported changes in their rules of procedure during the year (4 issuers in 2020).

## Participation in the general meeting

The basic principle of the Code as regards shareholders and the general meeting of issuers is the fact that the company shall 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.

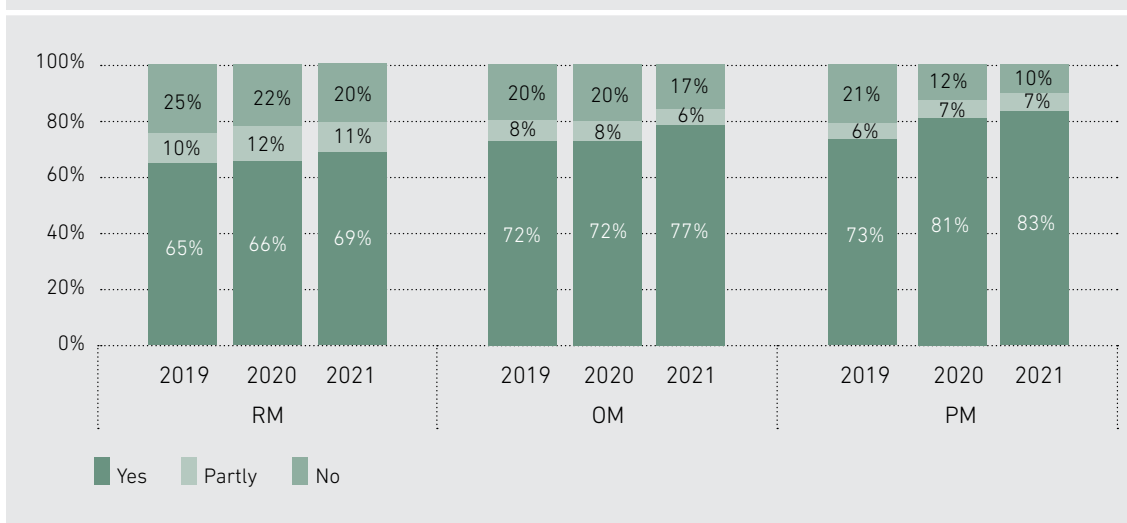
- In 2021, a total of 120 general meetings were held (119 general meetings in 2020).
- According to data from the governance practices questionnaire, 71 issuers reported having held only 1 general meeting, 17 issuers held 2 general meetings, 5 issuers held 3 general meetings, 1 issuer held 4 general meetings, and 1 issuer held 5 general meetings (in 2020, 77 issuers reported having held only 1 general meeting, 12 issuers held 2 general meetings, while 6 issuers held 3 general meetings).
- According to data from the governance practices questionnaire, the largest number of shareholders who participated in the general meeting was reported by an issuer on the Regular Market, and the number totals 419,346. Excluding this issuer, who represents a significant deviation from the average, the average number of shareholders who participated in the general meeting amounts to 39 (29 in 2020).
- Only 25% of the issuers allowed their shareholders, on the basis of the statute or another internal regulation, to vote online without limitations (21% of the issuers in 2020).
- In 2021, 99% 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 (in 2020, 98% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 91% of them ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge).
- A total of 39% of the share issuers ensured that all documents required for the general meeting were available in Croatian and English (36% of them in 2020).
- The chair and deputy chair of the supervisory board, chairs of supervisory board committees and all management board members attended general meetings of 54% of the issuers (of 48% of the issuers in 2020).
- External auditors attended general meetings of 60% of the issuers at which financial statements were presented (of 49% of the issuers in 2020).

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

The following chart shows the compliance of 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 and 2021.

Chart 86

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



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

- The average level of compliance of issuers on the Prime Market, Official Market and Regular Market with the section "Shareholders and the general meeting" reached 83%, 77% and 69% respectively.

In 2021, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Shareholders and the general meeting" in comparison with 2020 and 2019 (the base year).



# Transparency and corporate social responsibility



## Investor relations

Basic principles in connection with transparency and corporate social responsibility imply 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, 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.

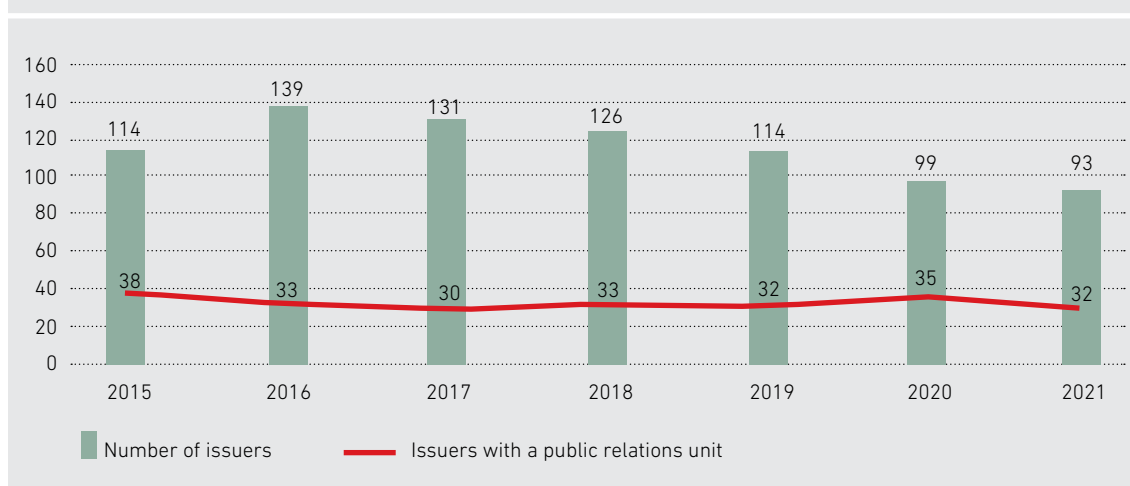
- In 2021, 99% of the issuers had their websites in Croatian, of which 70% had their websites in English as well (in 2020, 99% of the issuers had their websites in Croatian, of which 67% had their websites in English as well).
- One issuer on the Regular Market did not have a website in 2021 (the same as in 2020).
- In 2021, 96% 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 (92% of the issuers in 2020).

- In 2021, 34% of the issuers had a separate organisational unit or employees in charge of investor relations exclusively (35% of the issuers in 2020). Broken down by segments of the regulated market, a separate organisational unit or employees in charge of investor relations were reported by:
  - 6 issuers on the Prime Market (6 issuers in 2020)
  - 9 issuers in the Official Market (8 issuers in 2020) and
  - 17 issuers on the Regular Market (20 issuers in 2020).
- A separate organisational unit or employees in charge of investor relations were reported mostly by issuers from the tourism industry (8 issuers; in 2020, 9 issuers from the tourism industry as well).

The following chart shows the number of the issuers that had a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2021.

Chart 87

**Number of issuers with a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2021**



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

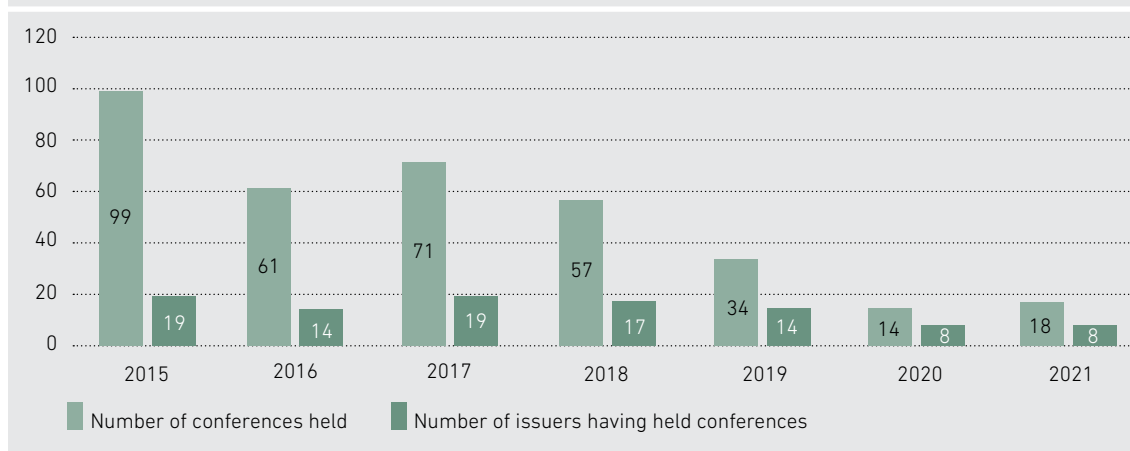
The chart shows that the number of issuers with an organisational unit or employees in charge of investor relations exclusively held more or less steady in spite of a reducing number of issuers in the period observed. Compared to the number of issuers, the largest share of issuers with an organisational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

- In 2021, a total of 10% of the issuers (8% of the issuers in 2020) had an institution in charge of monitoring the position of issuers on the capital market (drawing up market position analyses, etc.).
- In 2021, 32% of the issuers (33% of them in 2020) reported having published the calendar of significant events on their websites:
  - 6 issuers on the Prime Market (6 issuers in 2020)
  - 12 issuers in the Official Market (11 issuers in 2020) and
  - 12 issuers on the Regular Market (15 issuers in 2020).
- A total of 9% of the issuers (8% in 2020) reported having held one or more press conferences in 2021, of which 4 issuers on the Prime Market, 3 issuers on the Official Market and 1 issuer on the Regular Market (4 issuers on the Prime Market, 2 issuers on the Official Market and 2 issuers on the Regular Market in 2019).
- The largest number of press conferences (6) were reported by an issuer on the Prime Market and an issuer on the Official Market (in 2020, the largest number of press conferences (5) were reported by an issuer on the Official Market).

The following chart shows the number of the issuers that held press conferences in the period from 2015 to 2021 and the number of the conferences held in that period.

Chart 88

### Number of the issuers that held press conferences and the number of the conferences held in the 2015-2021 period



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

The largest number of press conferences held (99) were reported in 2015, but that year also saw the largest number of the issuers whose shares were admitted to trading on the regulated market. 2021 saw an increased number of press conferences held compared to 2020, which halted a declining trend recorded in the previous years.

- The most common reasons for convening a press conference in 2021 were presentations of business results (4 issuers) and presentations of significant activities and investments (2 issuers) (in 2020, the most common reasons for convening a press conference were also presentations of business results (3 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 2021, a decision on the payment of dividend out of profits generated in 2020 was adopted by 24% of the issuers (in 2020, a decision on dividend payment was made by 15% of the issuers), of which:
  - 4 issuers on the Prime Market (4 issuers in 2020)
  - 6 issuers in the Official Market (3 issuers in 2020) and
  - 12 issuers on the Regular Market (8 issuers in 2020).
- The largest number of issuers (5) who adopted a decision on the payment of dividend or advance dividend out of profits generated in 2021 belonged to the financial sector and insurance sector (to the food industry in 2020, 3 issuers).
- The total market capitalisation of the issuers that adopted a decision on dividend payment at the end of the year in 2021 reached HRK 53.1bn (in 2020, it stood at HRK 63.5bn).
- Among these issuers, the largest market capitalisation was reported by an issuer from the telecommunications industry (HRK 15bn; HRK 28bn by an issuer from the energy sector in 2020), and

the smallest by an issuer from the financial sector (HRK 27.8m; HRK 152.9m by an issuer from the transport industry in 2020).

- The average amount of dividend per stock paid out in 2021 totalled HRK 128.51 (HRK 146.85 in 2020). The largest amount was paid out by an issuer engaged in wholesale and retail trade services and it totalled HRK 1,400.00.

## Corporate Governance Code

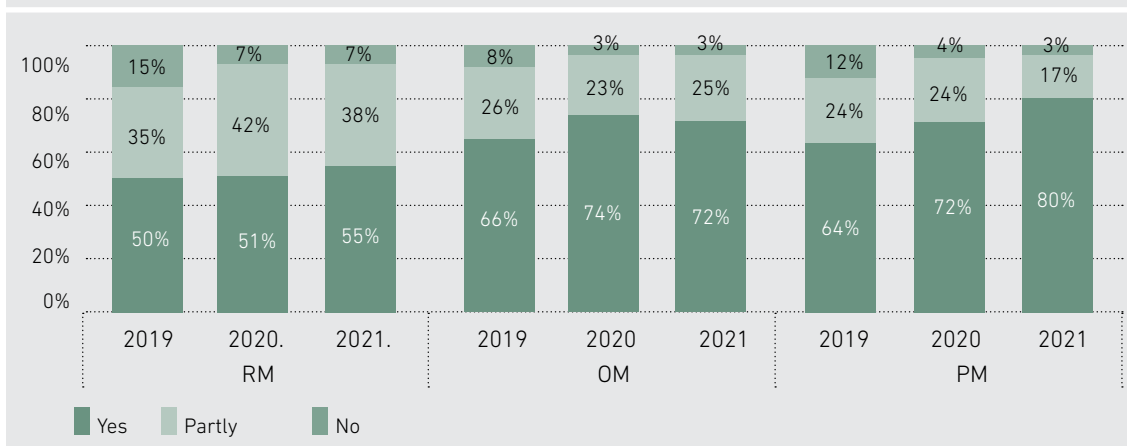
- A total of 80% of the issuers (6 issuers on the Prime Market, 19 issuers on the Official Market and 49 issuers on the Regular Market) published their compliance questionnaire for 2021 on their websites (74% of the issuers in 2020).
- 29% of the issuers (27% of them in 2020) complied with another corporate governance code in addition to the Code (3 issuers on the Prime Market, 8 issuers on the Official Market and 16 issuers on the Regular Market).
- Out of the total of 27 issuers that complied with another corporate governance code in addition to the Code in 2021, 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 2020, 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 issuers with the section "Disclosure and transparency" by segments of the regulated market according to data submitted in the compliance questionnaire for 2019, 2020 and 2021.

Chart 89

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



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

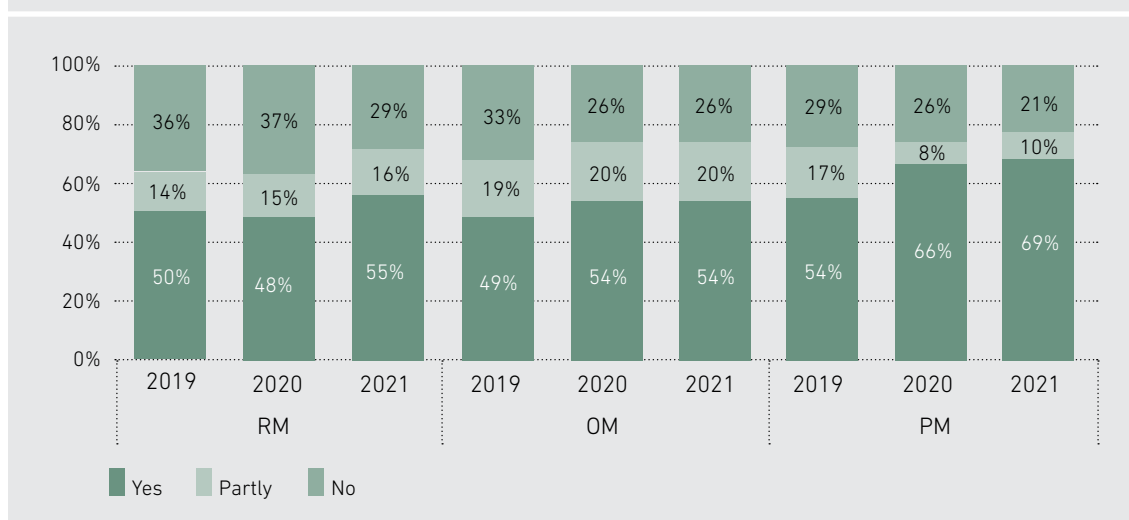


- The level of compliance with the section “Disclosure and transparency” achieved by the issuers whose shares are admitted to trading on the Prime Market reached 80% on average.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 72% and 55% respectively.

In 2020, the issuers whose shares are admitted to trading on the Prime Market and Regular Market showed greater compliance with the section “Disclosure and transparency” in comparison with 2020 and 2019 (the base year). The issuers whose shares are admitted to trading on the Official Market recorded slightly lower compliance levels in 2021 compared to 2020, but in comparison with the base year 2019 their level of compliance increased.

Chart 90

**Share issuers’ compliance with the section “Stakeholders and corporate social responsibility” in 2019, 2020 and 2021 by segments of the regulated market**



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

- The level of compliance with the section “Stakeholders and corporate social responsibility” achieved by the issuers whose shares are admitted to trading on the Prime Market reached 69%.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 54% and 55% respectively.

As regards this section, the issuers whose shares are admitted to trading on the Prime Market and Regular Market recorded improvement in compliance, while the issuers whose shares are admitted to trading on the Official Market showed the same level of compliance relative to 2020 and 2019 (the base year).



## Annual report on corporate governance for bond issuers

## Introduction

Issuers of corporate bonds admitted to trading on the regulated market of the ZSE are obliged to submit to Hanfa data on corporate governance practices contained in the governance practices questionnaire for bond issuers. Issuers with bonds and shares 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 2021, 11 issuers had a total of 15 corporate bonds admitted to trading, of which 11 bonds were admitted to trading on the Official Market and 4 bonds on the Regular Market. Of the 11 issuers, 7 had only corporate bonds issued and were obliged to submit to Hanfa the governance practices questionnaire for bond issuers, while the remaining 4 issuers had both bonds and shares admitted to trading on the regulated market 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 2021, all 7 of them (100%) submitted the questionnaire to Hanfa. The following data relate to the issuers that submitted to Hanfa their 2021 governance practices questionnaire for bond issuers.

At the end of 2020, the market capitalisation of bonds reached HRK 88.3bn, decreasing by 22% compared to the end of 2020, when it amounted to HRK 113.8bn. One new issuer (HOK-OSIGURANJE d.d.) listed its bonds to the regulated market in 2021, while the issuer SAMOBORKA d.d. listed additional bonds in the same market segment. Issuers ERSTE&STEIERMARKISCHE BANK d.d., INA – Industrija nafte d.d. and M SAN GRUPA d.o.o. listed their bonds on the Official Market.

## Capital and its origin

### Initial capital

The following table shows data on the initial capital of corporate bond issuers and market capitalisation of corporate bonds in the period from 2015 to 2021.

Table 23

#### Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2015 to 2021

Number of issuers								31.12.	31.12.	31.12.	31.12.	31.12.	31.12.	31.12.
2015	2016	2017	2018	2019	2020	2021		2015.	2016.	2017.	2018.	2019.	2020.	2021.
8	10	6	6	5	5	7	Initial capital (in HRK m)	23,045	26,878	5,953	5,954	5,002	5,149	5,247
							Market capitalisation (in HRK m)	1,532	4,415	3,417	3,475	3,427	3,669	4,275

Source: court register, ZSE

- Initial capital of corporate bond issuers reached HRK 5.2bn at the end of 2021, rising slightly compared to end-2020 (by 2%).
- Market capitalisation of corporate bonds admitted to trading on the regulated market amounted to HRK 4.3bn at the end of 2021, increasing by 17% compared to the end of the previous year.

## Ownership structure of corporate bond issuers

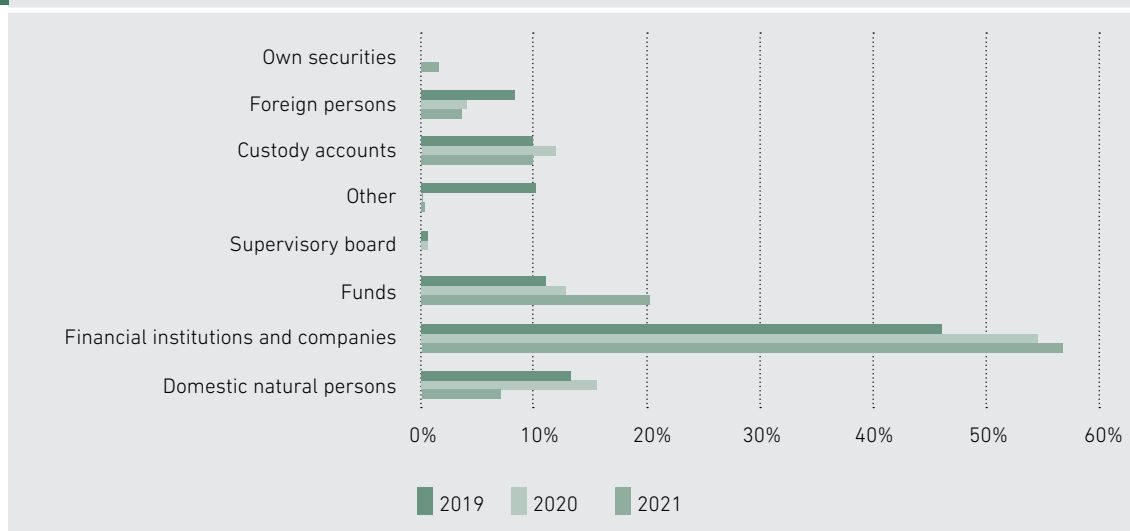
Data on the ownership structure of corporate bond issuers have been provided on the basis of information received from the CDCC. The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

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

The chart below shows the ownership structure of corporate bond issuers as at 31 December 2019, 2020 and 2021 by the above-mentioned categories.

Chart 91

Ownership structure of corporate bond issuers as at 31/12/2019, 31/12/2020 and 31/12/2021



Source: CDCC

In 2021, the ownership structure of corporate bond issuers was dominated by financial institutions and companies with a 57% share (in 2020, this share reached 55%), followed by domestic natural persons with a 20% share (13% in 2020) and funds with a 13% share (12% in 2020).

# Supervisory board and its committees

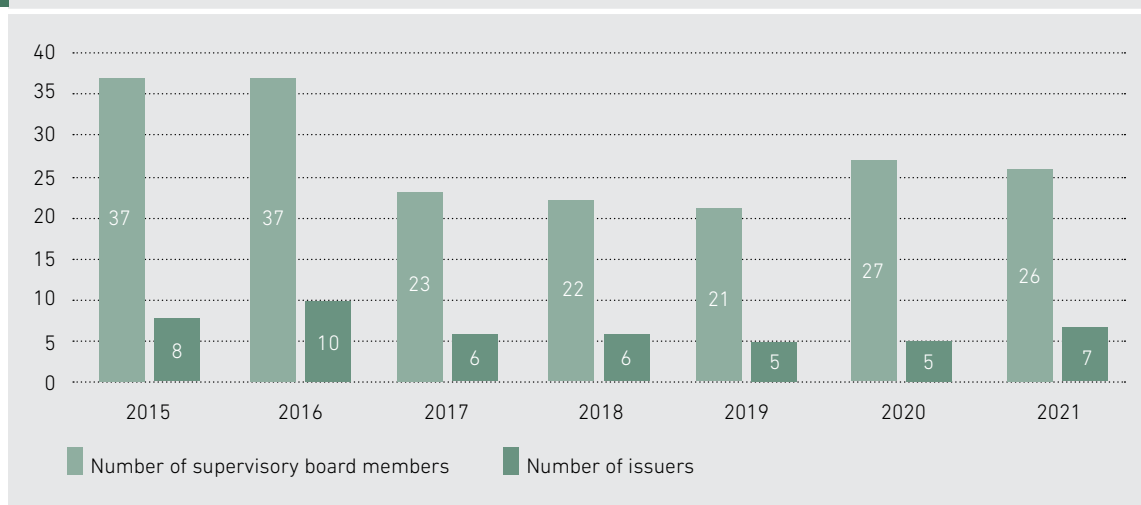
## Supervisory board

- At the end of 2021, supervisory boards of corporate bond issuers consisted of 4 members on average (6 members at the end of 2020).
- At end-2021, the proportion of women on supervisory boards of corporate bond issuers was by 34% larger than the proportion of women on management boards (at the end of 2020, the proportion of women on supervisory boards of corporate bond issuers was by 18% 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 2021.

Grafikon 92.

Number of supervisory board members of corporate bond issuers in the 2015-2021 period



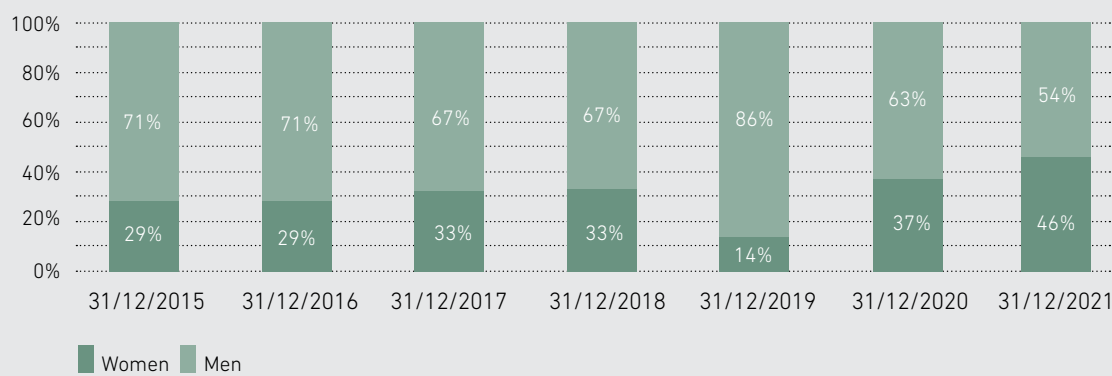
Source: court register

The number of supervisory board members in the observed period ranged from 37 in 2015 and 2016 to 26 in 2021. In 2021, the number of corporate bond issuers increased compared to 2020, while the number of supervisory board members decreased by 1. This is due to a reduction in the number of members of the supervisory board of one issuer.

Gender composition of corporate bond issuers' supervisory boards in the period from 2015 to 2021 is shown in the following chart.

Chart 93

**Bond issuers' supervisory board gender structure in the 2015-2021 period**



Source: court register

- During the observed period, the proportion of women on supervisory boards was highest as at 31 December 2021.
- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 32%, exceeding the average number of women on management boards of corporate bond issuers, which reached 13% in the same period.

Table 24

**Age structure of supervisory board members from 2015 to 2021**

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

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

- During the observed period, there were no members of the corporate bond issuers' supervisory boards under 35 years of age. In 2021, the majority of supervisory board members of corporate bond issuers were older than 56 years of age.
- As at 31 December 2021, 46% of supervisory board members of corporate bond issuers were older than 56 years of age, 35% of them were between 46 and 55 years old, while 19% of them were between 36 and 45 years old (as at 31 December 2020, 52% of supervisory board members of corporate bond issuers were older than 56 years of age, 26% of them were between 46 and 55 years old, while 22% of them were between 36 and 45 years old).
- As at 31 December 2021, the majority of supervisory board members of corporate bond issuers (77%) had a university degree (81% of supervisory board members at the end of 2020).
- The average number of corporate bond issuers' supervisory board meetings held in 2021 was 8 (7 meetings in 2020).

## Supervisory board committees

- One corporate bond issuer (14%) had in place all three supervisory board committees in 2021 (1 issuer in 2020, as well).
- Broken down by individual committees, 4 issuers (86%) had an audit committee, one issuer had a remuneration committee, and one issuer had a nomination committee (in 2020, 4 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 2020).
- Out of the 6 issuers that had in place an audit committee in 2021, 5 issuers (83%) had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee (in 2020, out of the 4 corporate bond issuers that had in place an audit committee, 3 issuers had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee).
- The average number of audit committee meetings during 2021 was 3. One issuer with a remuneration committee in place held 3 meetings in 2021, while one issuer with a nomination committee in place held 2 meetings (in 2020, 3 meetings of the audit committee were held on average, while an issuer with a remuneration committee and a nomination committee in place held 3 meetings for each of the committees).

## Management board

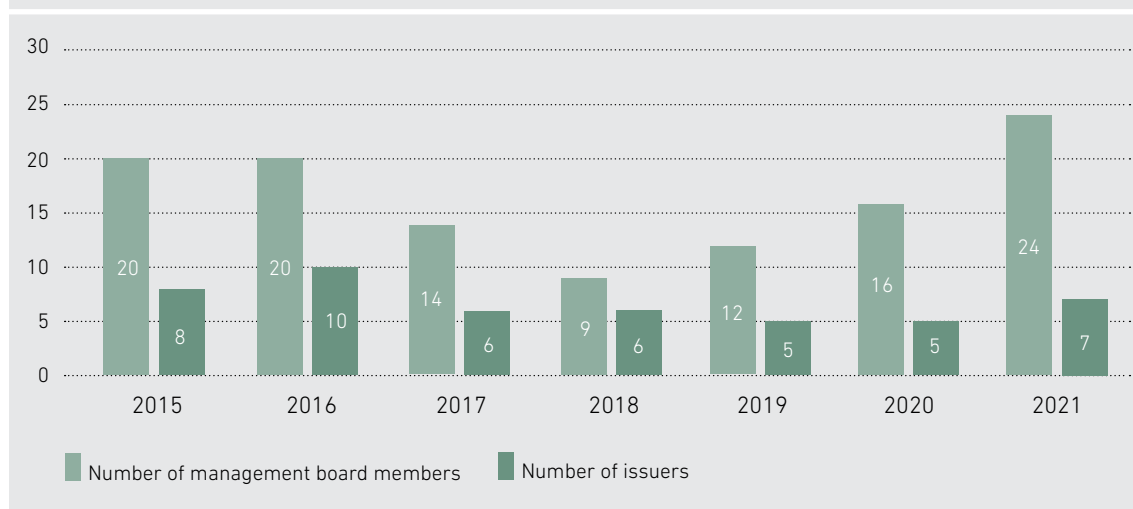
The following analysis presents the data on management board members of corporate bond issuers in the 2015 - 2021 period.

- In 2021, 1 corporate bond issuer (14%) had a one-tier governance system, while 6 issuers (86%) had a two-tier governance system (out of 5 corporate bond issuers in 2020, 1 issuer had a one-tier governance system, while 4 issuers had a two-tier governance system).
- At end-2021, management boards of corporate bond issuers consisted of 3 members on average (same as at end-2020).

The number of management board members of corporate bond issuers in the period from 2015 to 2021 is shown in the following chart.

Chart 94

**Number of management board members of corporate bond issuers in the 2015-2021 period**



Source: court register

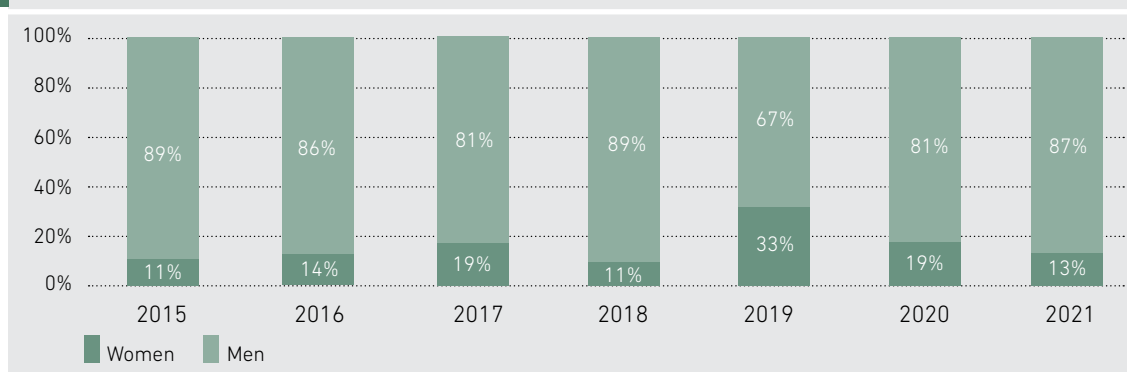


- The number of management board members of bond issuers varied from 2015 to 2021, but at the end of 2021 it was the highest since 2015.
- The number of bond issuers was the highest in 2016, and at the end of 2021 there were 7 bond issuers.

The following chart shows the share women on management boards of corporate bond issuers in the period from 2015 to 2021.

Chart 95

**Share of women on management boards of corporate bond issuers in the 2015-2021 period**



Source: court register

- In the period observed (2015 - 2021), the average share of women on management boards of corporate bond issuers totalled about 17%.

Table 25

**Age structure of management board members of corporate bond issuers in the 2015-2021 period**

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

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

- During 2018, 2020 and 2021, the majority of management board members were between 46 and 55 years old, while in the remaining observed years the majority of management board members were between 36 and 45 years old.
- At the end of 2021, 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 (58%) and a postgraduate university scientific study and postgraduate university art study - Master of Science (13%) (at the end of 2020, 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 (44%) and a graduate specialist professional study / professional undergraduate study (25%)).
- Five 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, out of 5 issuers, 3 issuers 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).
- 4 issuers reported having a schedule of meetings of the management board (2 issuers in 2020). The average number of corporate bond issuers' management board meetings held in 2021 was 26 (24 meetings in 2020).
- In 2021, no member of the corporate bond issuers' management board resigned before the expiry of their term of office due to personal reasons (same as in 2020).

# Duties and responsibilities of board members

## Conflicts of interest and related party transactions

- In 2021, 2 issuers (29%) reported having in place an internal regulation for cases of related party transactions (1 issuer in 2020).
- No conflicts of interest were reported in 2021 (as in 2020).

The following table shows the average value of transactions concluded by corporate bond issuers in the period from 2015 to 2021 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 26

**Average value of related party transactions in the period from 2015 to 2021**

		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
2021	Number of issuers having reported the transaction	3	2	1	6
	Average transaction value (in HRK)	4,532,628,602	20,528,791	67,275,040	6,397,236,044
2020	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	1,418,628,554	15,061,285	48,628,673	951,689,955
2019	Number of issuers having reported the transaction	3	1	1	3
	Average transaction value (in HRK)	1,654,866,742	17,773,876	29,965,948	1,693,719,274

2018	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	2,702,060,938	16,172,725	22,904,727	741,990,627
2017	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	6,711,198,573	14,744,242	23,201,925	1,493,762,311
2016	Number of issuers having reported the transaction	2	2	1	4
	Average transaction value (in HRK)	3,780,588,017	9,111,820	29,761,977	361,361,308
2015	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	2,740,055,064	13,065,650	34,542,009	284,748,431

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

- In 2021, the highest value of related party transactions was recorded in transactions concluded by issuers within the group the issuer belongs to or is its parent, while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer.
- In 2020, as in the previous years, the highest value of related party transactions was recorded in transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer, while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer.

# Remuneration of board members

## Remuneration of management board members

- In 2021, 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 2020, 2 corporate bond issuers as well had a remuneration policy for management board members, and only 1 issuer published it on its website).

Table 27

### Remuneration paid to corporate bond issuers' management board members in the 2015-2021 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2021	Number of issuers	6	3	2	0
	Amount	3,415,647	1,713,579	28,700	0
2020	Number of issuers	4	1	0	0
	Amount	4,235,606	1,135,080	0	0
2019	Number of issuers	4	2	0	1
	Amount	3,422,717	2,163,245	0	237,165
2018	Number of issuers	6	4	3	1
	Amount	4,617,662	2,186,485	196,054	1,449,639

2017	Number of issuers	7	2	2	1
	Amount	5,915,505	2,097,175	436,821	7,406,173
2016	Number of issuers	11	4	1	1
	Amount	4,263,922	1,004,093	4,796,452	2,181,511
2015	Number of issuers	11	4	0	4
	Amount	3,676,886	2,675,902	0	5,622,555

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

The following table shows the average amount of remuneration paid by corporate bond issuers to management board members in the 2015 - 2021 period.

- In 2021, 6 corporate bond issuers (86%) paid gross fixed remuneration to management board members in the total amount of HRK 20,494,000 (4 issuers out of 5 in 2020).
- The gross fixed amount of remuneration paid to management board members in 2021 reached HRK 3,415,647 on average (HRK 4,235,606 in 2020).
- The gross fixed amount of remuneration paid to management board members in 2021 ranged from HRK 533.3 thousand to HRK 12.4m (in 2020, it ranged from HRK 549.3 thousand to HRK 9.9m).
- 3 corporate bond issuers paid variable remuneration to management board members in the amount of HRK 10,281,474 (in 2020, 1 corporate bond issuer paid variable remuneration to management board members in the amount of HRK 1,135,080).
- The average amount of gross variable remuneration paid to management board members in 2021 reached HRK 1,713,579 (HRK 1,135,080 in 2020).
- Two corporate bond issuers paid other benefits to management board members in the amount reaching HRK 28.7 thousand on average (there were no such payments in 2020).
- No corporate bond issuer granted options to management board members in 2021 (as in 2020).
- In 2021, 1 issuer granted shares to management board members in the amount totalling HRK 1,022,576 (in 2020, 1 issuer in the amount of HRK 1,029,576).
- In 2021, 1 issuer agreed severance allowance with management board members in the amount totalling HRK 640 thousand (in 2020, 1 issuer in the amount of HRK 99 thousand).
- In 2021, 1 issuer paid severance allowance in the amount of HRK 576 thousand (there were no such payments in 2020).

## Remuneration of supervisory board members

- In 2021, 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 2020, 2 corporate bond issuers as well had a remuneration policy for supervisory board members, and only 1 issuer published it on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to supervisory board members in the 2015 - 2021 period.

Table 28

**Remuneration paid to corporate bond issuers' supervisory board members in the 2015-2021 period**

		Average gross amount of remuneration (in HRK)		Average amount of other remuneration (in HRK)
		Fixed remuneration	Variable remuneration	
2021	Number of issuers	3	0	1
	Amount	3,658,302	0	114,020
2020	Number of issuers	3	0	0
	Amount	1,495,719	0	0
2019	Number of issuers	3	0	0
	Amount	1,456,123	0	0
2018	Number of issuers	5	0	1
	Amount	385,972	0	10,851
2017	Number of issuers	5	1	1
	Amount	1,037,499	17,737	4,474
2016	Number of issuers	9	1	1
	Amount	423,449	21,760	9,910
2015	Number of issuers	9	1	1
	Amount	505,085	25,680	6,897

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

- For 2 issuers, the amount of remuneration for supervisory board members was determined by the general meeting (as in 2020).
- In 2021, no corporate bond issuer reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting (as in 2020).

## Remuneration paid to the senior management

- A total of 6 issuers paid remuneration to the senior management in 2021, of which 4 issuers paid fixed remuneration only, and 2 issuers paid fixed and variable remuneration (in 2020, 4 issuers paid fixed remuneration).
- The amounts of fixed remuneration paid to the senior management in 2021 ranged from HRK 1.1m (paid by an issuer from the construction industry) up to HRK 16.4m (paid by an issuer from the banking sector) (from HRK 1m (paid by an issuer from the transport sector) up to HRK 16.0m (paid by an issuer from the banking sector) in 2020). The average amount of variable remuneration in 2021 stood at HRK 2.5m.
- In 2021, 1 issuer agreed severance allowance with the senior management in the amount totalling HRK 678 thousand (1 issuer as well in 2020, in the amount of HRK 300 thousand).
- In 2021, no issuers paid severance allowance for the senior management (in 2020, severance allowance was paid in the amount of HRK 213 thousand).
- In 2021, 1 issuer granted shares to the senior management, and 3 issuers paid other benefits to the senior management ranging from HRK 30 thousand to HRK 481 thousand (in 2020, 1 issuer granted shares to the senior management, and no issuers paid other benefits to the senior management).



# Risks, internal control and audit

## Internal control and audit

- In 2021, 3 issuers had an internal control system in place (2 issuers in 2020).
- There were 37 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 2020, there were 48 employees in the internal control system on average, with the most employees in the internal control system having been reported by an issuer from the banking sector).
- 5 issuers reported having an internal audit system in place (3 issuers in 2020).

## Managing company risks

- 3 issuers (43%) reported having a person in charge of risk management (2 issuers in 2020).
- The most frequent risks faced by corporate bond issuers in 2021 were liquidity risk, credit risk, interest rate risk and other risks (same risks as in 2020).

## External audit

- In 2021, 7 corporate bond issuers used services of 8 different external auditors, and the number of auditors is higher than the number of issuers because 1 issuer used services of 2 different auditors that carried out a joint audit (in 2020, 5 issuers used services of 5 different external auditors).
- 3 issuers used services of the largest audit firms (3 issuers in 2020).
- At the end of 2021, the average length of the time period during which issuers used services of the same external audit firm was 3 years (3 years in 2020).
- 7 issuers reported the gross amount paid to an external audit firm for audit services provided in 2021, and the amounts ranged from HRK 89.0 thousand to HRK 3.3m (from HRK 21.0 thousand to HRK 2.6m in 2020). External auditors were paid an average of HRK 805.0 thousand (HRK 765.0 thousand in 2020).
- Two issuers reported the gross amount paid to an external audit firm for other services provided in 2021, and the amount totalled HRK 77.9 thousand on average (1 issuer in 2020, and the amount totalled HRK 1.1 thousand).



# Transparency and corporate social responsibility

- In 2021, 5 issuers had their websites in both Croatian and English, while 1 issuer had the website in Croatian only (in 2020, 4 issuers had their websites in both Croatian and English).
- In 2021, 2 issuers (1 issuer from the distribution sector and 1 issuer engaged in real estate services) had a separate department or employees in charge of investor relations exclusively (in 2020, 2 issuers as well (1 issuer from the construction sector and 1 issuer engaged in real estate services)).
- 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 (same as in 2020).
- 2 issuers reported having held press conferences in 2021, of which 1 issuer held 4 press conferences during the year (in 2020, 2 issuers as well, of which 1 issuer held a total of 4 press conferences during the year).

## Corporate Governance Code

- In 2021, 2 issuers complied with another corporate governance code in addition to the Code, of which 1 issuer complied with an internal code of the issuer (in 2020, 1 issuer complied with another corporate governance code in addition to the Code, namely an internal code of the issuer).
- The issuers that complied with an internal code in addition to the Code in 2021 were engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations and the construction sector (the issuer that complied with an internal code in addition to the Code in 2020 was engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations).



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