



2019

**ANNUAL REPORT
ON CORPORATE
GOVERNANCE**

CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



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Introduction



Adopting the new Corporate Governance Code

Corporate governance in the Republic of Croatia and corporate governance reporting were given their framework in 2007 when the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) and the Zagreb Stock Exchange adopted the first Corporate Governance Code intended for companies whose shares are admitted to the regulated market in the Republic of Croatia. This code was improved in 2010 by introducing additional recommendations and good corporate governance practices adopted through the harmonisation of the legal system of the Republic of Croatia with the *acquis communautaire*.

The next step in improving the corporate governance framework in the Republic of Croatia was the adoption of the new Corporate Governance Code (hereinafter: the Code) by Hanfa and the Zagreb Stock Exchange on 15 October 2019. This Code, as well as the previous one, is intended for companies whose shares are admitted to the regulated market (stock exchange) in the Republic of Croatia, with the exception of shares of a closed-ended investment fund.

The new Code covers areas of corporate governance in such a way that it sets more detailed and/or higher standards in corporate governance in relation to binding legal provisions, while taking into account the previous level of compliance with the recommendations of the previous Code, changes that took place in the European and global framework for corporate governance reporting and the upcoming changes in terms of sustainability and corporate and social responsibility. The Code also introduced new recommendations aiming at further strengthening the resilience of a company to the changes and risks to which it is exposed, greater involvement of all stakeholders in the business and behaviour of the company and increased transparency regarding members of management and supervisory bodies of the company and their committees.

The Code applies to periods starting from 1 January 2020. However, in order to determine the initial level companies' compliance with the Code and to monitor the course of further improvement of companies' treatment of the Code in the forthcoming period, the companies were required to report on their compliance with the Code for 2019, as well.

Corporate governance reporting

Reporting on the implementation of the Code consists of completing two questionnaires: one stating whether or not the company has complied with each Code provision (compliance questionnaire), and the other providing more detailed information about its governance practices (governance practices questionnaire).

The compliance questionnaire requires the company to explain whether they comply (fully or partially) or fail to comply with each of the recommendations of the Code. If a company fails to comply with a recommendation of the Code, or complies with it only partially, it should provide details in the questionnaire regarding its failure to comply and the reasons for non-compliance, including specific circumstances relating to the company; it should describe the actions it has taken instead of complying with a recommendation from the Code to make sure it meets the objective set out in the relevant Code principle; and, if the company intends to comply with the Code provision in the future, it should specify when it will start doing so. The compliance questionnaire shall be published and sent to Hanfa for the purpose of monitoring compliance for each individual company and cumulatively for all the companies on the regulated market.

In governance practices questionnaires, companies submit figures and other data describing and confirming their compliance with good corporate governance practice, per corporate governance areas. The governance practices questionnaire is comprehensive and contains questions on leadership, duties of board members, appointment of board members, supervisory board and its committees, management board, remuneration of board members, risks, internal control and audit, disclosure and transparency, shareholders and the general meeting, as well as stakeholders and corporate social responsibility. This questionnaire is also a

control instrument for checking the accuracy of certain data contained in the compliance questionnaire. The governance practices questionnaire shall also be sent to Hanfa for the purpose of monitoring compliance for each individual company and cumulatively for all the companies on the regulated market.

The management board of a company is responsible for supervising the completion of both questionnaires, including the necessary explanations in the questionnaire (particularly in the case of the compliance questionnaire), while the supervisory board of a company must approve both questionnaires before they can be delivered to Hanfa, i.e. in the case of the compliance questionnaire, before publication. This means that the management board and supervisory board of the company are responsible for the accuracy, completeness and quality of data delivered to Hanfa, as well as the data published in the compliance questionnaire. In other words, the accuracy, completeness and quality of the data presented in this Annual Report on Corporate Governance that are sourced from the compliance questionnaire and the governance practices questionnaire depend solely on the accuracy, completeness and quality of the data submitted under the responsibility of the management board and the supervisory board of a company.

2019 Annual Report on Corporate Governance

Hanfa began producing its annual reports on corporate governance in 2011. In all previous issues of the Annual Report on Corporate governance, Hanfa presented a comprehensive statistical overview of the state of play per individual part of corporate governance without providing a comprehensive statistical overview of the compliance of companies with the recommendations of the corporate governance code.

Since, pursuant to the new Code, companies are for the first time obliged to send to Hanfa data on compliance with the Code (via compliance questionnaires), and pursuant to the Capital Market Act (Official Gazette, No 65/18 and 17/20), Hanfa is authorised to process and publicly disclose data on corporate governance, the application of the Code and compliance with the Code, this Annual Report on Corporate Governance, in addition to statistical overviews of the situation per corporate governance area, will also present for the first time the compliance of companies whose shares are admitted to the regulated market with individual sections of the Code, i.e. with the recommendations of the Code for individual corporate governance area, as well as the overall compliance of these companies with the Code as a whole.

In addition, in this issue of the Annual Report on Corporate Governance, Hanfa will show, for certain selected sections of corporate governance, the link (or lack thereof) between compliance in this section of corporate governance and those areas of business and the behaviour of companies whose improvement is actually intended to be achieved with this section of corporate governance. Thus, this Annual Report on Corporate Governance will show comparative data on the independence and gender structure of the members of management boards and supervisory boards of the companies from the Republic of Croatia with the OECD and G20 Member States and the link (or lack thereof) between the compliance of the existence of supervisory board committees with the improvement of the company's actions in the area of competence of a supervisory board committee.

Apart from presenting data for companies whose shares are admitted to the regulated market, the Annual Report on Corporate Governance will show an aggregate statistical overview of the state per individual corporate governance segment for those companies which have corporate bonds listed on the regulated market in the Republic of Croatia, based on the data from the governance practices questionnaire for companies whose bonds are admitted to the regulated market.

Data in 2019 Annual Report on Corporate Governance

Data sources used in the preparation of this year's Annual Report on Corporate governance are data collected from companies (via the compliance questionnaire and the governance practices questionnaire), the Zagreb Stock Exchange, the Central Depository and Clearing Company and the Court Register of the Ministry of Justice and Public Administration and other publicly available data.

The data presented in this Annual Report on Corporate Governance refer to companies having their registered office in the Republic of Croatia whose shares and corporate bonds were listed on the regulated market of the Zagreb Stock Exchange on 31 December 2019.

1

Overview of selected corporate governance areas for share issuers



Introduction

In this Annual Report on Corporate Governance, Hanfa provides a comparison of the situation for companies from the Republic of Croatia whose shares are admitted to the regulated market of the Zagreb Stock Exchange in relation to companies from OECD¹ and G20² Member States, with respect to selected corporate governance areas. The areas of corporate governance selected for this comparative overview are the gender composition of management and supervisory boards, the independence of management and supervisory board members and the existence of the supervisory board committees.

The Annual Report on Corporate Governance will also provide a comparative overview between the existence of supervisory board committees and the behaviour of companies within the scope of individual supervisory board committees.

Gender composition of management and supervisory boards was chosen since the new Code introduced a provision regulating the issue of women's participation in management and supervisory boards (for the first time regarding the corporate governance in the Republic of Croatia) 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 for the percentage of female members on the supervisory and management boards to be achieved within the next five years. The target should be published in the annual report, together with an explanation of 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, that is, 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. Therefore, in the coming years it is necessary to monitor how the supervisory boards will approach this issue and how they will address it.

The independence of supervisory board members was chosen since the new 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 prescribes 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 and not in the interest of individual shareholders and other stakeholders.

The existence of supervisory board committees has been chosen since the new Code, as well as the previous Code, retains the provision that a supervisory board must establish at least a nomination committee, remuneration committee and an audit committee, as well as the provision that the majority of the members of each Board must be independent and that the chairpersons of the Board must be independent members of the Supervisory Board. The existence of supervisory board committees is a key factor ensuring support, expertise and full information to the Supervisory Board in carrying out its strategic and supervisory activities.

1 *More information available at: <http://www.oecd.org/about/>*

2 *More information available at: <https://www.g20.org/en/il-g20.html>*

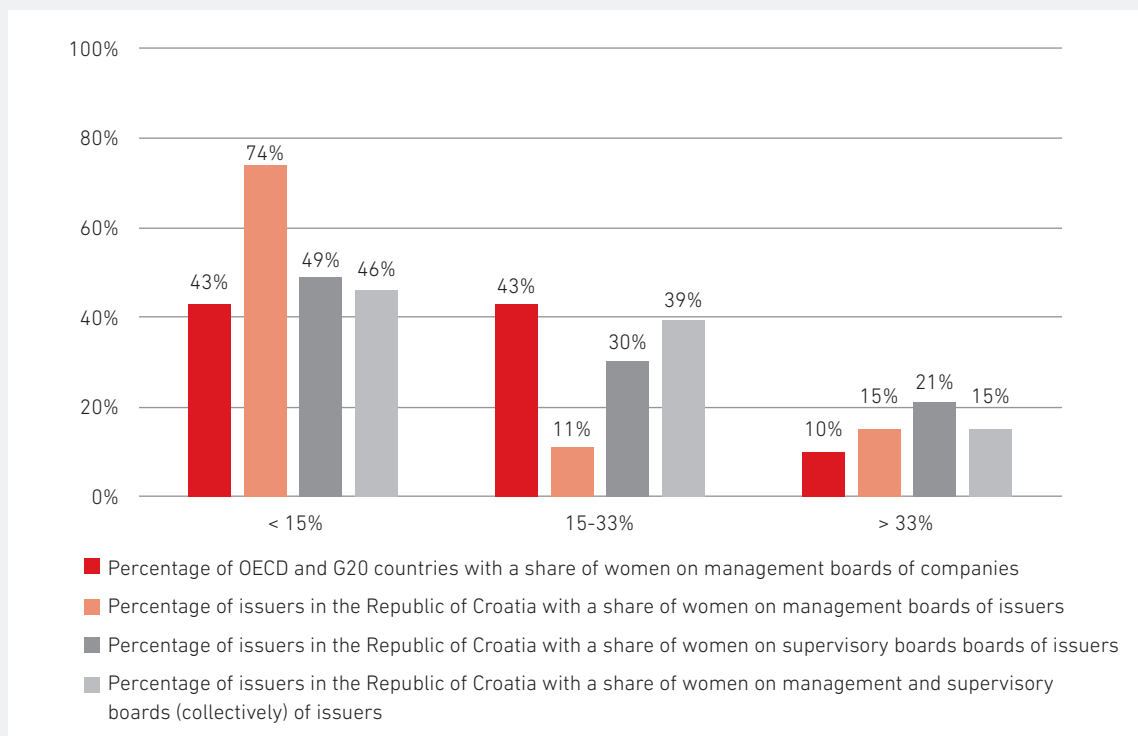
1.1 Comparative overview of the gender structure and independence of management and supervisory board members and the existence of supervisory board committees of companies in the Republic of Croatia in relation to OECD and G20 Member States³

Women's participation in management and supervisory boards of companies in the Republic of Croatia relative to OECD and G20 countries

Since most OECD and G20 countries have a one-tier system (the existence of a management board), while the Republic of Croatia has a two-tier system (the existence of a management board and a supervisory board), a comparison of the proportion of women on management boards of companies in these countries and the proportion of women on management and supervisory boards of companies in the Republic of Croatia whose shares are included on the regulated market of the Zagreb Stock Exchange (hereinafter: issuers) is presented here for 2019.

The percentage of OECD and G20 Member States with a share of women in the management boards of companies in the following ranges: less than 15%, between 15 and 33% and more than 33% was observed, and in the case of the Republic of Croatia, the percentage of issuers with a share of women on management boards, supervisory boards and collectively on management and supervisory boards, within these ranges was taken into account.

Chart 1 Comparison of the percentage of OECD and G20 countries with a share of women on management boards of companies in 2019 and the percentage of issuers in the Republic of Croatia with a share of women on management boards, supervisory boards and collectively on management boards and supervisory boards of issuers of shares in 2019, by rank of representation



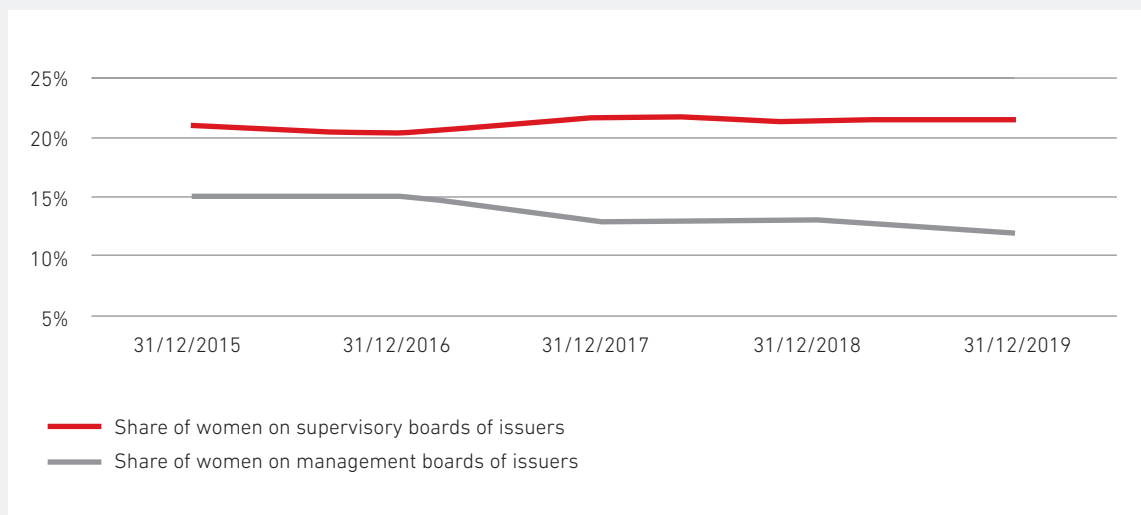
Source: Hanfa (Governance practices questionnaire) and OECD (Corporate Governance Factbook 2019, Figure 4.23 Women's participation in management and on boards, available at: <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

³ The OECD Factbook includes parallel information on all 36 OECD members and all G20 members, including Argentina; Brazil; the People's Republic of China ("China"); Hong Kong, China; India; Indonesia; the Russian Federation ("Russia"); Saudi Arabia; Singapore and the Republic of South Africa.

The analysis of the share of women on management and supervisory boards and their total on boards of issuers of shares in the Republic of Croatia at the end of 2019, and a comparison with the share of women on management boards of companies from OECD and G20 countries for 2019 shows the following:

- For 43% of OECD and G20 countries the share of women on management boards of companies is in the range < 15%, as well as in the range 15-33% (86% of the countries are represented in the first two ranges), while 10% of the countries have a share of women on management boards greater than 33%, while the remaining 4% are not subject to calculation, therefore they are not shown in the graphics.
- In the Republic of Croatia, for the majority of issuers, the share of women on management boards, supervisory boards and collectively on management boards and supervisory boards is relatively highest in the range of <15%;
- In the Republic of Croatia, the share of women on the management boards of issuers is higher than 33% for 15% of the issuers; on supervisory boards for 21% of issuers, and on management and supervisory boards together for 15% of the issuers, which indicates a better situation compared to the share of women over 33% on management boards of companies from OECD and G20 countries, which is present in 10% of OECD and G20 countries.

Chart 2 Overview of women's participation in management and supervisory boards of issuers in the Republic of Croatia, 2015 – 2019



Source: Governance practices questionnaire for share issuers, 2019

In the period from 2015 to 2019, there is a trend of a slight decline in the participation of women on management boards of issuers, with an average share of women on management boards of 14% in the five-year observed period. Share of women on supervisory boards did not change significantly from 2015 to 2019, and the average share of women on supervisory boards of issuers in the observed period was 21%.

The new Code prescribes that every five years, the supervisory board of the issuer should must 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.

Independence requirement for supervisory board members in OECD and G20 countries and in the Republic of Croatia

Table 1 Minimum number or ratio of independent directors on the management board, i.e. supervisory board, 2019

			Minimum number		Minimum ratio		
			1 person	2-3 persons	20-	30-	50%+
One-tier board	CEO/ Chair of the Board	Required		Israel*	Columbia*	Israel India*	Israel Sweden
		Recommended		Belgium* Costa Rica* Hong Kong, China* New Zealand* Malaysia*		Hong Kong, China* Malaysia* Singapore Turkey	Australia Ireland New Zealand Singapore United Kingdom
		Chile*	Turkey Canada* Greece* Saudi Arabia* Spain*	Mexico*	Saudi Arabia* Greece Turkey	India* Korea* United States of America*	
One-tier board or two-tier board	CEO/ Chair of the Board	Required		Norway*	Brazil*	Lithuania*	The Netherlands Norway
		Recommended				Brazil	Finland Switzerland
						France	Hungary* Denmark France Slovenia
Two-tier board		Germany*	Russia* Poland	Russia*	Indonesia* China Russia	Argentina Austria Estonia Iceland Latvia Republic of South Africa*	
Hybrid options		Italy* Japan*	Japan* Italy			Portugal*	

*rule/regulation requirement

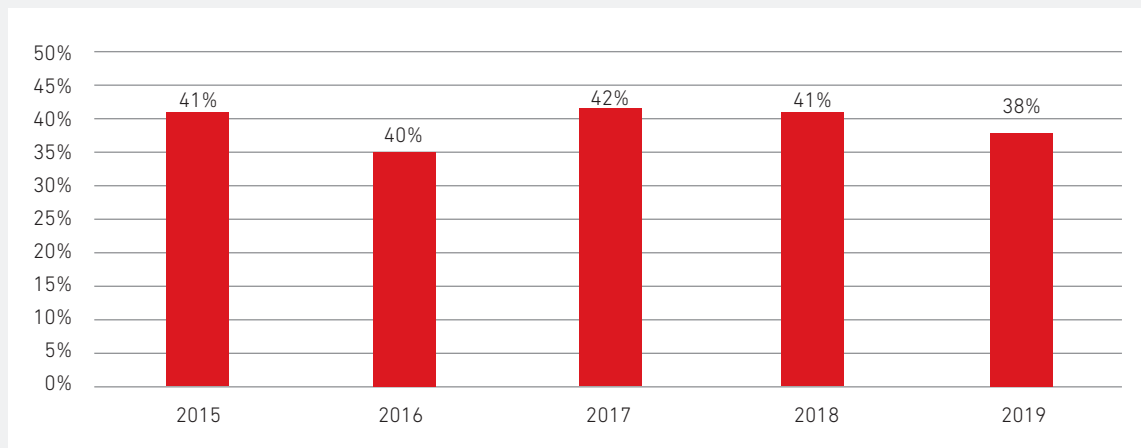
Source: OECD (Corporate Governance Factbook 2019, Figure 4.2. Minimum number or ratio of independent directors on the (supervisory) board, available at: <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

When comparing the Republic of Croatia with the EU Member States which have a two-tier system, the following can be concluded:

- in the Republic of Croatia, the majority of supervisory board members of share issuers must be independent, just like in Austria, Estonia and Latvia
- at the end of 2019, supervisory boards of share issuers in the Republic of Croatia consisted of 5 members on average, which means that at least 3 members must be independent in order to meet the independence requirement, while in Germany there is a requirement to have at least 1 person independent, indicating lower requirements regarding the independence of supervisory board members.

Provision 22 of the Code stipulates that the majority of all supervisory board members of share issuers in the Republic of Croatia must be independent (33% of issuers are fully in compliance with this provision, 6% are partially in compliance).

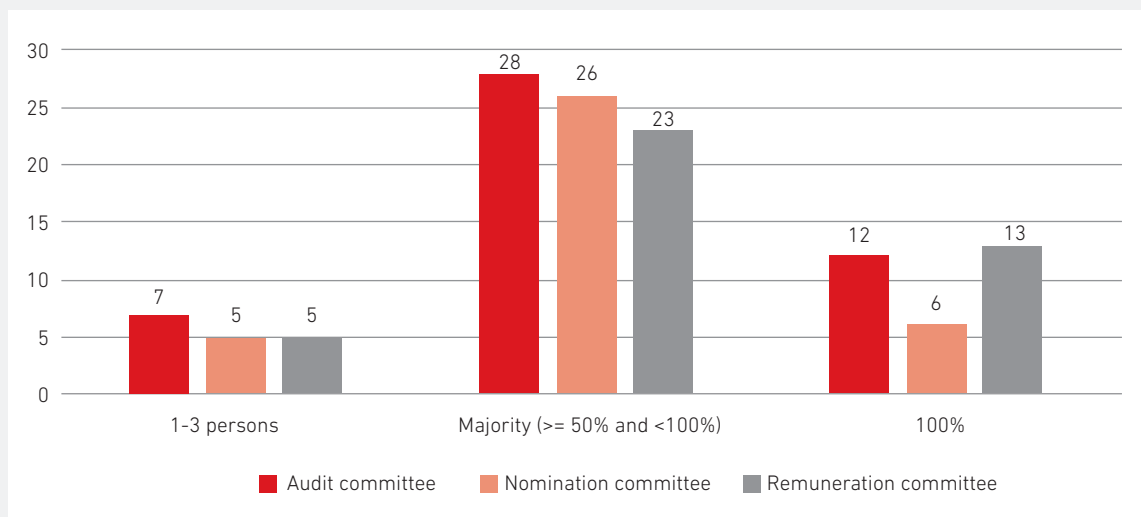
Chart 3 Independence of supervisory board members in share issuers in the Republic of Croatia, 2015 – 2019



Source: Governance practices questionnaire for share issuers, 2019

From 2015 to 2019, the share of independent members of the supervisory board varied from year to year – at the end of 2015 it was around 41%, while at the end of 2019 this share fell below 40% and amounted to 38.5%.

Chart 4 Independence requirements for supervisory board members in OECD and G20 countries (collectively by rule/regulation or code)



Source: OECD (Figure 4.8 Independence of the chair and members of board-level committees, <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

Full or majority independent membership is required or recommended for all three committees (audit committee, nomination committee and remuneration committee) in most of the OECD and G20 countries. Independence requirements for members of supervisory board committees in OECD and G20 countries are as follows:

- 7 countries require 1-3 members (persons) of the audit committee to be independent, 28 countries require that the majority of members be independent, while 12 countries require that all members on the audit committee be independent;
- 5 countries require 1-3 members (persons) of the nomination committee to be independent, 26 countries require that the majority of members be independent, while 6 countries require that all members on the nomination committee be independent
- 5 countries require 1-3 members of the remuneration committee to be independent, 23 countries require that the majority of members be independent, while 13 countries require that all members on the audit committee be independent

Code recommendations in certain OECD and G20 countries are more frequent than rule/regulation recommendations relating to the independence of nomination committee members (in 19 countries) and remuneration committee (in 12 countries). Only in the case of audit committees, the majority of OECD and G20 countries require the audit committee to be independent, i.e. the independence of audit committee members is legally required in the majority of OECD and G20 countries, while in the case of nomination committees and remuneration committees it is code-defined.

Provision 27 of the Code stipulates that the majority of members of each supervisory board committee should be independent. In the Republic of Croatia, 35% of issuers have supervisory board committees where the majority of members are independent.

Comparison of independence requirements for the members of supervisory board committees for share issuers the Republic of Croatia and in OECD and G20 countries is shown in Table 3.

Table 2 Minimum share of supervisory board committee members in the Republic of Croatia and individual EU Member States, as of 2019

Countries	Minimum independence of audit committee members	Minimum independence of nomination committee members	Minimum independence of remuneration committee members
Croatia	>50%	>50%	>50%
Slovenia	100%	100%	100%
Hungary	100%	50%	50%
Italy	100%	>50%	100% or >50% with an independent chair
Finland	>50%	>50%	>50%
Portugal	>50%	>50%	100%

Source: Corporate Governance Code and OECD (Corporate Governance Factbook 2019, Table 4.9 Board-level committees, available at: <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

The comparison of independence requirements for supervisory board committees for share issuers in the Republic of Croatia and in individual Member States of the European Union indicates the following:

- Finland and Croatia have the same independence requirements for members of supervisory board committees – majority of members of each board must be independent
- In Portugal, the majority of members of the audit committee and the nomination committee must be independent (as in the Republic of Croatia), and the difference in relation to the Republic of Croatia is only in the independence requirement for members of the remuneration committee - in Portugal, all members of the remuneration committee must be independent, and in the Republic of Croatia the majority of members.

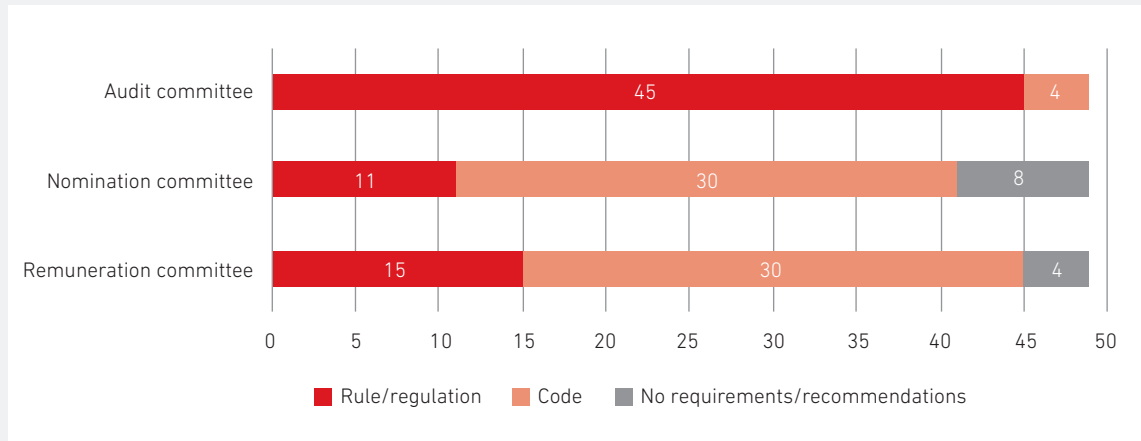
When comparing Croatia with the neighbouring member states, such as Slovenia, Hungary and Italy:

- Slovenia has maximum independence requirements for committee members and all members of all committees must be independent (majority in the Republic of Croatia)
- Hungary demands that all members of the audit committee be independent, while for the remaining committees, half of the members must be independent
- Italy has the same independence requirements for members of the nomination committee as Croatia, while for members of the audit committee it has maximum requirements (all members must be independent) and the remuneration committee must either be fully independent (all members independent) or half of the members (including the chair) must be independent.

Comparison of the requirements for the establishment of supervisory board committees in the Republic of Croatia and in OECD and G20 countries

In most OECD and G20 countries, the nomination and remuneration committees are not mandatory, but nevertheless more than 80% of the countries recommend setting up these committees that are fully independent (all members independent or majority of directors/members independent).

Chart 5 Basis for the establishment of supervisory board committees for OECD and G20 countries in 2019



Source: OECD (Corporate Governance Factbook 2019, Figure 4.7 Board-level committees by category and jurisdiction, available at: <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

According to the OECD Report⁴, audit committees have traditionally been a key component of corporate governance regulation. 92% of OECD and G20 countries require listed companies to establish an independent audit committee, while the remaining countries recommend it in corporate governance codes.

Nomination and remuneration committees, on the other hand, are not mandatory in most OECD countries (only 22% and 31% of countries have the requirement, respectively). However, an additional 61% of countries have code recommendations to establish these committees, often to be comprised by wholly or largely independent directors.

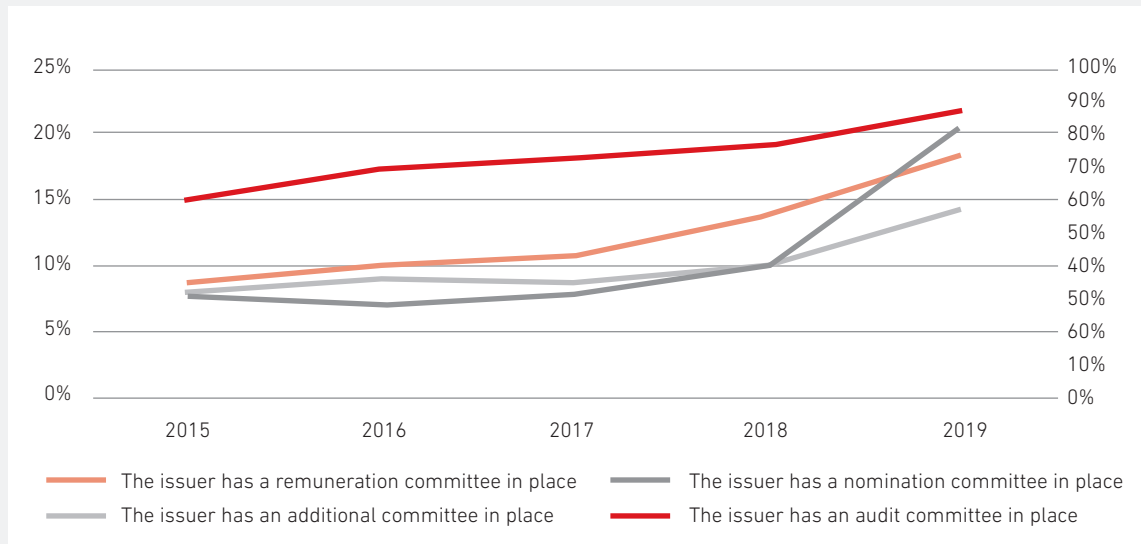
Provision 24 of the Code stipulates that the supervisory board of a share issuer in the Republic of Croatia should establish at least a nomination committee, a remuneration committee and an audit committee. The obligation to establish an audit committee is also laid down in the relevant legal provisions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

⁴ Corporate Governance Factbook 2019 (dostupno na: <https://www.oecd.org/corporate/corporate-governance-factbook.pdf>)

1.2 Overview of trends in the area of supervisory boards and supervisory board committees of issuers in the Republic of Croatia

Number of supervisory board committees in share issuers and comparison with the average realised net profit of issuers

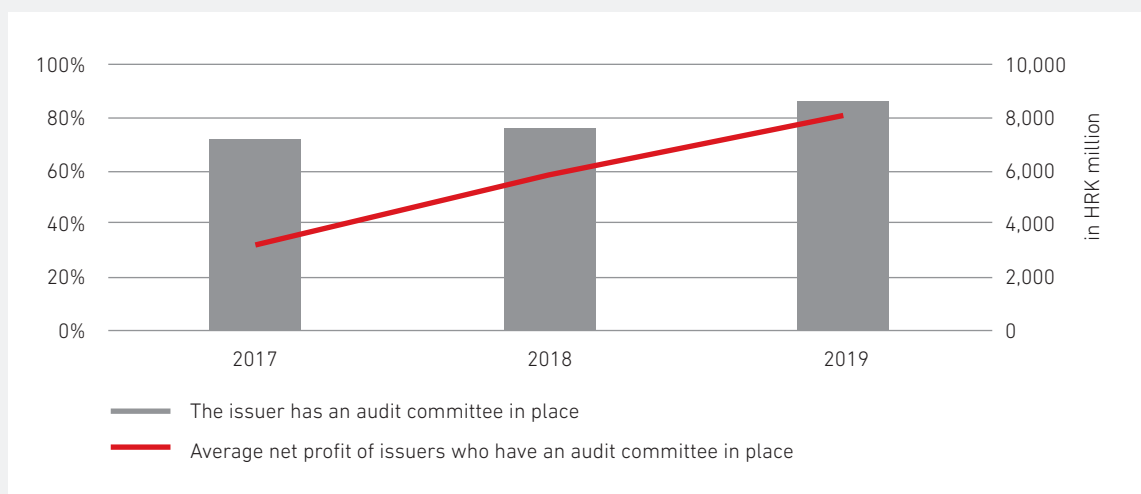
Chart 6 Existence of individual supervisory board committees in the 2015 - 2019 period



Source: Governance practices questionnaires for share issuers, 2015 – 2019

The highest percentage of issuers that have one of the supervisory board committees was recorded at the end of 2019, when as many as 86% of issuers had an audit committee set up. In 2019, the smallest percentage of issuers had a remuneration committee (18% of them) and only slightly more had a nomination committee (20%). Two issuers whose shares are admitted to the Prime Market have an additional committee, as well as 8 issuers whose shares are admitted to the Official Market and 4 issuers whose shares are admitted to the Regular Market. From 2015 to 2019, the relative number of issuers with each of the individual committees grew (remuneration committee, nomination committee, audit committee, but also an additional supervisory board committee).

Chart 7 Parallel overview of the average net profit of issuers having an established audit committee and the number of issuers having an established audit committee in the 2017 - 2019 period



Source: Governance practices questionnaires for share issuers and audited annual statements of issuers, 2017 – 2019

Data on the net profit of issuers from audited annual statements from 2017 to 2019 show an upward trend in the average net profit of the issuers having an established audit committee. This data indicates the facts, but not the necessary correlation between achieving a higher net profit and establishing an audit committee.

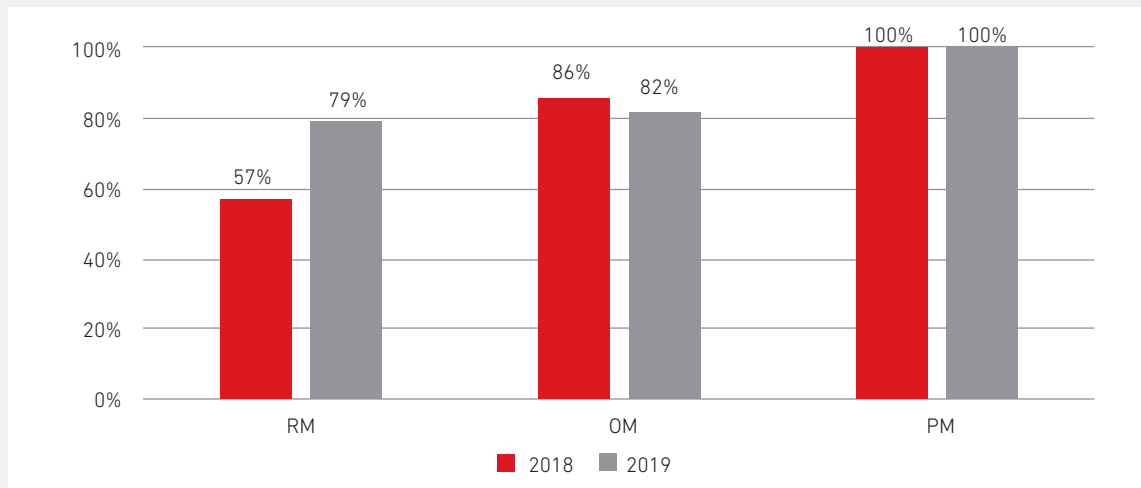
In 2018, a total of 83 issuers (76%) and in 2019, a total of 85 issuers (86%) had an audit committee. The following are comparative information on the timeliness of publishing the audited annual statement, the length of use of audit services by the same audit firm, auditor opinions for the annual statement (auditor's opinion) and the existence of an internal control and audit system for issuers that had an audit committee established in 2019 compared to 2018.

Existence of an audit committee in share issuers and timely publication of the audited annual statement

Provision 60 of the Code stipulates that the audit committee should monitor the integrity and completeness of the financial statements and accounting policies of the company and other formal announcements relating to the company's financial performance; monitor the effectiveness of the company's internal financial controls; ensure the adequacy, independence and effectiveness of the external audit function; ensure the independence and adequacy of the internal audit function; and monitor the implementation of actions identified as a result of external and internal audit and its own monitoring.

Of all issuers that had an audit committee (85 out of 99; 86%) in 2019, 53 (54%) of them published an audited annual statement for 2019 by the legally prescribed deadline (30 April 2020), while 81% of issuers published an annual statement for 2019 by the extended deadline (30 June 2020) approved by Hanfa due to the situation caused by COVID-19 in 2020.

Chart 8 Share of issuers with an audit committee established and that have timely published an audited financial statement for 2018 and 2019 * by segments of the regulated market of the Zagreb Stock Exchange



*The extended deadline by 30 June 2020 was taken for the timely submission of annual statements for 2019, in order to have a more relevant comparison of data with 2018.

Source: Governance practices questionnaires for share issuers, 2019 and 2018

All the issuers on the Prime Market having an established audit committee in 2019, published the audited financial statement for 2019 on time (by 30 April 2020), as well as the 2018 annual statement. Half of the issuers on the Regular Market and the Official Market having an established audit committee published the audited financial statement for 2019 on time. In 2019, compared to 2018, the percentage of issuers that had an audit committee set up and that published an audited annual statement in due time fell on the Regular Market and Official Market, while on the Prime Market, all issuers published their audited annual statements in both years in due time. However, if an extended deadline is taken as the relevant deadline for comparing the submission for the 2019 annual statement - 30 June 2020 (as shown in Chart 8), the Regular Market shows a positive improvement in the timeliness of delivery compared to 2018, while the timeliness of submitting the 2019 annual statement is still slightly lower than in 2018.

Existence of an audit committee in share issuers in 2019 and length of use of audit services of the same audit firm⁵

Table 3 Average number of years of using the auditing services by the same audit firm

Year	Average number of years of using the auditing services by the same audit firm
2019	4.78
2018	5.10

Source: Governance practices questionnaires for share issuers, 2019 and 2018, Internal calculation by Hanfa

In 2019, the average number of using auditing services of the same audit firm decreased compared to 2018, when looking at the entire regulated market, but also at the level of each segment of the regulated market (Table 4). In addition, the share of issuers with an established audit committee increased in 2019 from 76% to 86% compared to 2018.

Table 4 Number of consecutive years of use of audit services of the same audit firm by issuers with an established audit committee, 2018 and 2019

Regulated market segment	2018	2019
Regular Market	5.78	4.98
Official Market	4.50	4.45
Prime Market	5.25	4.00

Source: Governance practices questionnaires for share issuers, 2019 and 2018, Internal calculation by Hanfa

All issuers on the Prime Market had an audit committee established in both observed years, and in 2019 the average number of consecutive years of use of audit services of the same audit firm decreased. The average number of consecutive years of use of audit services of the same audit firm decreased on the Regular Market and the Official Market, as well as the number of issuers with an audit committee.

Existence of an audit committee in share issuers in 2019, and auditor's opinion on annual statement⁶

In 2019, all the issuers with an unqualified auditor's opinion in the audit report on 2019 annual statement had an audit committee.

Table 5 Auditor's opinions on audited annual statements of issuers with established audit committees for 2018 and 2019

Auditor's opinion	2018	2019
Adverse opinion, adverse with emphasis of matter	1%	0%
Disclaimer of opinion, disclaimer with emphasis of matter	0%	3%
Qualified opinion, qualified with emphasis of matter	24%	19%
Unqualified opinion, unqualified with emphasis of matter	75%	78%

Source: Governance practices questionnaires for share for issuers, 2019 and 2018, audited annual statements of issuers for 2018 and 2019

In 2019, as compared to 2018, there was an increase in the number of issuers having a set-up audit committee that received a disclaimer of opinion for their audited annual statement and a disclaimer of opinion with emphasis of matter (two issuers whose shares were admitted to the Regular Market). In 2018, one issuer whose shares were admitted to the Regular Market received an adverse auditor's opinion,

5 The analysis did not include issuers that did not publish audited annual statements for 2018 and/or 2019.

6 The analysis did not include issuers that did not publish audited annual statements for 2018 and/or 2019.

while in 2019, there were no issuers with an established audit committee to receive an adverse opinion for their annual statement. In 2018, as in 2019, 62 issuers with an established audit committee received an unqualified auditor's opinion (or unqualified opinion with emphasis of matter), however, in 2019, issuers with lower opinions de-listed, so a relative shift is visible, while in absolute terms the number of issuers with an unqualified auditor's opinion (or unqualified opinion with emphasis of matter) was the same in both years.

Existence of an audit committee and an internal control and audit system

Provision 67 of the Code stipulates that the issuer should have an internal audit function with responsibility for supervising the effectiveness of internal control system, including the management of risks. 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 systems as a whole, and make recommendations to the supervisory and management boards as necessary.

The share of issuers that have an internal audit system among the issuers that have an audit committee set-up stood at 40% in 2019, and at 60% in 2018.

Table 6 *Share of issuers that have an internal audit system among the issuers that have an audit committee set-up, by segments of the regulated market, 2018 and 2019*

Regulated market segment	2018	2019
Regular Market	55%	33%
Official Market	68%	50%
Prime Market	75%	80%

Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2019, as compared to 2018, the share of issuers in the Regular Market and the Official Market with an internal audit system decreased among those issuers with a set-up audit committee, while in the Prime Market it increased slightly, but only due to the transition of one issuer (with an established audit committee and internal audit system) from the Official Market to the Prime Market.

The share of issuers that have an internal control system among the issuers that have an audit committee set-up stood at 62% in 2019, and at 77% in 2018.

Table 7 *The share of issuers with an established internal control system among the issuers that have an audit committee set-up, by segments of the regulated market, 2018 and 2019*

Regulated market segment	2018	2019
Regular Market	74%	57%
Official Market	82%	68%
Prime Market	100%	100%

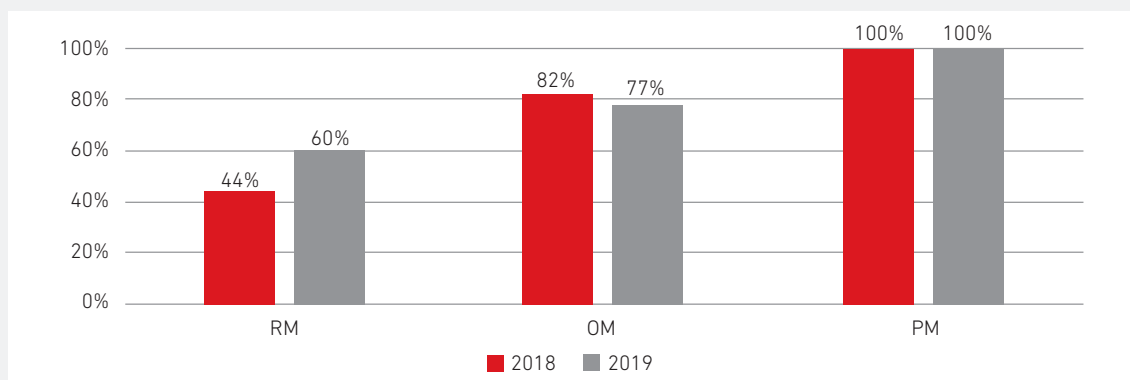
Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2019, compared to 2018, the share of issuers in the Regular Market and the Official Market that have an internal control system decreased among the issuers that have an established audit committee, while the situation in the Prime Market remained the same (the most favourable) - in the Prime Market, all the issuers that have an audit committee set up also have an internal control system.

The following is a comparative statistical overview of the share of issuers that have internal working procedures of individual supervisory board committees (audit committee, remuneration committee and nomination committee) among all issuers that have established individual committees in 2019, compared to 2018.

Existence of an audit committee and internal working procedures of an audit committee in share issuers

Chart 9 Comparative overview of the share of issuers that have internal working procedures of the audit committee (% in relation to the total number of issuers that have an audit committee set up), by segments of the regulated market, 2018 and 2019



Source: Governance practices questionnaires for share issuers, 2019 and 2018

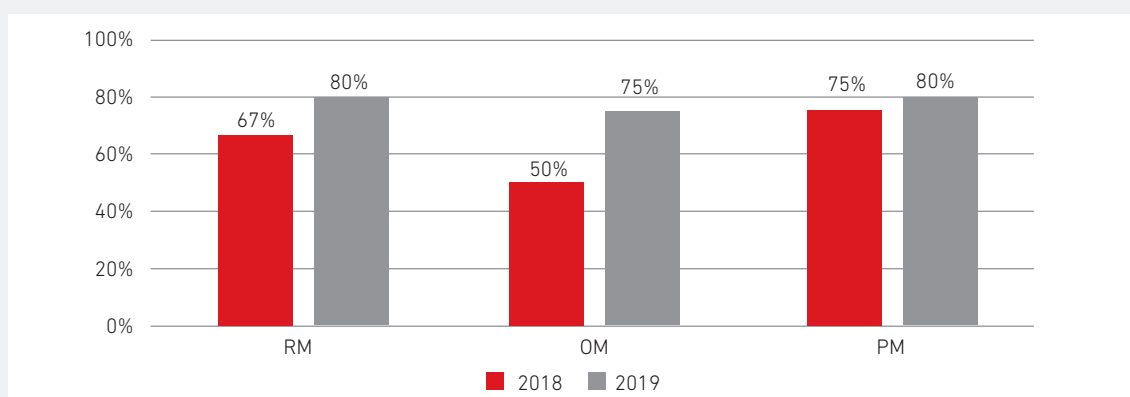
All the issuers whose shares are admitted to the Prime Market have internal working procedures of the audit committee. In 2019, the share of issuers whose shares are admitted to the Regular Market and that have established internal working procedures in relation to the total number of issuers having an audit committee increased, while for issuers whose shares are admitted to the Official Market it decreased only due to the transition of shares of one issuer from the Official Market to the Prime Market.

In 2019, 20% of issuers on the Regular Market published internal working procedures of the nomination committee, as well as 29% on the Official Market and 40% on the Prime Market (in 2018: 24% on the Regular Market, 17% on the Official Market and 25% on the Prime Market).

Existence of a remuneration committee and internal working procedures of a remuneration committee in share issuers

Provision 50 of the Code stipulates that the remuneration committee should recommend to the supervisory board the remuneration policy for management board members at least every three years; recommend to the supervisory board each year the remuneration to be received by members of the management board, based on an assessment of the company's and their individual performance during the year, and following consultation with the chair of the management board; recommend to the supervisory board the remuneration policy for supervisory board members, for approval by the general meeting; monitor the amount and structure of remuneration to senior management and the workforce as a whole, and make recommendations to the management board on their policies; and oversee the preparation of the annual remuneration report required by law, for approval by the supervisory board.

Chart 10 Comparative overview of the share of issuers that have internal working procedures of the remuneration committee (% in relation to the total number of issuers that have a remuneration committee set up), by segments of the regulated market, 2018 and 2019



Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2018, 3 issuers in the Regular Market, 8 issuers in the Official Market, and all 4 in the Prime Market had a remuneration committee. In 2019, this number increased by 2 issuers in the Regular Market (5 in total), the number in the Official Market remained the same, while on the Prime Market it was 5 (due to transfer of one issuer from the Official Market to the Prime Market).

The share of issuers with an established remuneration committee and with internal working procedures for the committee stood at 80% on the Regular Market in 2019 (67% in 2018), 75% on the Official Market (50% in 2018) and 80% on the Prime Market (75% in 2018). In 2019, 25% of issuers on the Regular Market published their internal working procedures of the remuneration committee, as well as 17% on the Official Market and 50% on the Prime Market (in 2018, only one issuer on the Prime Market publicly disclosed their internal working procedures of the remuneration committee on their website).

Existence of a remuneration committee and adopted and disclosed remuneration policies with detailed information on the remuneration of management board members

In 2019, as well as in 2018, there were more issuers with a remuneration policy for management board members than with an established remuneration committee. Since in 2018 only 14% of issuers had an established remuneration committee, and 18% in 2019, for easier comparison, the following figures show the absolute number of issuers by categories observed.

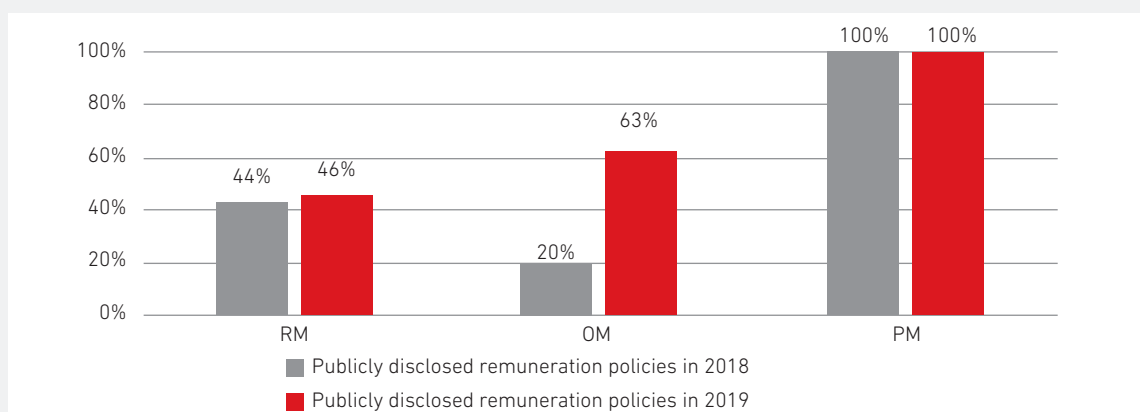
Table 8 Comparative overview of the number of issuers with an established remuneration board, adopted remuneration policy for management board members, disclosed remuneration policies for management board members and disclosed detailed data on the remuneration of each management board member, 2018 and 2019

Number of issuers	2018	2019
Number of issuers with an established remuneration committee	15	18
Number of issuers with a remuneration policy for management board members	23	22
Number of issuers that disclose a remuneration policy for management board members	10	12
Number of issuers that disclose detailed data on the remuneration of each management board member	10	20
Total number of issuers	109	99

Source: Governance practices questionnaires for share issuers, 2019 and 2018

The number of issuers disclosing detailed data on the remuneration of each member of the management board in 2019 is higher than the number of issuers having a set-up remuneration board in the same year. For comparison, in 2018 there were two times fewer issuers who publicly disclosed detailed data on the remuneration of each member of the management board. The following is a comparative overview of the share of issuers that have publicly disclosed remuneration policies for management board members in relation to the total number of issuers with an established remuneration board, by segments of the regulated market of the Zagreb Stock Exchange in 2018 and 2019.

Chart 11 Comparative overview of the share of issuers with disclosed remuneration policies for management board members (% in relation to the total number of issuers that have a remuneration committee set up), by segments of the regulated market 2018 and 2019



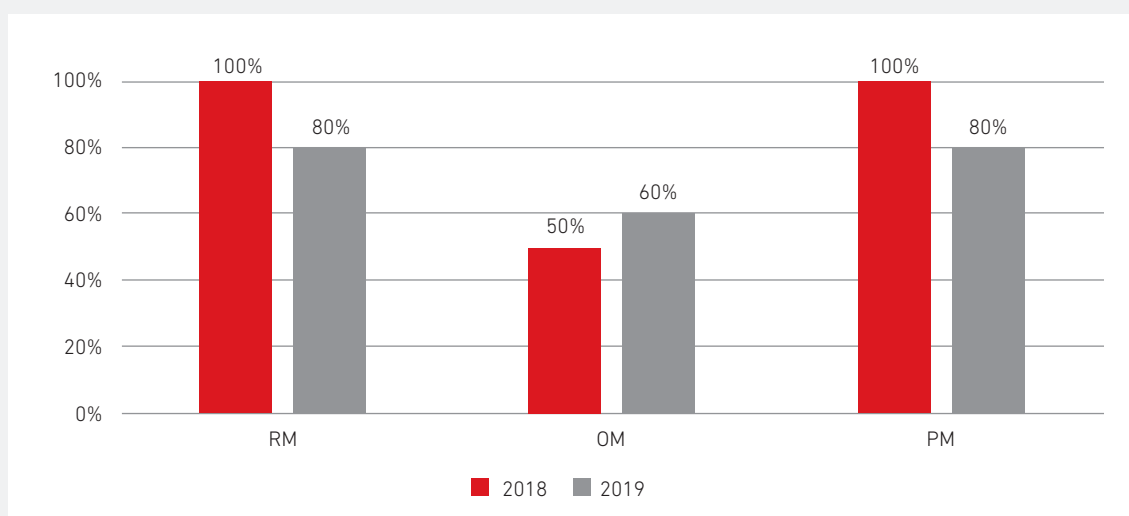
Source: Governance practices questionnaires for share issuers, 2019 and 2018

All of the issuers whose shares are admitted to the Prime Market, and that have a remuneration board, publicly disclosed remuneration policies for management board members in 2018 and 2019. Regarding the issuers whose shares are admitted to the Regular Market and the Official Market, a shift is visible in 2019 compared to 2018, since seven issuers that had not publicly disclosed these policies in 2018, did disclose them in 2019.

Existence of a nomination committee and internal working procedures of a nomination committee in share issuers in 2019

Provision 15 of the Code stipulates that the main responsibilities of the nomination committee are to: oversee the appointment process for the supervisory and management boards to ensure it is fair and transparent; for each vacancy, develop role and candidate descriptions consistent with the board profile (consulting with the chair of the relevant board as necessary), and identify and recommend suitable candidates to the supervisory board; when seeking independent members of the supervisory board, confirm that candidates are independent; agree the terms of appointment with potential new management and supervisory board members, including their expected time commitment; draw up succession plans for the reappointment or replacement of members of the supervisory and management boards in consultation with the chair of the relevant board; monitor progress on achieving the target percentage of female members on the supervisory and management boards; and monitor the policy of the management board on the selection and appointment of senior management.

Chart 12 Comparative overview of the share of issuers that have internal working procedures of the nomination committee (% in relation to the total number of issuers that have a nomination committee set up), by segments of the regulated market, 2018 and 2019



Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2019, 5 issuers in the Regular Market, 10 issuers in the Official Market and all 5 issuers on the Prime Market had a nomination committee. The share of issuers with a nomination committee and internal working procedures of the committee on the Regular Market stood at 80% in 2019 (100% in 2018), on the Official Market it was 60% (50% in 2018) and 80% on the Prime Market (100% in 2018).

Existence of a nomination committee and succession plan for management board and supervisory board members in share issuers

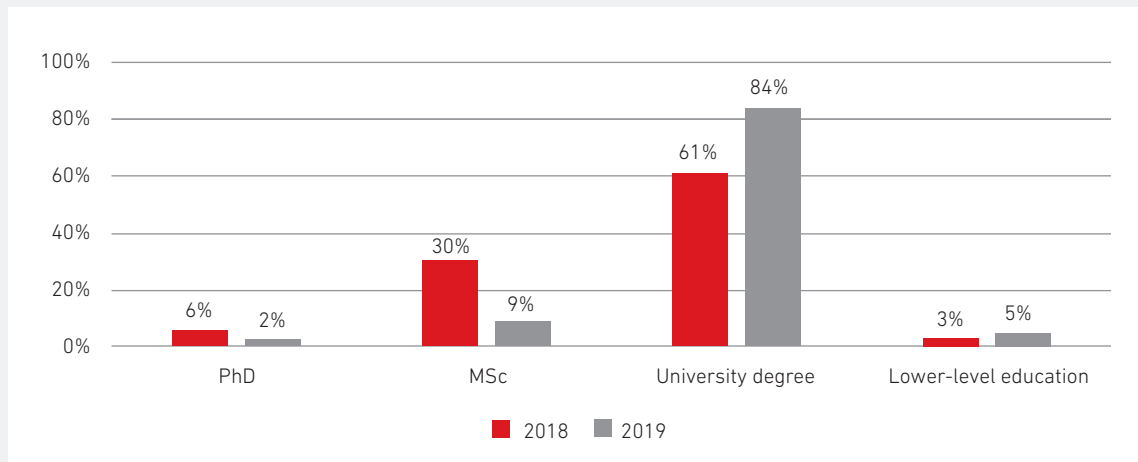
Table 9 Relation between the number of issuers with an established nomination committee and the number of issuers with succession plans for management board members in 2018 and 2019

Regulated market segment	Number of issuers with an established nomination committee in 2019	Number of issuers with a succession plan for management board members in 2019	Number of issuers with an established nomination committee in 2018	Number of issuers with a succession plan for management board members in 2018
Regular Market	5	6	2	16
Official Market	10	2	6	5
Prime Market	5	3	3	2

Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2019, the Regular Market had a higher number of issuers with a succession plan for management board members relative to the number of issuers having a nomination committee. In 2018, as many as 16 issuers on the Regular Market had a succession plan for management board members, and only 2 issuers had a nomination committee set up.

Chart 13 Profile of management board members of issuers with a succession plan for management board members, 2018 and 2019



Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2018 and 2019, the highest number of management board members holding a university degree was found in the issuers with succession plans for management board members. In 2019, compared to 2018, the share of members with a master's degree decreased, while the share of those with a university degree increased.

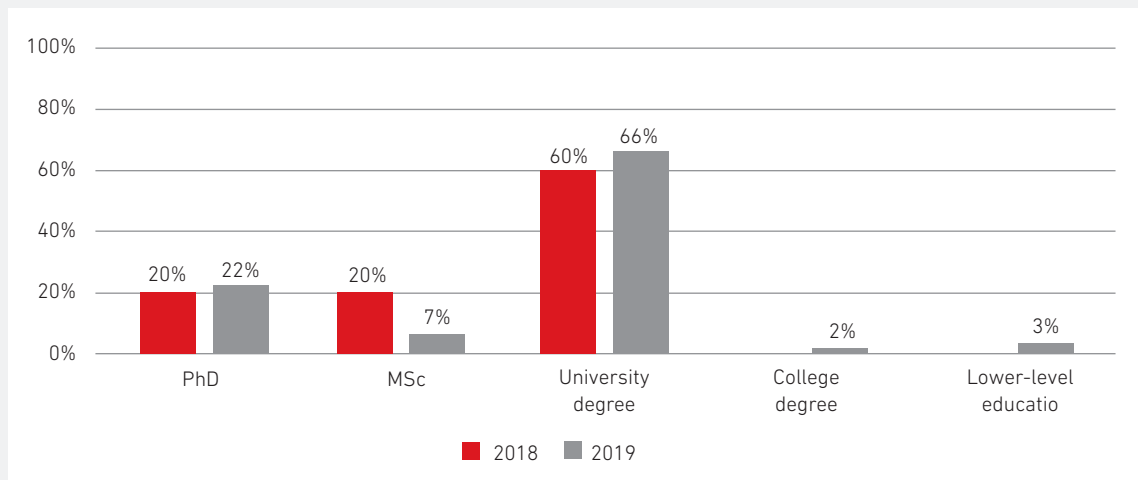
Table 10 Relation between the number of issuers with an established nomination committee and the number of issuers with succession plans for supervisory board members in 2018 and 2019

Regulated market segment	Number of issuers with an established nomination committee in 2019	Number of issuers with a succession plan for supervisory board members in 2019	Number of issuers with an established nomination committee in 2018	Number of issuers with a succession plan for supervisory board members in 2018
Regular Market	5	6	2	4
Official Market	10	0	6	0
Prime Market	5	3	3	0

Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2018, only the issuers whose shares were admitted to the Regular Market had a succession plan for supervisory board members, and three same issuers whose shares are admitted to the Regular Market had a succession plan for supervisory board members in 2018 and 2019. The shift is visible with issuers whose shares are admitted to the Prime Market – in 2019, three issuers had succession plans for supervisory board members, while in 2018 no issuer whose shares were admitted to the Prime Market had a succession plan for supervisory board members. None of the issuers whose shares are admitted to the Official Market had a succession plan for supervisory board members in 2018 and 2019.

Chart 14 Profile of supervisory board members of issuers with a succession plan for supervisory board members, 2018 and 2019



Source: Governance practices questionnaires for share issuers, 2019 and 2018

In 2019, the share of supervisory board members having a university degree, a PhD, a college degree or lower level of qualifications increased compared to 2018. The share of members having a master's degree fell from 20% (in 2018) to 7% in 2019.

2

Share issuers' compliance with the Corporate Governance Code



Introduction

This Annual Report on Corporate Governance provides for the first time Hanfa's information on the compliance of companies whose shares are admitted to trading on the regulated market of the Zagreb Stock Exchange (hereinafter: the issuers) with the new Corporate Governance Code.

Even though the new Code is applicable to periods starting as of 1 January 2020, this Annual Report on Corporate Governance provides an overview of the issuers' compliance with the Code for 2019 as well, in order to determine the initial level of their compliance with the Code and for the purpose of monitoring further improvement of actions taken regarding the Code in the forthcoming period.

The issuers' compliance with the Code has been calculated on the basis of data from compliance questionnaires, whose accuracy, completeness and quality fall within the responsibility of management boards and supervisory boards of the issuers.

A total of 111 issuers were obliged to submit the 2019 compliance questionnaire. The compliance questionnaire was submitted to Hanfa by 100 issuers (90.1%). For the purpose of presenting the actual state of play regarding the compliance, the sample consisting of 100 issuers who had submitted their compliance questionnaires excluded the issuers whose shares were removed from trading on the regulated market in 2020 (12 issuers) and the issuers whose answers provided to the same questions in the compliance questionnaire and in the governance practices questionnaire contained substantive differences (6 issuers). The sample serving as the basis for calculating compliance covered therefore 82 issuers.

2.1 Calculation of issuers' compliance with the Corporate Governance Code

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

The compliance questionnaire follows the structure of the Code:

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

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

The issuers' compliance with the Code has been calculated for each section of the Code separately and as overall compliance with the Code. It has been determined based on the number of answers of "YES", "NO", and "Partially", not taking account of explanations provided for answers of "NO" and "Partially".

The compliance with individual sections of the Code by segments of the regulated market has been calculated as the average number of questions responded to with "YES", "NO" and "Partially" for each section of the Code.

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

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

The sum of compliance scores by individual sections determined the overall compliance of the share issuers with the Code for the year 2019.

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

Table 11, Table 12 and Table 13 show the share issuers' compliance with the Code by segments of the regulated market.

Table 11 Prime Market issuers' compliance scores by individual sections of the Code for the year 2019

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	-1
Arena Hospitality Group d.d.	0	2	2	2	1	-1	1	0	2	2
AD Plastik d.d.	2	-1	1	2	0	-1	2	0	2	2
Podravka d.d.	2	-1	-1	2	1	-1	2	2	2	0
Valamar Riviera d.d.	0	0	-1	2	0	-1	2	2	2	0

Source: Internal calculation by Hanfa

Table 12 Official Market issuers' compliance scores by individual sections of the Code for the year 2019

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Hrvatski Telekom d.d.	2	2	1	2	2	2	2	2	2	2
Hrvatska poštanska banka d.d.	2	2	1	2	2	1	2	2	2	2
INA - Industrija nafte d.d.	2	2	-1	2	2	2	2	2	2	2
Stanovi Jadran d.d.	2	-1	2	1	1	2	1	2	2	2
Sunce Hoteli d.d.	2	2	-1	2	2	-1	1	2	2	2
Zagrebačka burza d.d.	2	2	-1	2	2	1	2	2	1	0
OT - Optima telekom d.d.	2	0	-1	1	0	2	2	2	2	2
Petrokemija d.d.	1	0	0	2	1	2	2	2	2	0
Tankerska Next Generation d.d.	2	2	2	2	-1	2	-1	2	2	0
Dalekovod d.d.	2	2	-1	2	0	-1	2	2	1	2
Medika d.d.	2	2	-1	2	2	-1	2	2	1	0
Croatia osiguranje d.d.	0	0	0	2	0	2	2	2	2	0
Luka Ploče d.d.	2	-1	-1	2	2	-1	2	2	1	2
Končar - Elektroindustrija d.d.	2	-1	-1	2	2	-1	2	-1	1	2
Jadran d.d.	0	-1	-1	2	2	-1	2	2	2	-1
Varteks d.d.	1	2	-1	0	1	-1	0	2	1	0
Luka Rijeka d.d.	2	-1	-1	1	2	-1	-1	2	1	-1
Ilirija d.d.	-1	-1	-1	1	0	-1	0	0	2	2
Granolio d.d.	0	0	-1	0	0	-1	0	0	1	-1
Meritus ulaganja d.d.	0	0	-1	0	0	-1	-1	0	2	-1
Viro tvornica šećera d.d.	-1	2	-1	-1	-1	2	-1	0	0	-1

Source: Internal calculation by Hanfa

Table 13 Regular Market issuers' compliance scores by individual sections of the Code for the year 2019

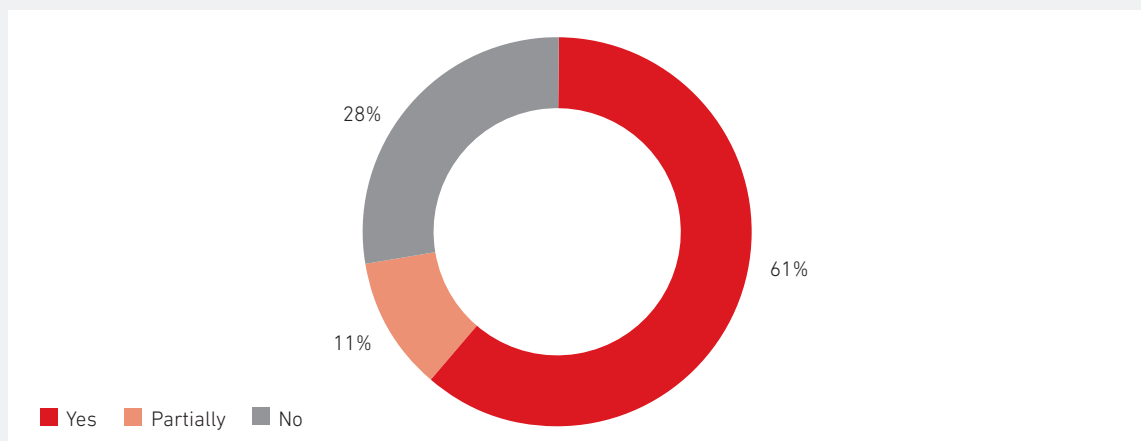
Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
ADRIATIC OSIGURANJE d.d.	2	2	2	2	2	2	2	2	2	2
Podravska banka d.d.	2	2	2	2	2	2	2	2	2	2
ZAGREBAČKA BANKA d.d.	2	2	2	2	2	2	2	2	1	0
PRIVREDNA BANKA ZAGREB	2	0	1	2	2	2	2	2	1	2
Ericsson Nikola Tesla d.d.	2	2	1	2	2	-1	2	2	2	2
AGRAM BANKA d.d.	1	2	1	2	2	-1	2	2	2	2
FTB TURIZAM d.d.	1	2	-1	2	2	2	2	2	1	2
Istarska kreditna banka Umag d.d.	2	2	2	1	2	2	2	0	2	0
Koteks d.d.	2	2	2	1	0	-1	2	2	1	2
Slatinska banka d.d.	2	2	0	2	2	-1	2	0	2	2
Čateks d.d.	2	2	2	1	-1	-1	2	2	1	2
Hoteli Haludovo Malinska d.d.	2	2	2	2	2	-1	2	-1	0	2
Kraš d.d.	2	0	-1	2	2	-1	2	2	2	2
Lošinjska plovidba - Holding d.d.	2	2	-1	2	2	-1	1	2	1	2
Tekstilpromet d.d.	2	2	-1	2	2	-1	2	0	2	2
Adris Grupa d.d.	1	2	-1	2	1	-1	2	0	2	2
Brodomerkur d.d.	2	2	-1	0	2	-1	1	2	1	2
Jadranski naftovod d.d.	2	2	-1	2	0	-1	2	2	2	0
PROFESSIO ENERGIA d.d.	2	2	0	2	2	-1	1	2	1	-1
ALPHA ADRIATIC d.d.	0	2	1	1	0	-1	2	2	1	0
Kutjevo d.d.	2	2	-1	0	2	-1	1	0	1	2
Tehnika d.d.	2	-1	-1	2	2	-1	2	2	1	0
Atlantska plovidba d.d.	2	-1	-1	1	2	-1	1	2	2	0
Drvena industrija Spačva d.d.	1	0	-1	2	-1	2	2	2	1	-1
HTP Korčula d.d.	2	2	-1	2	2	-1	0	0	1	0
Jadroplov d.d.	1	2	-1	0	1	-1	-1	2	2	2
MEDORA HOTELI I LJETOVALIŠTA d.d.	2	2	0	2	-1	-1	2	0	1	0
Imperial Riviera d.d.	2	0	-1	1	2	-1	2	0	1	0
Turisthotel d.d.	2	0	-1	1	0	2	0	0	1	0
Auto - Hrvatska d.d.	2	2	-1	-1	2	-1	0	0	1	-1
Bilokalnik - IPA d.d.	2	0	0	0	1	-1	0	0	1	0
Jadroagent d.d.	2	-1	-1	-1	0	-1	2	2	2	-1
Končar - Distributivni i specijalni transformatori d.d.	0	2	-1	0	1	-1	2	0	1	-1
Ingra d.d.	0	2	-1	0	0	-1	-1	2	1	0
Maistra d.d.	-1	0	-1	0	0	-1	2	0	1	2
Plava laguna d.d.	0	-1	-1	1	2	-1	1	0	1	0
Solaris d.d.	0	-1	-1	1	2	-1	-1	0	1	2
Dukat d.d.	-1	-1	-1	2	-1	-1	2	2	1	-1
ĐURO ĐAKOVIĆ GRUPA d.d.	0	0	-1	1	0	-1	0	2	1	-1
Koka d.d.	1	-1	-1	0	2	-1	2	-1	0	0
Liburnia Riviera hoteli d.d.	1	-1	-1	2	-1	-1	2	0	1	-1

Saponia d.d.	0	2	-1	-1	-1	-1	-1	2	2	0
Vodoprivreda Zagreb d.d.	1	2	-1	1	-1	-1	0	0	0	-1
Maraska d.d.	1	-1	-1	-1	-1	-1	2	0	2	-1
HTP Orebić d.d.	0	-1	-1	1	0	-1	-1	2	0	-1
Jadran tvornica čarapa d.d.	1	-1	-1	1	-1	-1	-1	-1	0	2
Čakovečki mlinovi d.d.	0	0	-1	-1	0	-1	0	0	0	0
Adriatic Croatia International Club d.d.	0	-1	-1	0	-1	-1	-1	0	2	-1
Žitnjak d.d.	0	-1	-1	-1	-1	-1	-1	2	1	-1
Zvečevo d.d.	-1	2	-1	-1	-1	-1	-1	0	0	-1
Zagrebačke pekarnе Klara d.d.	-1	0	-1	-1	-1	-1	-1	0	1	-1
Hoteli Jadran d.d.	-1	-1	-1	-1	-1	-1	-1	0	0	-1
Jelsa d.d.	-1	-1	-1	-1	-1	-1	-1	0	0	-1
Hoteli Živogošće d.d.	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1

Source: Internal calculation by Hanfa

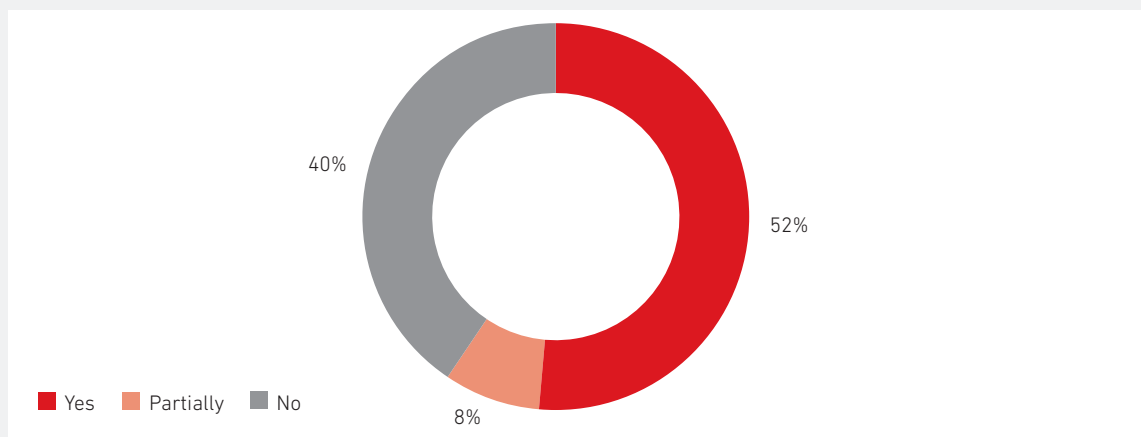
Charts 15 - 25 show the percentage of the share issuers' compliance by individual sections and the overall compliance of the share issuers with the Code for the year 2019.

Chart 15 Share issuers' compliance with the section "Leadership" for the year 2019



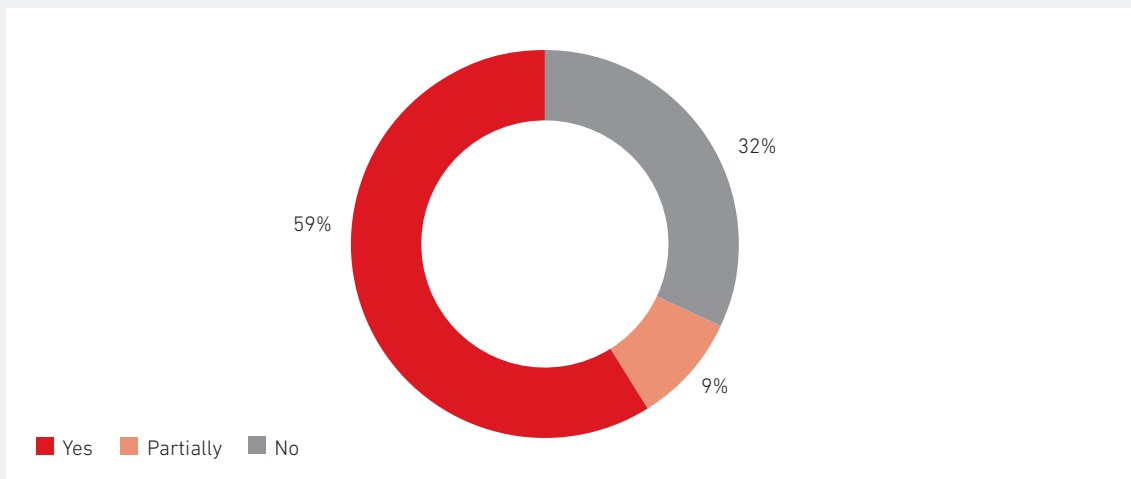
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 16 Share issuers' compliance with the section "Duties of board members" for the year 2019



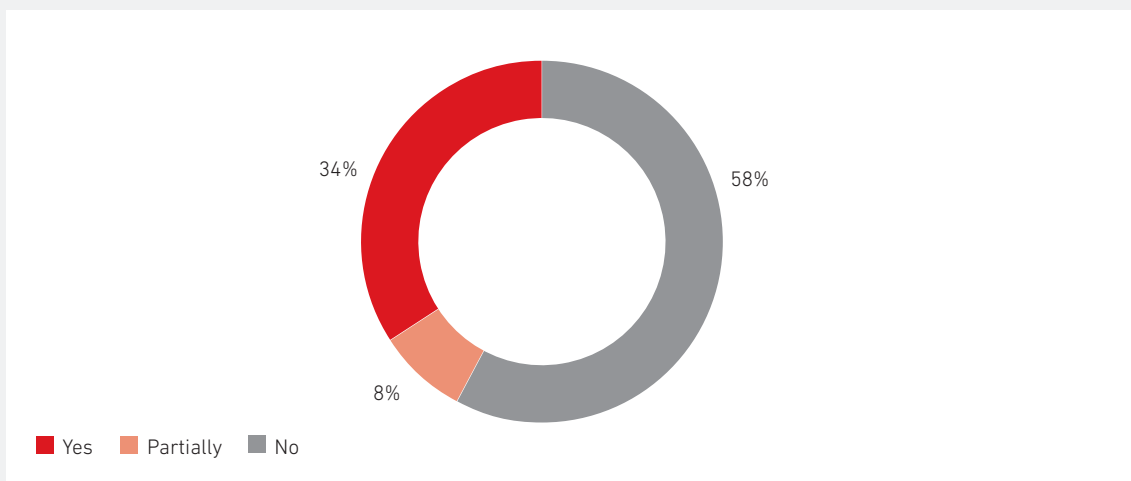
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 17 Share issuers' compliance with the section "Appointment of board members" for the year 2019



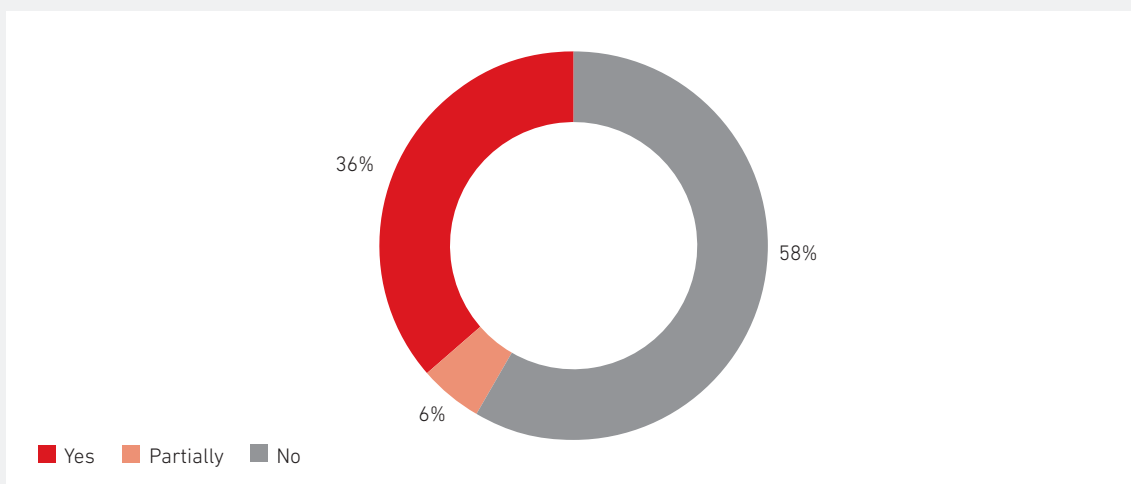
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 18 Share issuers' compliance with the section "Supervisory board and its committees" for the year 2019



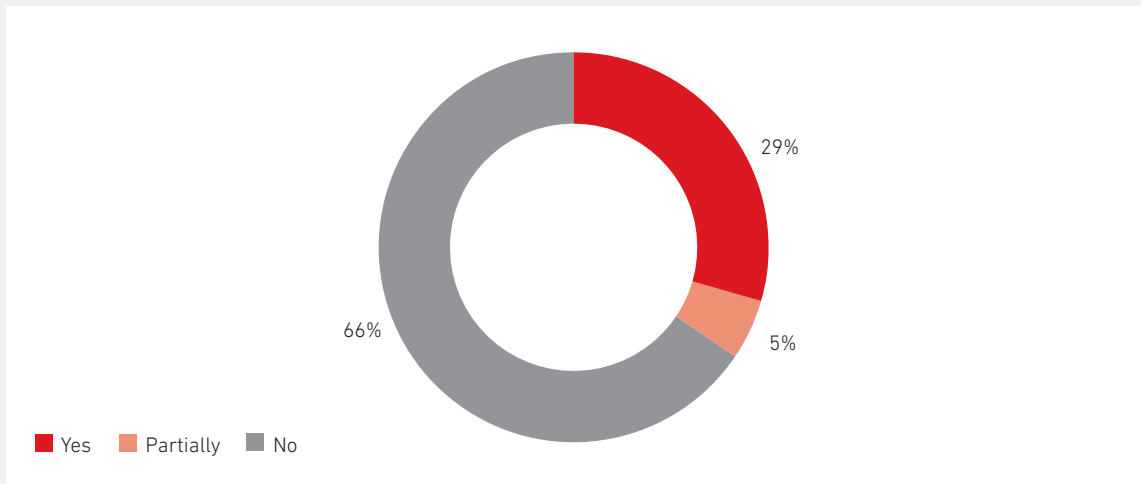
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 19 Share issuers' compliance with the section "Management board" for the year 2019



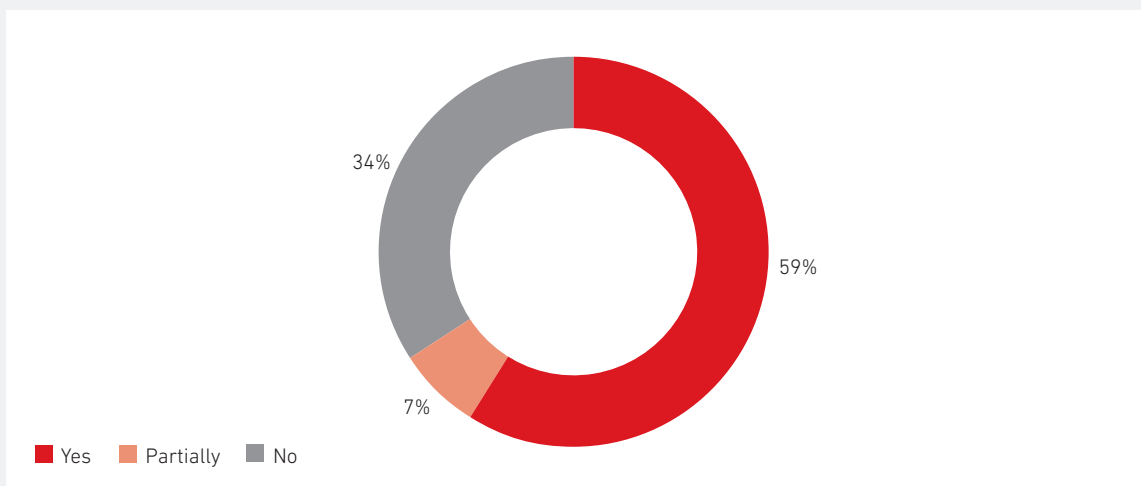
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 20 Share issuers' compliance with the section "Remuneration of board members" for the year 2019



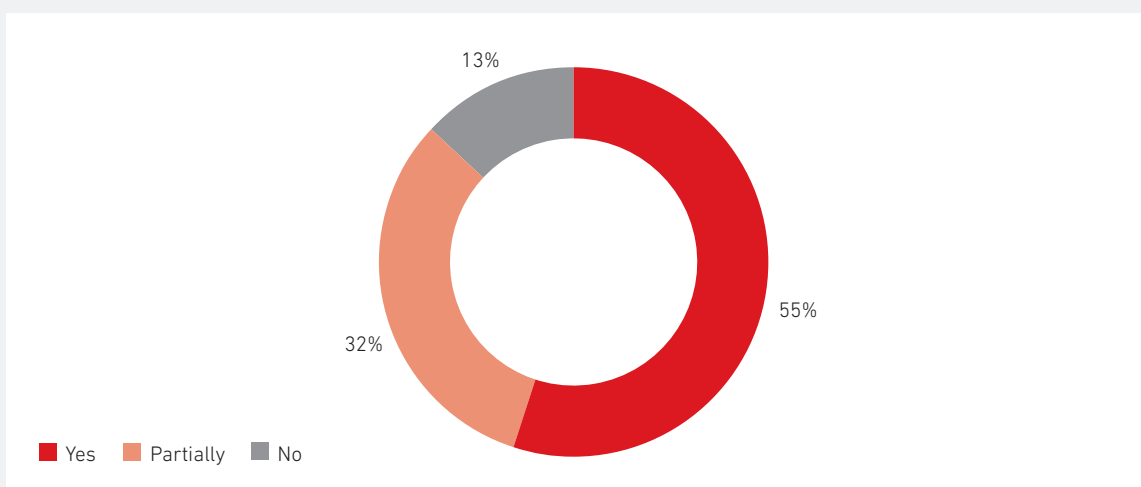
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 21 Share issuers' compliance with the section "Risks, internal control and audit" for the year 2019



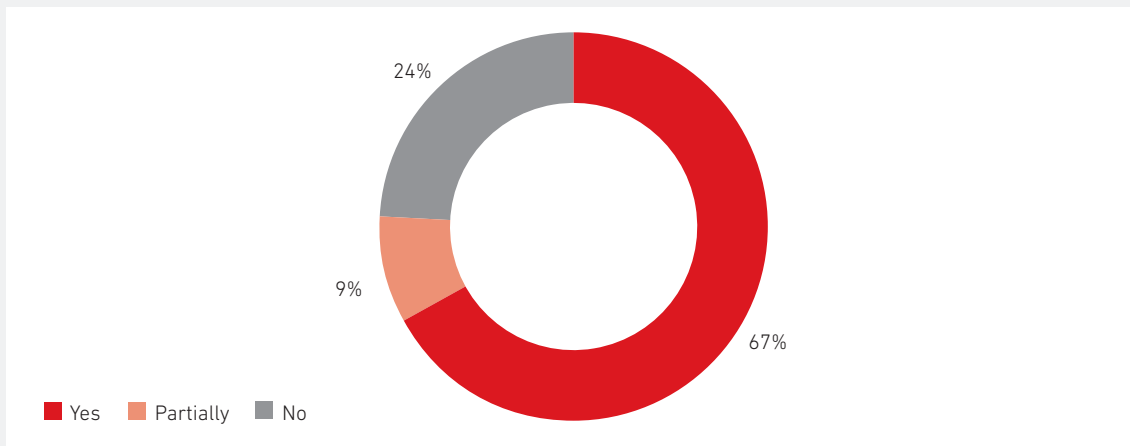
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 22 Share issuers' compliance with the section "Disclosure and transparency" for the year 2019



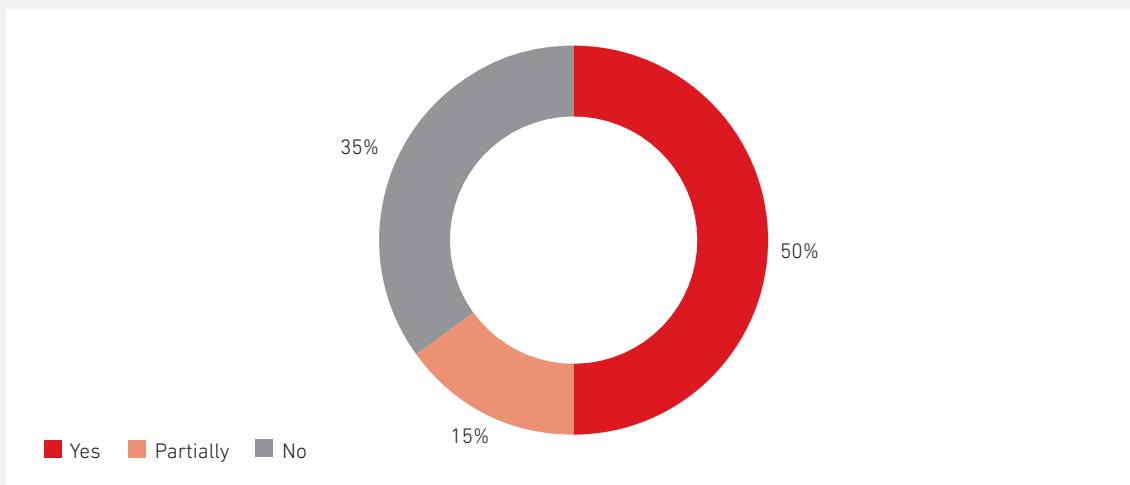
Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 23 Share issuers' compliance with the section "Shareholders and the general meeting" for the year 2019



Source: 2019 Compliance questionnaire for share issuers, internal calculation

Chart 24 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" for the year 2019

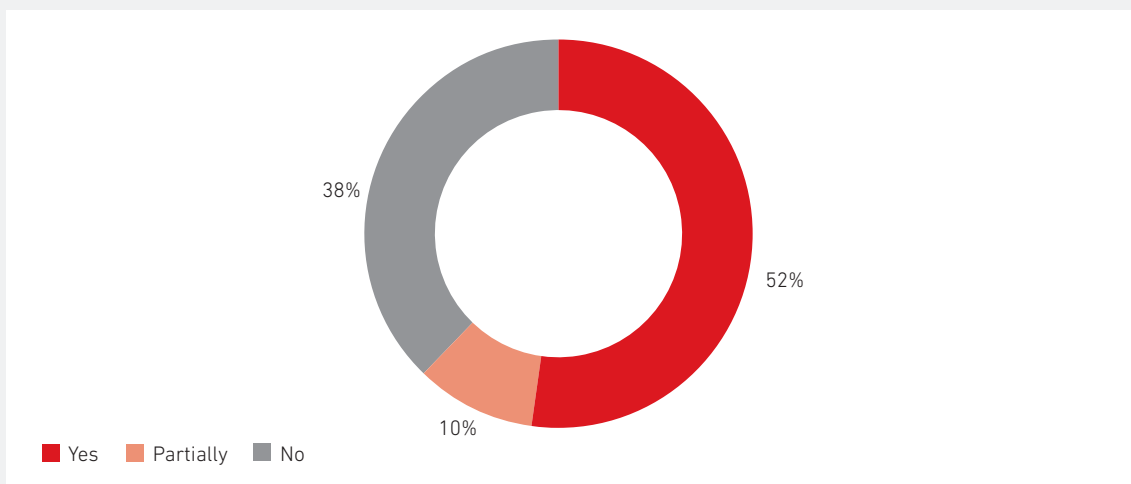


Source: 2019 Compliance questionnaire for share issuers, internal calculation

According to data submitted in the compliance questionnaire for the year 2019, the issuers **comply most** with the sections "Leadership", "Risks, internal control and audit" and "Shareholders and the general meeting".

According to data submitted in the compliance questionnaire for the year 2019, the issuers **comply least** with the sections "Appointment of board members" and "Remuneration of board members".

Chart 25 Overall compliance of share issuers with the Code for the year 2019



Source: 2019 Compliance questionnaire for share issuers, internal calculation

The issuers provided a "YES" answer to 52.0% of all the questions from the compliance questionnaire, and a "NO" answer to 38.0% of the questions.

2.3 Recommendations for improving the quality of corporate governance reporting

Hanfa received compliance questionnaires from the share issuers for the year 2019 for the first time. Questions from the compliance questionnaire were answered by the share issuers with "YES", "NO" or "Partially". 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 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.

Table 14 provides examples of adequate and inadequate explanations for the questions from the compliance questionnaire answered to with "NO" or "Partially" (the data are provided for the year 2019 as the share issuers were obliged to submit to Hanfa the compliance questionnaire for 2019 for the first time).

Table 14 Examples of explanations from the compliance questionnaire for share issuers for the year 2019

Provision of the Code	Examples of adequate explanations	Examples of inadequate explanations
<ul style="list-style-type: none"> • Duties of the remuneration committee include all activities referred to in Article 50 of the Code 	<ul style="list-style-type: none"> • The company intends to lay down duties of the remuneration committee referred to in Article 50 of the Code within a reasonable time period 	<ul style="list-style-type: none"> • There was no obligation to establish a remuneration committee in the business year 2019 • The committee is being established • The committee is planned to be established in 2021
<ul style="list-style-type: none"> • The company has defined clear internal responsibilities for maintaining the risk management system and a clear procedure for maintaining contact between responsible persons of the system and the audit committee 	<ul style="list-style-type: none"> • The company has no formally implemented risk management system and internal control system; however, the company has defined internal acts (ordinances and procedures) for recognised key processes; compliance with those acts is subject to internal audits' evaluation, too 	<ul style="list-style-type: none"> • The committee has not been established • The regulation in force does not lay down such an obligation
<ul style="list-style-type: none"> • The remuneration policy should include provisions specifying the circumstances in which part of a management board member's remuneration would be withheld or recovered 	<ul style="list-style-type: none"> • In 2020, a remuneration policy was drawn up, and is planned to be adopted at the General Meeting in November 2020. As explained in the remuneration policy, no parts of remuneration may be paid with delay; therefore, the company has not laid down any particular rule on the right to request the recovery of variable parts of remuneration 	<ul style="list-style-type: none"> • The company has no remuneration policy • The remuneration policy includes no recovery provisions • The remuneration policy was adopted in 2020
<ul style="list-style-type: none"> • Duties of the remuneration committee include all activities referred to in Article 50 of the Code 	<ul style="list-style-type: none"> • The company intends to lay down duties of the remuneration committee referred to in Article 50 of the Code within a reasonable time period 	<ul style="list-style-type: none"> • Undergoing compliance procedure • There was no obligation to establish a remuneration committee in the business year 2019

<ul style="list-style-type: none"> The company's approved remuneration policy is available on the website of the company free of charge 	<ul style="list-style-type: none"> Following the approval by the General Meeting, planned for this year, the policy will be available on the company's website 	<ul style="list-style-type: none"> Not our practice There is no need for disclosure There was no obligation to define a remuneration policy in the business year 2019
<ul style="list-style-type: none"> The audit committee assesses the effectiveness of the procedures once a year 	<ul style="list-style-type: none"> The audit committee will assess the effectiveness of the procedures following their adoption by the end of 2020 There was no such obligation before; the company plans to comply with the provision during 2020 	<ul style="list-style-type: none"> The regulation in force does not lay down such an obligation
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> The company intends to lay down this obligation within a reasonable time period There is no formal evaluation of the work, but the effectiveness and results are continuously monitored and communicated among the members, based on which proposals are given for giving discharge to members of the Supervisory Board. In the upcoming period, the company is going to consider the recommendation for carrying out formal annual evaluation and including the report on the evaluation in the annual report 	<ul style="list-style-type: none"> Not laid down In 2019, there was no obligation to evaluate supervisory boards

Source: 2019 Compliance questionnaire for share issuers

In the next reporting periods, the quality of explanations provided in the compliance questionnaire relating to questions answered to by the issuers with "NO" or "Partially" is expected to improve. Where a question in the compliance questionnaire is answered to with a NO" or "Partially", the explanation for the answer should be as detailed as possible and should include information as to when the issuer intends to comply with the provision of the Code, for the purpose of providing insight in the compliance progress in the next reporting periods.

Furthermore, since certain questions can be found both in the compliance questionnaire and in the governance practices questionnaire (as a control mechanism, among other things), the issuers need to coordinate their answers to such questions, in order not to bring into question the truth of the answers submitted. Moreover, the issuers need to be able at any moment to prove the truth of any fact established in the questionnaires. The following text provides several examples of questions from the governance practices questionnaire and compliance questionnaire, as regards issues that need to be considered by the issuers in the next reporting period:

- in the case where the issuers state in the governance practices questionnaire that they do not have a remuneration policy, their answer to the same question in the compliance questionnaire should also be "NO" for the same reporting period; their explanation should contain reasons for failing to establish the policy, as well as information on whether and when they intend to establish the policy in the future
- in the case where the issuers respond positively to the questions in the governance practices questionnaire and compliance questionnaire relating to website disclosures, they should make sure that the disclosures have actually been made, as this information can be verified by accessing the issuers' websites
- in the case where the governance practices questionnaire and compliance questionnaire are submitted e.g. for the year 2019, answers to questions in both questionnaires relate exclusively to the period from 1 January to 31 December 2019
- in the case where answers in the governance practices questionnaire provide information on the target percentage of female management board and supervisory board members, the answer to the question in the compliance questionnaire reading "The supervisory board has defined a target percentage of female supervisory board and management board members, that needs to be reached within the next 5 years, and has adopted a plan for achieving that goal" should also be "YES".

3 Annual Report on Corporate Governance for Share Issuers



Introduction

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

The issuers submit to Hanfa two questionnaires: 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 114 issuers whose shares were admitted to trading on the regulated market on 31 December 2019, 111 were obliged to submit to Hanfa their governance practices questionnaire and compliance questionnaire for 2019, while 3 were obliged to submit only their governance practices questionnaire.

Out of 111 issuers obliged to submit their governance practices questionnaire and compliance questionnaire, 98 issuers (88.3% of the submitters) met the obligation to submit their governance practices questionnaire, and 100 issuers (90.1% of the submitters) submitted their compliance questionnaire. Out of the 3 issuers obliged to submit to Hanfa their governance practices questionnaire only, 1 issuer (33.3% of the submitters) submitted the 2019 questionnaire.

Data shown in this Chapter cover data from the 2019 governance practices questionnaire and compliance questionnaire for all share issuers who submitted their questionnaires to Hanfa (data from the governance practices questionnaire for 99 issuers and data from the compliance questionnaire for 100 issuers who submitted their 2019 compliance questionnaire).

A total of 94 issuers (84.7% of the submitters) published their 2019 compliance questionnaire on the website of the Zagreb Stock Exchange (hereinafter: ZSE) within the prescribed deadline.

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

In 2019, the ZSE turnover amounted to HRK 3.0bn, rising by 4.9% compared with the previous year. Share turnover reached HRK 2.7bn, increasing by 27.3% in comparison with 2018, in spite of a decrease in the number of admitted shares recorded during 2019. At end-2019, there were 119 shares admitted to trading on the regulated market of the ZSE (13 shares fewer compared with 31 December 2018), while the number of issuers has been decreasing continuously since 2015. More than half of the share turnover (52.7%) was recorded on the Regular Market, as the largest part of the shares (90) is admitted to trading in this segment of the regulated market.

Despite the fall in the number of shares admitted to the regulated market, at the end of 2019 all trading indicators were recording a rise. Market capitalisation of shares grew by 11.5%, reaching HRK 148.0bn at the end of the year, with market capitalisation of shares admitted to trading on the Prime Market having recorded the largest increase (as much as 70.6%), primarily due to the transfer of shares of the issuer Valamar Riviera d.d. to the Prime Market. Market capitalisation of bonds amounted to HRK 115.8bn at the end of the year, rising by 14.9% relative to 31 December 2018. In 2019, share turnover on the Prime Market amounted to HRK 479.7m, increasing significantly compared with the previous year (by HRK 44.2m) and affecting the CROBEXprime value, that rose by 16.4%.

In 2019, two new issuers listed their shares on the regulated market of the ZSE (Meritus ulaganja d.d. on the Official Market and Professio Energia d.d. on the Regular Market), while 15 shares were removed from trading on the regulated market during the year. The CROBEX stock index totalled 2017.43 points at end-2019, rising by 15.4% compared to end-2018, and partly making up for the decrease in the domestic stock index from the preceding years related to the crisis in the Agrokor Group. Some indices fell (CROBEXkonstrukt, CROBEXturist and CROBEXtransport), while others recorded a two-digit growth, of which the sharpest growth was recorded by CROBEXnutris (38.2%), followed by CROBEXtr (19.4%), which testifies to an excellent dividend yield, CROBEX10 (18.0%), CROBEXplus (17.0%), CROBEXprime (16.4%) and CROBEX (15.4%). The new regional index, ADRIAprime, rose by almost 11.0%. The CROBIS bond index also grew, by 4.1%, with its value reaching 115.59 points at the end of the year.

Most traded shares were those of Kraš d.d., Valamar Riviera d.d. and Hrvatski Telekom d.d.; their total turnover reached HRK 928,756,855, accounting for 42.6% of the total share turnover in 2019. More than 70.0% of the 2019 share turnover was concentrated among the top 10 most liquid shares.

3.1 Short overview on share issuers

Number of share issuers

The number of issuers on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE) continued its downward trend in 2019. Changes in the number of issuers from 2015 to 2019 by regulated market segments are shown in Table 15 and Chart 26.

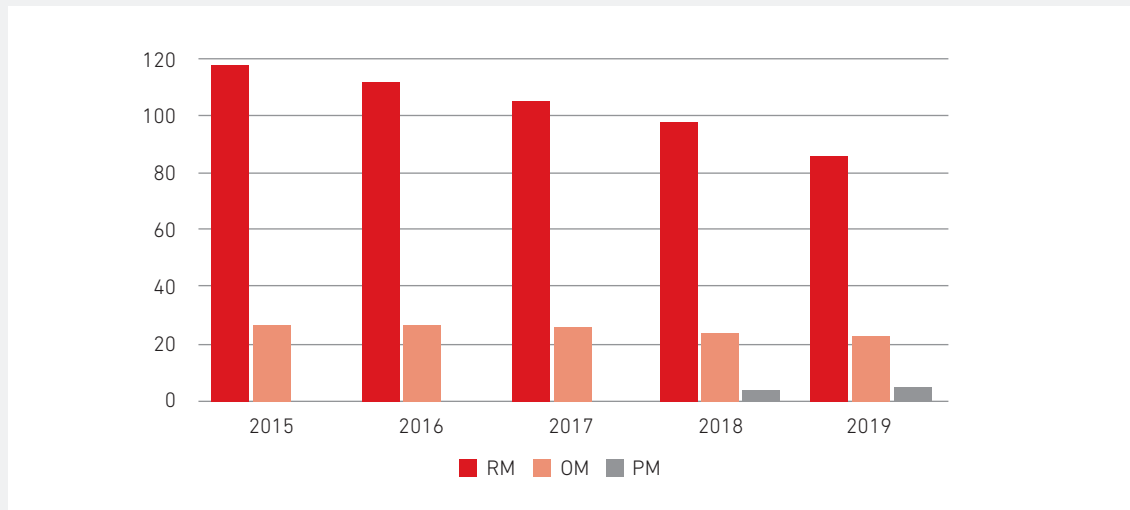
Table 15 Number of share issuers on the regulated market of the ZSE from 2015 to 2019

Regulated market	31/12/2015			31/12/2016		31/12/2017		31/12/2018		31/12/2019	
	Number	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)
PM	-	-	-	-	-	4	-	5	25.0		
OM	26	27	3.8	26	-3.7	24	-7.7	23	-4.2		
RM	118	112	-5.1	105	-6.3	98	-6.7	86	-12.2		
Total	144	139	-3.5	131	-5.8	126	-3.8	114	-9.5		

Source: ZSE, internal calculation

At the end of 2019, there were 114 share issuers, 9.5% fewer compared to 31 December 2018, when there were 12 issuers more, i.e. a total of 126 issuers on the regulated market. Broken down by regulated market segments, the largest decrease in the number of issuers was recorded on the Regular Market (12 issuers fewer than at the end of 2018). In 2019, one issuer transferred from the Official Market to the Prime Market.

Chart 26 Number of share issuers on the regulated market of the ZSE from 2015 to 2019



Source: ZSE

The number of issuers on the regulated market of the ZSE has been declining continuously for the last five years, namely of issuers whose shares are admitted to trading on the Regular Market and Official Market, whereas the Prime Market, that has existed since 2018, recorded a rise in the number of issuers at the end of 2019 relative to the previous year. At the end of 2019, there were 86 issuers on the Regular Market, 23 issuers on the Official Market and 5 issuers on the Prime Market.

Shares not traded at all

- The following shares were **not traded from their admission to trading** on the regulated market of the ZSE until 31 December 2019:
 - 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 and
 - ordinary share of the issuer Vodoprivreda Zagreb d.d., bearing the symbol VDZG-R-A.

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

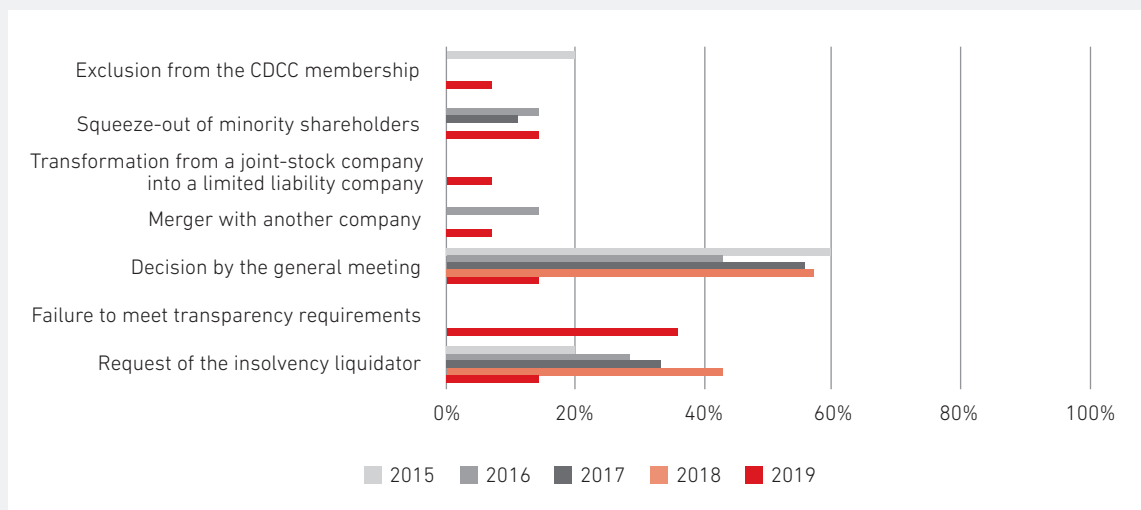
- In 2019, **two issuers** listed their **shares** on the regulated market of the ZSE **for the first time** (ordinary shares of Meritus ulaganja d.d. were admitted to trading on the Official Market on 6 August 2019, and ordinary shares of Professio Energia d.d. were admitted to trading on the Regular Market on 4 October 2019).
- In 2018, **shares of 2 issuers were admitted to trading** on the regulated market of the ZSE **for the first time** (ordinary shares of Jadran d.d. were admitted to trading on the Official Market on 8 January 2018, and shares of Stanovi Jadran d.d. were admitted to trading on the Official Market on 29 June 2018).

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

The most common **reason for removing shares from trading** on the Regular Market in 2019 was **failure to meet transparency requirements** laid down by ZSE Rules (**5 shares**); two issuers removed their shares from trading based on the decision of the general meeting; two issuers did so as a result of the squeeze-out of minority shareholders; and two issuers on the basis of a request made by the insolvency administrator. One issuer underwent the procedure of merging with another joint-stock company whose shares had already been admitted to trading on the regulated market; one issuer removed its shares from trading due to a decision by the commercial court on the conversion of the company from a joint-stock company to a limited liability company; while one issuer removed its shares due to the winding up/decision by the CDCC on the exclusion of the issuer from its membership.

The above-mentioned reasons for removing shares from trading on the regulated market from 2015 to 2019 are shown in Chart 27.

Chart 27 Reasons for removing shares from trading on the regulated market from 2015 to 2019



Source: ZSE

In the period between 2015 and 2019, the largest number of shares (20) were removed from trading on the regulated market on the basis of a decision by the general meeting. Five shares were removed from trading in 2019 as a result of failure to meet transparency requirements, while in the preceding period, from 2015 to 2018, no shares were removed from trading on the regulated market due to this reason.

In the period observed, out of 47 shares that were removed from trading on the regulated market 1 was removed from the Official Market, and the remaining 46 shares were removed from the Regular Market. Since 2018, when the Prime Market was established, no shares have been removed from trading from this segment of the regulated market.

Classification of issuers by sectors

With respect to activities they carry out, the issuers are classified into the financial and non-financial sector. The financial sector is comprised of financial institutions and closed-ended alternative investment funds, while the non-financial sector covers other activities. The classification of issuers by sectors in the period from 2015 to 2019 is shown in Table 16.

Table 16 Classification of issuers by sectors in the period from 2015 to 2019

Sectors	31/12/2015		31/12/2016		31/12/2017		31/12/2018		31/12/2019	
	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
Non-financial sector	127	88.2	124	89.2	117	89.3	114	90.5	102	89.5
Total	144	100.0	139	100.0	131	100.0	126	100.0	114	100.0

Source: ZSE

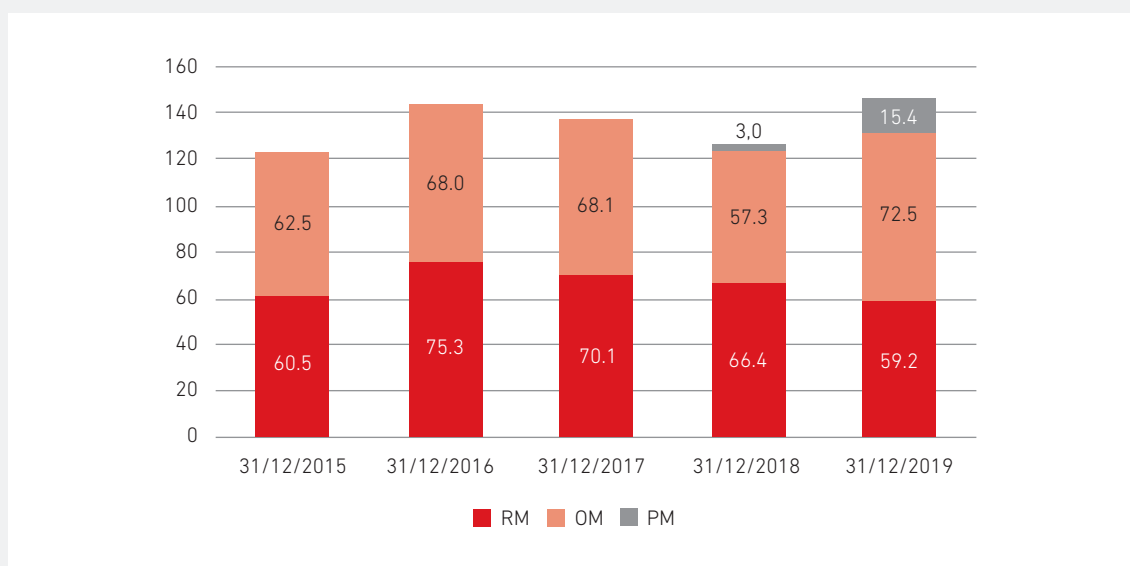
Broken down by subcategories, at the end of 2019, the largest number of issuers belonged to the tourism industry, as in the previous year, followed by issuers from the food industry, financial and insurance activities, and trade sector.

Market capitalisation

- At the end of 2019, **market capitalisation** of shares admitted to trading on the **Prime Market** amounted to HRK 15,395,492,904 increasing by 70.6% compared to 31 December 2018 (when it reached HRK 9,025,809,770), partly due to the transfer of shares of Valamar Riviera d.d. from the Official Market to the Prime Market at the end of April 2019, and to a rise in share prices.
- **Market capitalisation** of shares admitted to trading on the **Official Market** reached HRK 59,131,758,922 at end-2019, rising by 3.2% relative to 31 December 2018, when it stood at HRK 57,304,941,333.
- As at 31 December 2019, total **market capitalisation** of shares admitted to trading on the **Regular Market** amounted to HRK 73,456,186,221, increasing by 10.6% compared to the end of the previous year (at end-2018, it stood at HRK 66,417,792,928).
- Market capitalisation of shares of 99 issuers who submitted their 2019 governance practices questionnaire amounted to HRK 147,963,988,189 as at 31 December 2019 (97.6% of total market capitalisation of all the shares admitted to trading as at 31 December 2019).

Market capitalisation of shares in the period from 31 December 2015 to 31 December 2019 by regulated market segments to which they are admitted is shown in Chart 28.

Chart 28 Market capitalisation of shares (in HRK bn) by segments of the regulated market from 2015 to 2019



Source: ZSE

The market capitalisation of shares admitted to trading on the Regular Market rose at the end of 2016 compared with end-2015, after which it decreased continuously until the end of 2019. The decrease in market capitalisation of shares admitted to trading on the Regular Market was partly due to the smaller number of the shares admitted and to a fall in share prices. At the end of 2015, market capitalisation of shares on the Regular Market was the smallest in the period analysed, even though the largest number of shares were admitted to trading on the Regular Market in 2015. The market capitalisation of shares admitted to trading on the Official Market has varied from year to year, with the highest value having been recorded in 2019. The first admission to trading of shares on the Prime Market occurred in 2018, and market capitalisation of shares on the Prime Market rose fourfold at end-2019 compared to the end of the previous year (partly due to a rise in share prices and the transfer of one of the shares with the largest turnover from the Official Market to the Prime Market in 2019).

3.2 Capital and its origin

The following text provides an overview of the initial capital of the share issuers in the 2015-2019 period, ownership structure of the share issuers and the origin of the share issuers' capital from 2015 to 2019.

Initial capital

- The initial capital of 114 share issuers at end-2019 reached HRK 64.9bn, ranging between HRK 3.6m and HRK 10.24bn (the initial capital of 126 share issuers at end-2018 amounted to HRK 60.7bn, ranging from HRK 3.6bn to HRK 9.8bn).
- According to data from the court register, **6 issuers increased** their initial capital during 2019 (8 issuers did so in 2018), while **2 issuers reduced** their initial capital (2 issuers did so too in 2018).

Table 17 Initial capital of share issuers and market capitalisation of shares from 2015 to 2019

Number of issuers					Initial capital and market capitalisation	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
2015	2016	2017	2018	2019						
144	139	131	126	114	Initial capital (HRK bn)	61.4	60.5	60.0	60.7	64.9
					Market capitalisation (HRK bn)	122.9	143.2	138.3	132.7	148.0

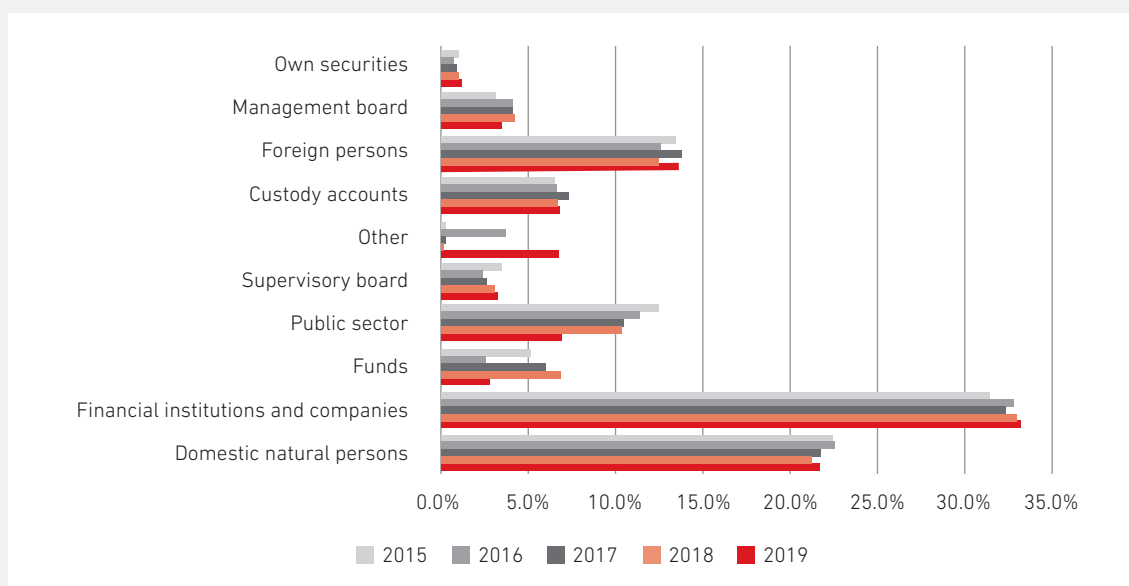
Source: Court register, ZSE

Ownership structure

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

Chart 29 shows the ownership structure of the share issuers in the period from 2015 to 2019 by the above-mentioned categories.

Chart 29 Share issuers' ownership structure from 2015 to 2019



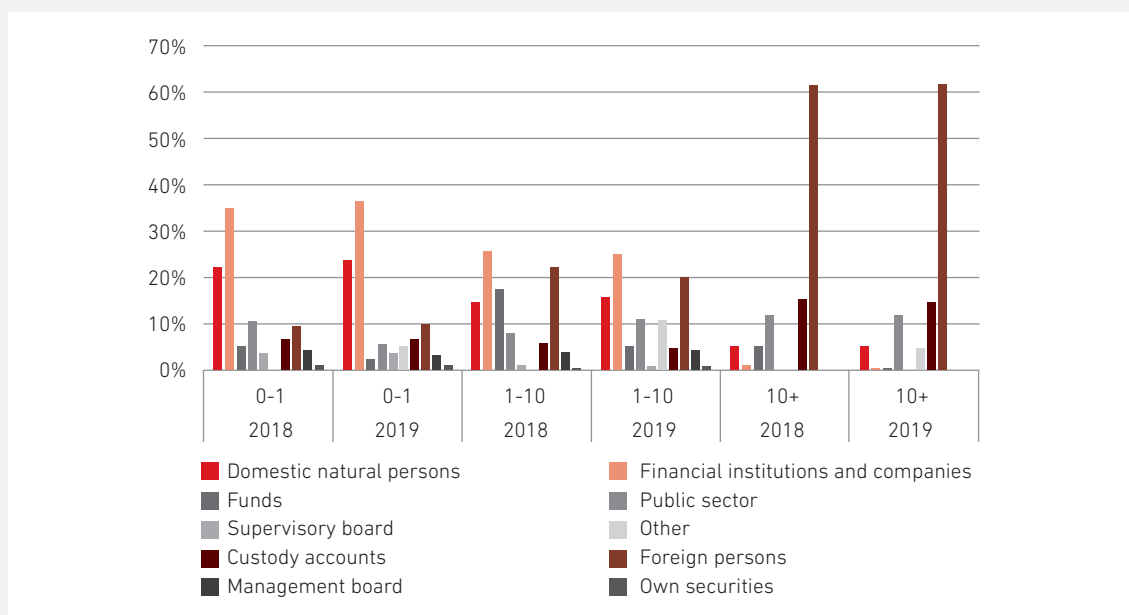
Source: CDCC

As at 31 December 2019, the share issuers' ownership structure was dominated by financial institutions and companies with a 34.3% share (32.0% in 2018), followed by domestic natural persons with a 20.6% share (21.3% in 2018) and foreign persons with a 13.4% share (12.55% in 2018). The proportion of the public sector in the ownership structure of the share issuers declined from 10.4% as at 31 December 2018 to 7.3% at the end of 2019.

In the 2015-2019 period, the share issuers' ownership structure did not change significantly, and was dominated by financial institutions and companies with a proportion of about 32.0%, followed by domestic natural persons with a proportion of about 22.0%.

Chart 30 shows the share issuers' ownership structure at the end of 2018 and 2019 in relation to their market capitalisation.

Chart 30 Share issuers' ownership structure in relation to their market capitalisation (in HRK bn) as at 31/12/2018 and 31/12/2019

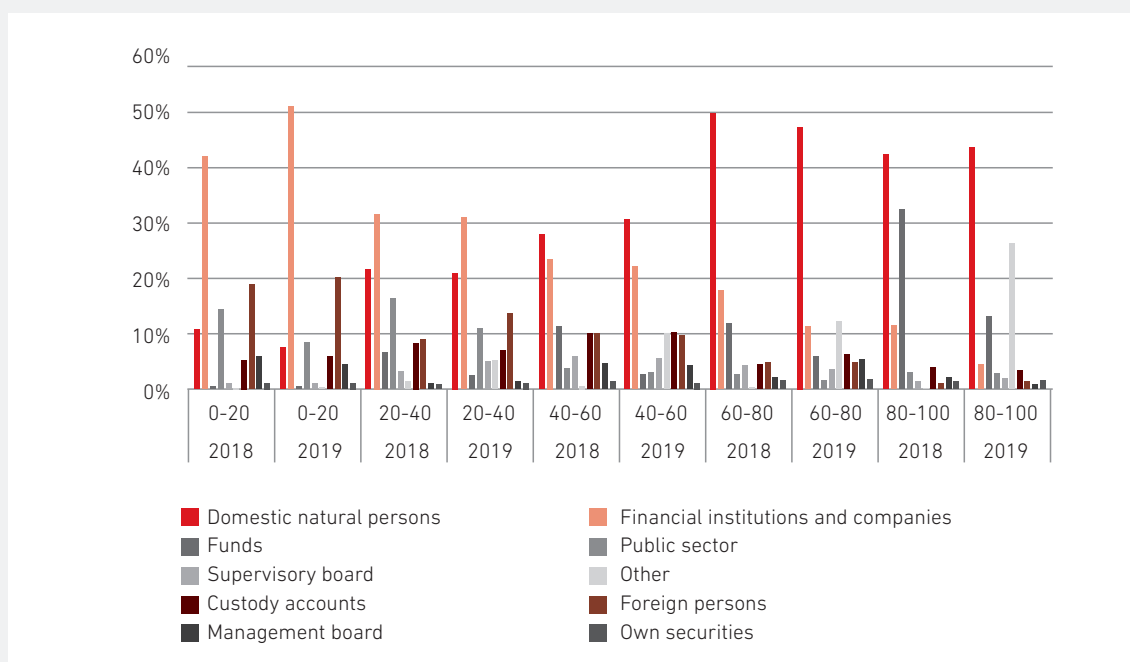


Source: CDCC

- At the end of 2019, the ownership structure of share issuers with a market capitalisation larger than HRK 10bn did not change significantly compared with the end of 2018. **Foreign persons** still dominated, with a **61.6%** share (their share reached 61.5% at end-2018).
- As at 31 December 2019, **financial institutions and companies** accounted for a **25.1%** share in the ownership structure of issuers with a market capitalisation reaching between 1 HRK bn and 10 HRK bn, and were followed by foreign persons with a 20.4% share and domestic natural persons with a 16.1% share (the share of financial institutions and companies amounted to 25.6% at end-2018).
- A **36.4%** share in the ownership structure of issuers with a market capitalisation of up to 1 HRK bn was accounted for by **financial institutions and companies** (at the end of 2018, financial institutions and companies made up a 35.0% share), followed by domestic natural persons with a 23.5% share.

Chart 31 shows the share issuers' ownership structure as at 31 December 2019 in relation to free float.

Chart 31 Share issuers' ownership structure in relation to free float as at 31/12/2018 and 31/12/2019



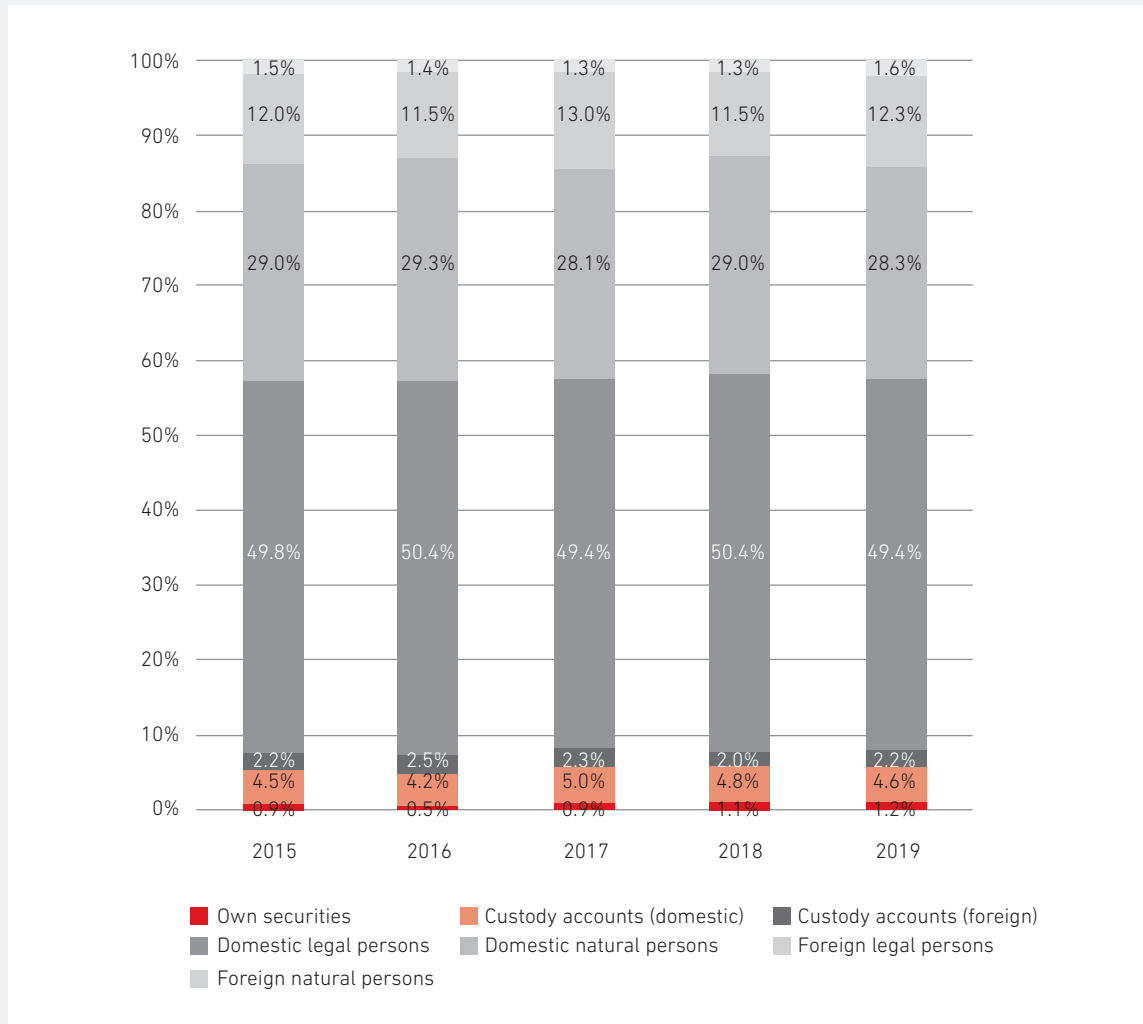
Source: CDCC

- As at 31 December 2019, the ownership structure of share issuers with a free float of **up to 20%** was dominated by **financial institutions and companies with a 50.8% share**, whereas foreign persons accounted for a 20.0% share (at the end of 2018, the ownership structure was dominated by financial institutions and companies with a 42.0% share).
- The ownership structure of share issuers with a free float ranging **between 80% and 100%** was dominated by **domestic natural persons** with a 43.5% share at end-2019 (at the end of 2018, the share of domestic natural persons stood at 42.4%). **Domestic natural persons** accounted for a 46.9% share in the ownership structure of share issuers with a free float ranging **between 60% and 80%**.

Origin of issuers' capital

Chart 32 shows the ownership of shares in the period from 2015 to 2019 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 32 Origin of issuers' capital at the end of 2015, 2016, 2017, 2018 and 2019



Source: CDCC

- In the period from 2016 to 2019, the origin of capital and shares of individual capital categories in share ownership did not change significantly. As at 31 December 2019, the largest part (49.4%) in share ownership was accounted for by domestic legal persons (50.4% at end-2018).
- At the end of 2019, the share of domestic capital amounted to 82.4% (84.2% at end-2018), while the share of foreign capital reached 16.1% (14.8% as at 31 December 2018).

3.3 Supervisory board and its committees

The supervisory board is the supervisory body of the company. Members of the supervisory board are appointed by the general meeting of the company for a maximum period of five years, and may be reappointed. The general meeting adopts a decision on the appointment of supervisory board members on the basis of the proposal for the decision on the appointment of supervisory board members submitted by the former supervisory board and put on the published agenda of the general meeting. The proposal for the appointment of supervisory board members may not be submitted by the management board, as this would have an impact on the selection of persons supervising it. The statute of the company may provide for certain shareholders to appoint a certain number of supervisory board members. The statute also stipulates the number of supervisory board members appointed by employees pursuant to the Labour Act (Official Gazette, No 93/14 and 127/17).

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

Pursuant to the Code, the majority of supervisory board members should be independent and must not have any business, family or other relationships with the company, majority shareholder or group of majority shareholders or with members of the management board or supervisory board of the company or of the majority shareholder. The chair or deputy chair of the supervisory board should be independent. Independent supervisory board members ensure the adoption of objective decisions relating to management board members, the company itself and its shareholders, such as decisions on remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, and audit function.

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

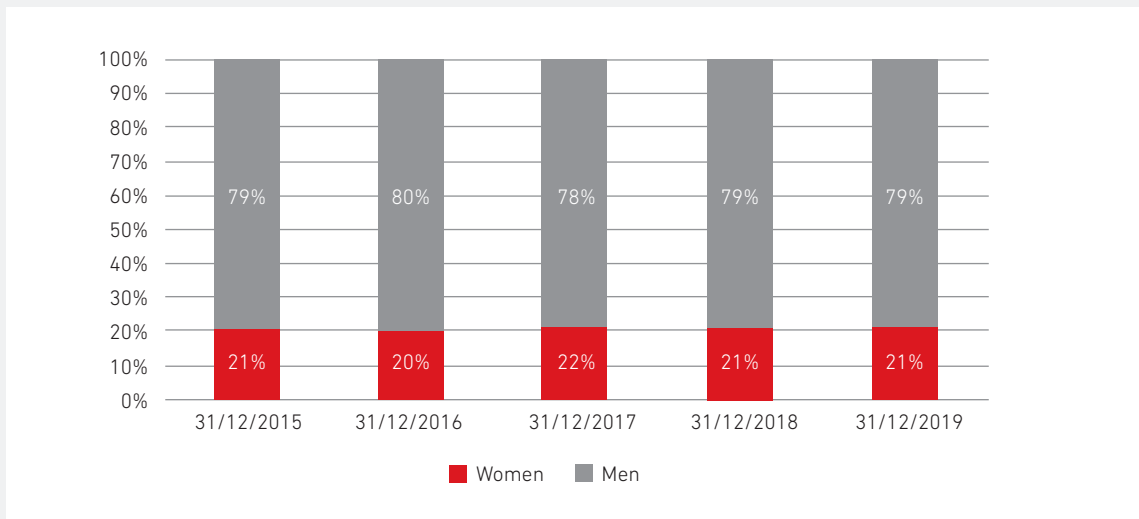
The following analysis covers all the issuers of shares admitted to the regulated market of the ZSE as at 31 December 2015, 2016, 2017, 2018 and 2019 according to the data from the court register.

Number of members and composition of the supervisory board

- At the end of 2019, supervisory boards of the share issuers consisted of 5 members on average (the same as in 2018).
- At end-2019, the proportion of women on supervisory boards was about 3 times larger than the proportion of women on management boards (at the end of 2018, the proportion of women on supervisory boards was about 4 times larger than the proportion of women on management boards).

Chart 33 shows the proportion of women and men on supervisory boards of the share issuers in the period from 2015 to 2019.

Chart 33 Share issuers' supervisory board gender structure in the period from 2015 to 2019

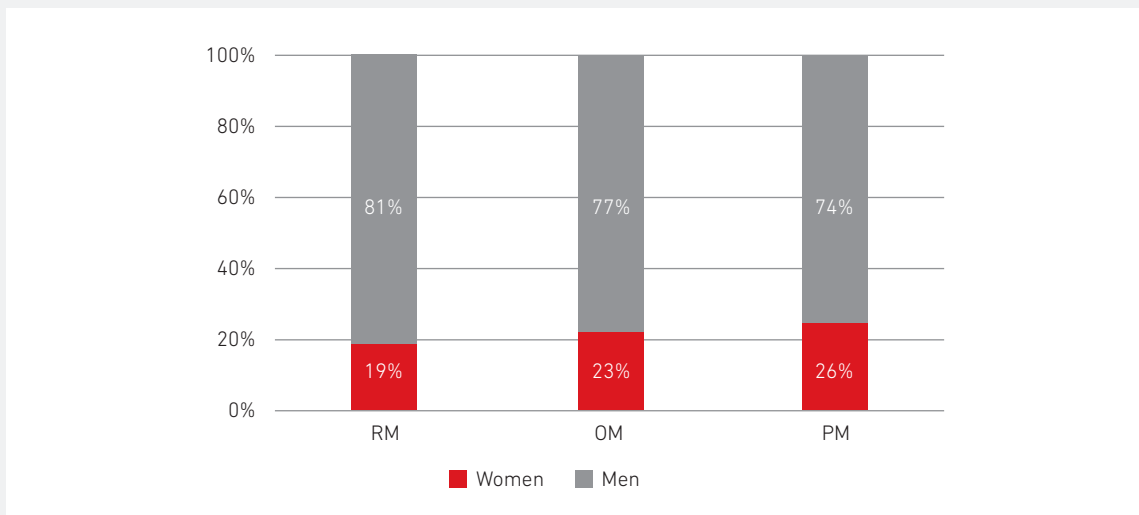


Source: Court register⁷

- At end-2019, the share of women on supervisory board did not change compared with the previous year, and there were no significant changes in this share in the period observed.
- Broken down by segments of the regulated market in 2019:
 - the share of women on supervisory boards of the issuers on the Regular Market was 19%
 - the share of women on supervisory boards of the issuers on the Official Market was 23%
 - the share of women on supervisory boards of the issuers on the Prime Market was 26%.

Chart 34 shows the representation of supervisory boards' female members in relation to the total number of the issuers' supervisory board members in 2019 by the segments of the regulated market.

Chart 34 Share issuers' supervisory board gender structure by segments of the regulated market as at 31/12/2019

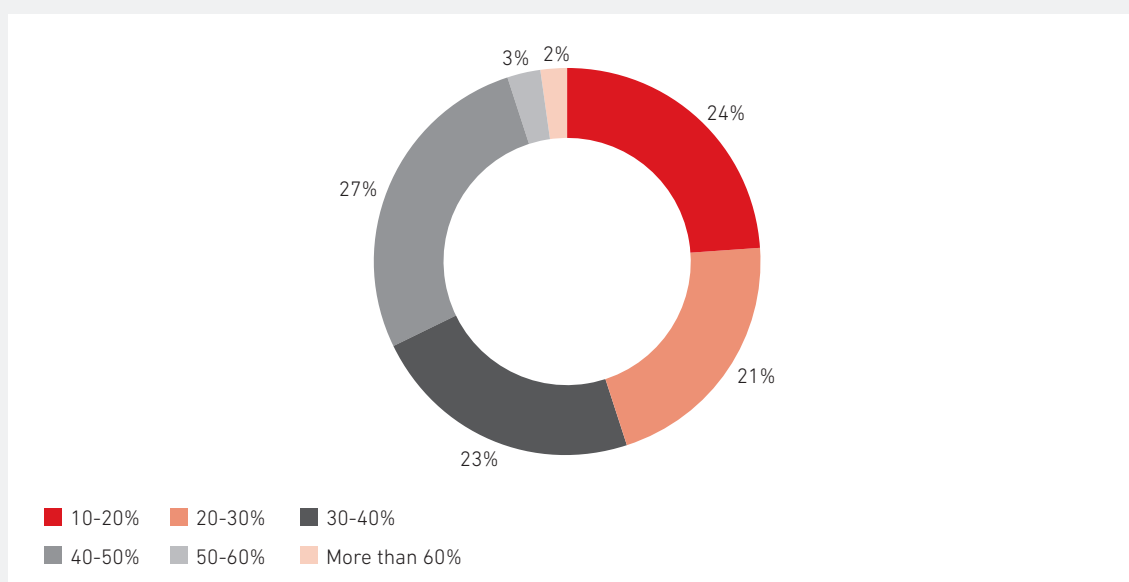


Source: Court register

⁷ Data on the number and gender of supervisory board members have been analysed based on the data from the court register in order for all issuers to be encompassed by the analysis (including those that failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

- According to the data from the court register, the average share of women on supervisory boards in the 2015-2019 period amounted to about 28%.
- The governance practices questionnaire showed that 7.3% of female members had a PhD (2.9% in 2018).
- Supervisory boards of 62 issuers (62.0%) set a target percentage of female supervisory board members (the data are provided for 2019 for the first time), and broken down by regulated market segments, this target was achieved as follows:
 - 4 issuers on the Prime Market
 - 15 issuers on the Official Market
 - 43 issuers on the Regular Market.
- A total of 17 issuers (17.0%) said they were planning to set a target percentage of supervisory board female members in the following year (the data are provided for 2019 for the first time), of which:
 - 2 issuers on the Prime Market
 - 5 issuers on the Official Market
 - 10 issuers on the Regular Market.

Chart 35 Share issuers who set a target percentage of supervisory board female members in 2019



Source: 2019 Governance practices questionnaire for share issuers

- As at 31 December 2019, the majority of supervisory board members (43.6%) were over 56 years old (41.5% in 2018); 34.1% of them were between 46 and 55 years old (32.8% in 2018); 17.8% of them were between 36 and 45 years old (20.3% in 2018); while only 4.5% of supervisory board members were younger than 35 years of age (5.4% in 2018).
- The majority of supervisory board members younger than 35 years of age came from the financial sector (4 members from 3 issuers) followed by the tourism industry (3 members from 2 issuers) and food industry (3 members from 3 issuers).
- One issuer engaged in legal, accounting, management, architectural, engineering, technical testing and analysis activities reported as many as 4 supervisory board members younger than 35 years of age.

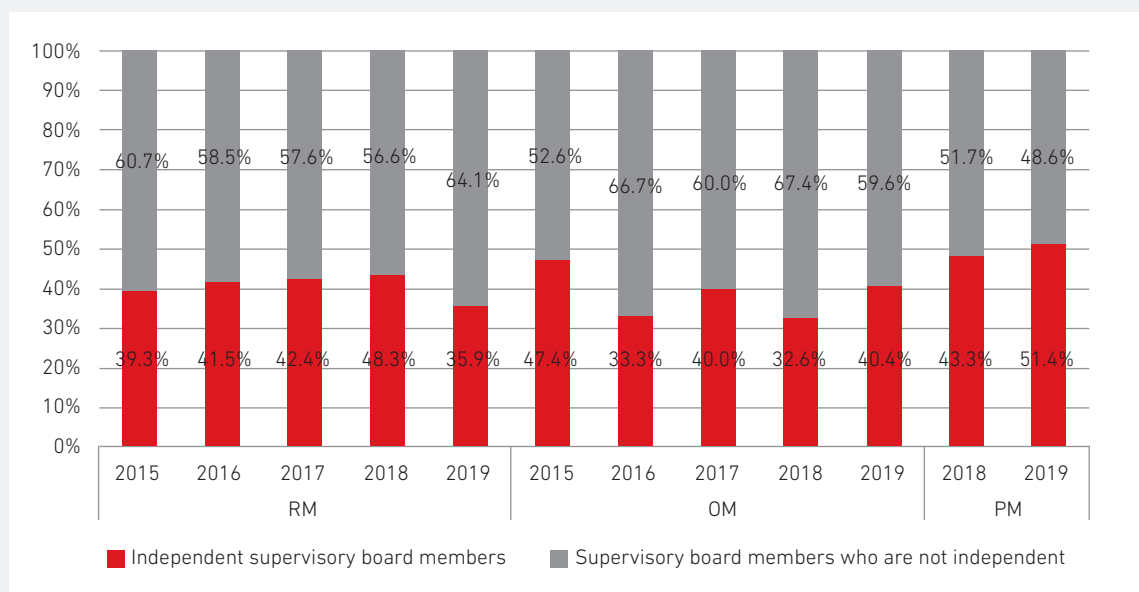
- As at 31 December 2019, the majority of supervisory board members (69.2%) had a university degree (77.9% in 2018), while 8% of supervisory board members had a PhD (7.6% in 2018).
- As at 31 December 2019, 18.9% of supervisory board members were foreign citizens (15.6% at end-2018).
- A total of 53 issuers (53.0%) carried out the annual evaluation of the supervisory board and its committees in 2019, with the evaluation having been led by the chair or deputy chair of the supervisory board of 41 issuers (41.0%) (the data are provided for 2019 for the first time).
- At the end of 2019, the average duration of supervisory board membership was 6 years (the same as in 2018).
- A total of 63 issuers (63.6%) had employee/trade union representatives in supervisory boards in 2019 (66 issuers or 61.1% in 2018).

Independence of supervisory board members

- According to the data from the governance practices questionnaire, at end-2019 there were 35.1% of independent supervisory board members (41.1% of independent members as at 31 December 2018).
- In 2019, independent chairs or deputy chairs of supervisory boards were reported by 45 issuers (45.0%) (the data are provided for 2019 for the first time).
- At the end of 2019, supervisory boards of each of the issuers had 2 independent members on average (the same as in 2018).

Chart 36 shows the shares of independent supervisory board members in the total number of supervisory board members by segments of the regulated market of the ZSE.

Chart 36 Shares of independent supervisory board members in the total number of supervisory board members by market segments, 2015-2019



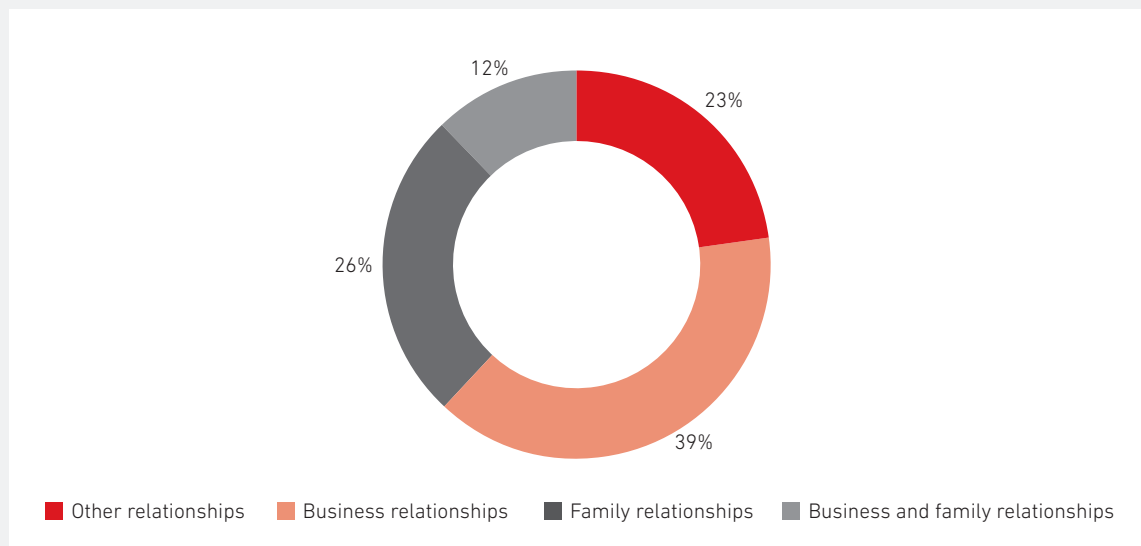
Source: 2019 Governance practices questionnaire for share issuers

- The average number of independent supervisory board members on all regulated market segments from 2015 to 2019 amounted to 41.3%, while the average number of supervisory board members who are not independent stood at 58.7%.
- All issuers (5) whose shares are admitted to trading on the Prime Market had at least one independent supervisory board member, with a total of 51.4% of their independent members. Out of the total number of supervisory board members of issuers whose shares are admitted to trading on the Official Market 40.4% were independent. Out of the total number of supervisory board members of issuers whose shares are admitted to trading on the Official Market 35.9% were independent.
- Broken down by individual segments of the regulated market of the ZSE, as at 31 December 2019 the largest share of independent supervisory board members was recorded on the Prime Market, with the percentage of independent members rising at the end of 2019 relative to 2018.

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

- The governance practices questionnaire showed that 57 supervisory board members of 25 issuers were related to management board members in 2019 (the data are provided for 2019 for the first time).
- The largest share was accounted for by business relationships (38.6%), followed by family relationships (26.3%), other types of relationships (22.8%) and business and family relationships (12.3%) (the data are provided for 2019 for the first time).

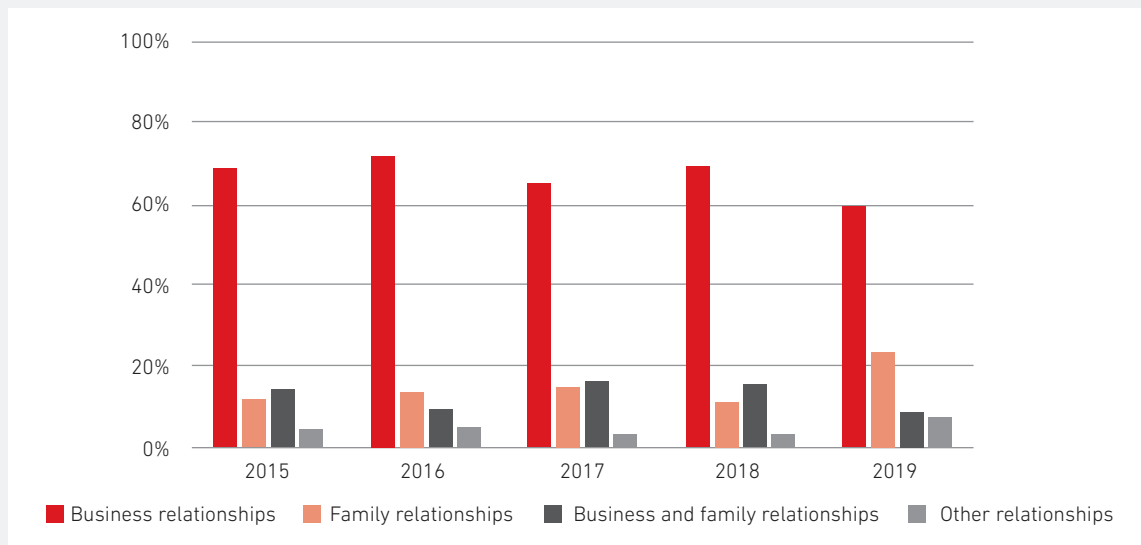
Chart 37 Relationship between the issuers' supervisory board members and management board members in 2019



Source: 2019 Governance practices questionnaire for share issuers

- In 2019, 104 members of supervisory board members of 36 issuers were related to other supervisory board members.
- The largest share was accounted for by business relationships (59.6%), followed by family relationships (24.0%), business and family relationships (8.7%) and other types of relationships (7.7%).

Chart 38 Relationship between supervisory board members and other supervisory board members from 2015 to 2019



Source: Governance practices questionnaire for share issuers for 2015, 2016, 2017, 2018 and 2019

Supervisory board meetings

- In 2019, the number of supervisory board meetings ranged between 1 and 89, with the average number of the issuers' supervisory board meetings held during the year amounting to 9. There was one issuer whose supervisory board held no meetings in 2019 (in 2018, the number of supervisory board meetings ranged from 1 to 93, with the average number of meetings reaching 8, while there were 2 issuers whose supervisory boards held no meetings).
- Meetings of supervisory boards of 85 issuers (85.0%) were held at least once in three months (the data are provided for 2019 for the first time).
- A total of 53 issuers (53.5%) reported having a schedule of meetings of the supervisory board for 2019 (49 issuers (45.4%) in 2018).
- A total of 75 issuers (75.8%) reported having an internal regulation on supervisory board activities (72 issuers (66.7%) in 2018); 7 issuers (7.1%) reported changes in the regulation during the year (7 issuers reported this in 2018, too).

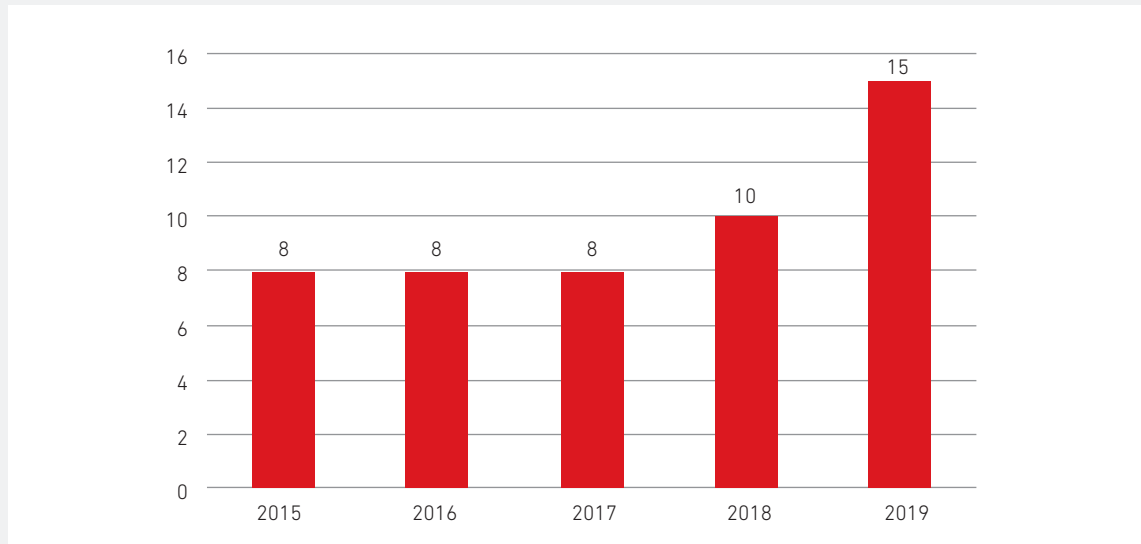
Supervisory board committees

Pursuant to the Code, the supervisory committee 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, as well as their chairs, should be independent. 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 2019, a total of 15 issuers (15.2%) reported having established all the three supervisory board committees - nomination committee, remuneration committee and audit committee (11 issuers or 10.2% in 2018).
- Broken down by segments of the regulated market, all the three supervisory board committees were established by:
 - all 5 issuers whose shares are admitted to trading on the Prime Market
 - 6 issuers (out of 23) on the Official Market
 - 4 issuers (out of 86) on the Regular Market.

Chart 39 shows the number of the share issuers with all the three supervisory board committees in place from 2015 to 2019.

Chart 39 Number of share issuers with all the three supervisory board committees in place in the 2015-2019 period

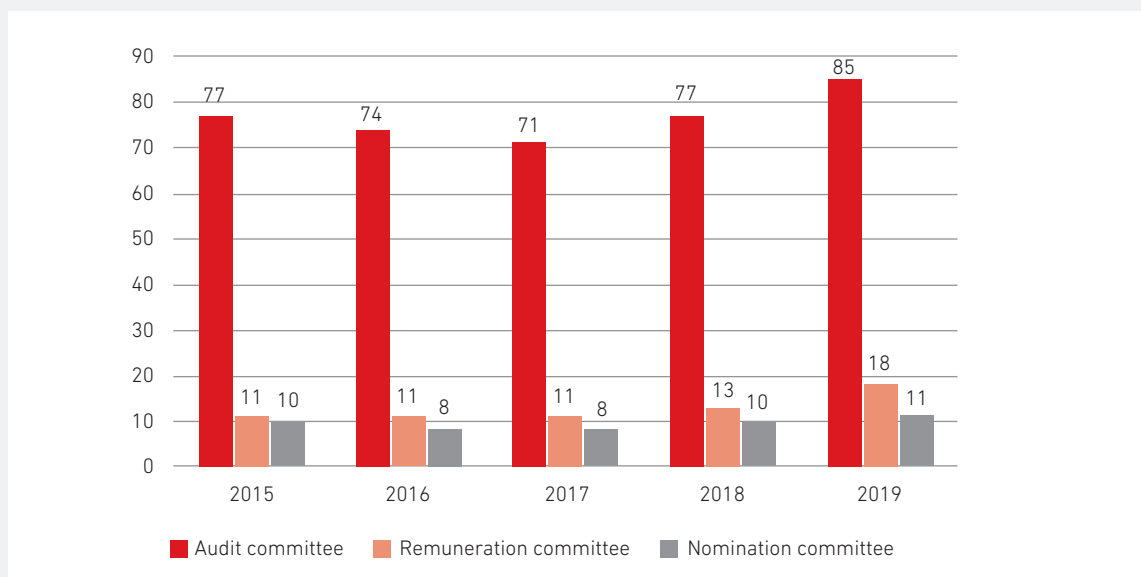


Source: 2019 Governance practices questionnaire for share issuers; Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

Broken down by individual supervisory board committees, 85 issuers (85.9%) reported having established an audit committee; 18 issuers (18.2%) reported having established a remuneration committee; while 20 issuers (20.2%) reported having established a nomination committee. (In 2018, 83 issuers (76.9%) had an audit committee; 15 issuers (13.9%) had a remuneration committee, while 11 issuers (10.2%) had a nomination committee.)

Chart 40 shows the number of the issuers with the audit committee, nomination committee and remuneration committee in place in the period from 2015 to 2019.

Chart 40 Number of issuers with supervisory board committees in place in the 2015-2019 period



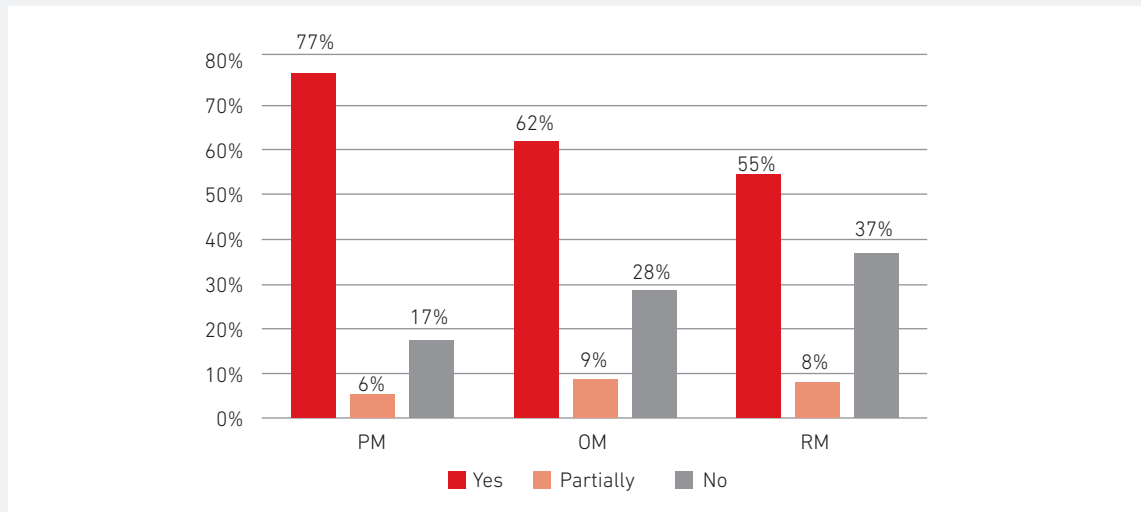
Source: 2019 Governance practices questionnaire for share issuers; Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- Broken down by individual supervisory board committees:
 - 230 supervisory board members (45.7%) were audit committee members
 - 51 supervisory board members (10.1%) were remuneration committee members
 - 57 supervisory board members (11.2%) were nomination committee members, while
 - the remaining 169 supervisory board members (33.3%) were not members of any of the committees established in accordance with the Code.
- Other committees were established by 14 issuers (14.1%) in 2019 (11 issuers or 10.2% in 2018).
- On average, all the three supervisory board committees had 3 members in 2019 (in 2018, the audit and remuneration committees had 3 members and the nomination committee had 2 members on average), while 1 member in each of the committees on average was independent (in 2018, there was 1 independent member of the audit and remuneration committees and 2 independent members of the nomination committee on average).
- A total of 57 issuers (67.1%) who had the audit committee in place also reported having established its internal working procedures; 14 of them (55.3%) reported the preparation of reports on the work of the audit committee, with only 15.3% of the reports being available to the public. (In 2018, out of 83 issuers with the audit committee in place 46 issuers reported having established its internal working procedures; other data are provided for 2019 for the first time since these data were not collected by the governance practices questionnaire before.)
- A total of 14 issuers (77.8%) who had the remuneration committee in place also reported having established its internal working procedures, while only 9 of them (50.0%) reported the preparation of reports on the work of the remuneration committee, with 27.8% of the reports being available to the public. (In 2018, out of 15 issuers with the remuneration committee in place 9 issuers reported having established its internal working procedures; other data are provided for 2019 for the first time.)
- A total of 14 issuers (70.0%) with the nomination committee in place also reported having established its internal working procedures. (In 2018, out of 11 issuers with the nomination committee in place 7 issuers reported having established its internal working procedures.)
- The audit and remuneration committees held 4 meetings, while the nomination committee held 3 meetings in 2019 on average. (In 2018, the audit committee held 3 meetings, while the remuneration and nomination committees held 2 meetings during the year on average.)
- Supervisory boards of 79 issuers (79.0%) 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 (the data are provided for 2019 for the first time).
- Supervisory board committees of 80 issuers (80%) met as often as necessary to perform their tasks effectively and reported to the supervisory board regularly on their activities (the data are provided for 2019 for the first time).

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

Chart 41 shows the share issuers' compliance with the section "Supervisory board and its committees" in 2019. Data on the compliance with this section are provided for 2019 for the first time as the share issuers were obliged to submit the compliance questionnaire in 2019 for the first time.

Chart 41 Share issuers' compliance with the section "Supervisory board and its committees" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaire, internal calculation

The issuers whose shares are admitted to trading on the Prime Market had the largest average percentage of YES answers (77%) and the lowest average percentage of NO answers (17%) to the questions from the questionnaire relating to the section "Supervisory board and its committees". The issuers on the Official Market had 62% of YES answers and 28% of NO answers on average.

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

- Out of 114 issuers whose shares were admitted to trading on the regulated market as at 31 December 2019, **4 issuers** had a **one-tier governance system**, and the remaining **110 issuers** reported having a **two-tier governance system**.
- At the end of 2018, out of 126 issuers whose shares were admitted to trading on the regulated market, 2 issuers had a one-tier governance system, while the other issuers had 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.

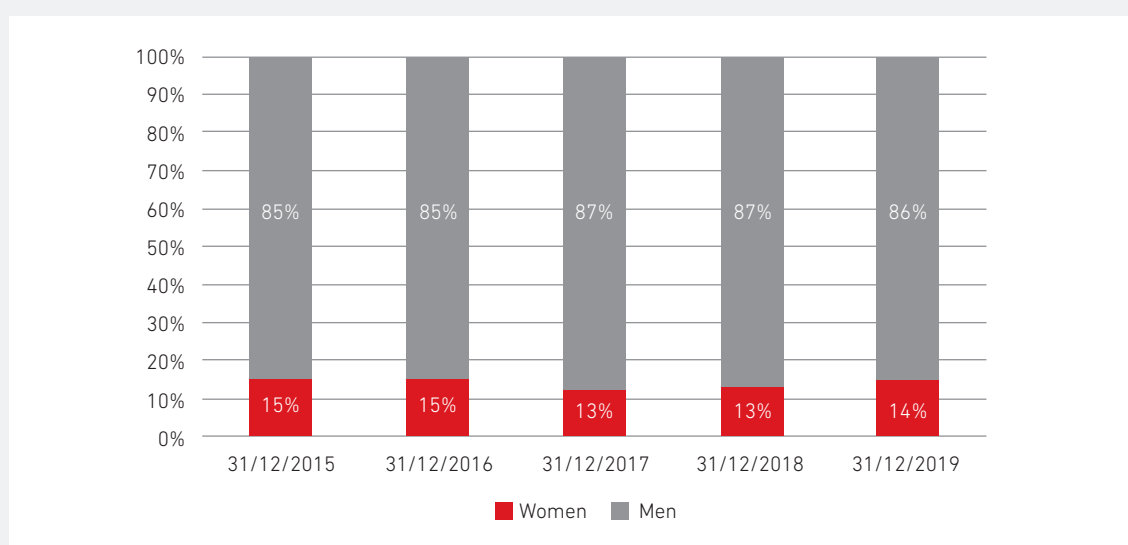
The management board may consist of one or more persons, and the number of management board members is stipulated by the company's statute. The Companies Act does not stipulate the minimum number of management board members.

The following text presents the analysis of the data delivered in the 2019 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 2019, the majority of management board members (55.1%) had a university degree (69.6% in 2018), while 3.3% of them had a PhD (3.2% in 2018).
- As at 31 December 2019, a total of 9.8% of management board members were foreign citizens (6.9% in 2018).
- As at 31 December 2019, the management board of the issuers consisted of 2 members on average (2 members in 2018, as well).
- Out of the total number of female management board members, 6.9% had a PhD.

Chart 42 Share issuers' management board gender structure from 2015 to 2019

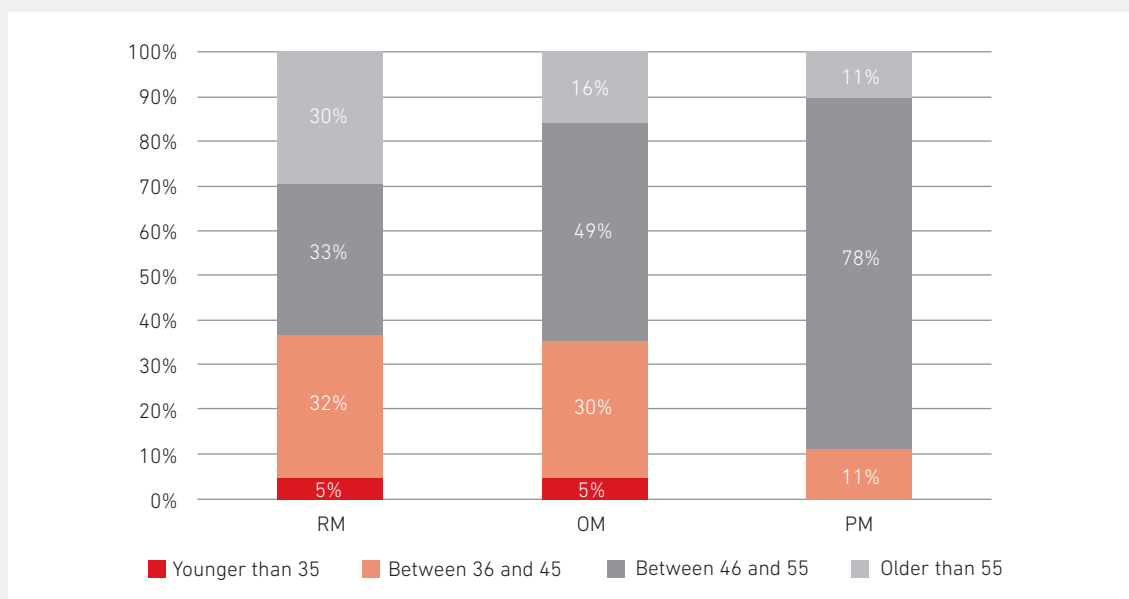


Source: Court register⁸

- The management board gender structure did not change significantly in the period observed. The share of women on the share issuers' management boards rose slightly at the end of 2019 compared to 2018 and 2017.
- According to the data from the governance practices questionnaire, as at 31 December 2019, the majority of management board members (42.4%) were between 46 and 55 years old (38.5% in 2018); 29.4% of them were between 36 and 45 years old (35.6% in 2018); 23.7% of them were over 56 years of age (22.7% in 2018); while 4.5% of them were younger than 35 years of age (3.2% in 2018). The age structure shows a positive trend in the number of management board members younger than 35 years of age.
- The majority of management board members younger than 35 years of age came from the services sector (3 management board members from 2 issuers) and from the agricultural activity (3 management board members from one issuer). In 2018, the majority of management board members younger than 35 years of age came from issuers belonging to the property and funds industry and the food industry (4 members from 3 issuers).

⁸ Data on the number and gender of management board members have been analysed based on the data from the court register in order for all issuers to be encompassed by the analysis (including those that failed to deliver the questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

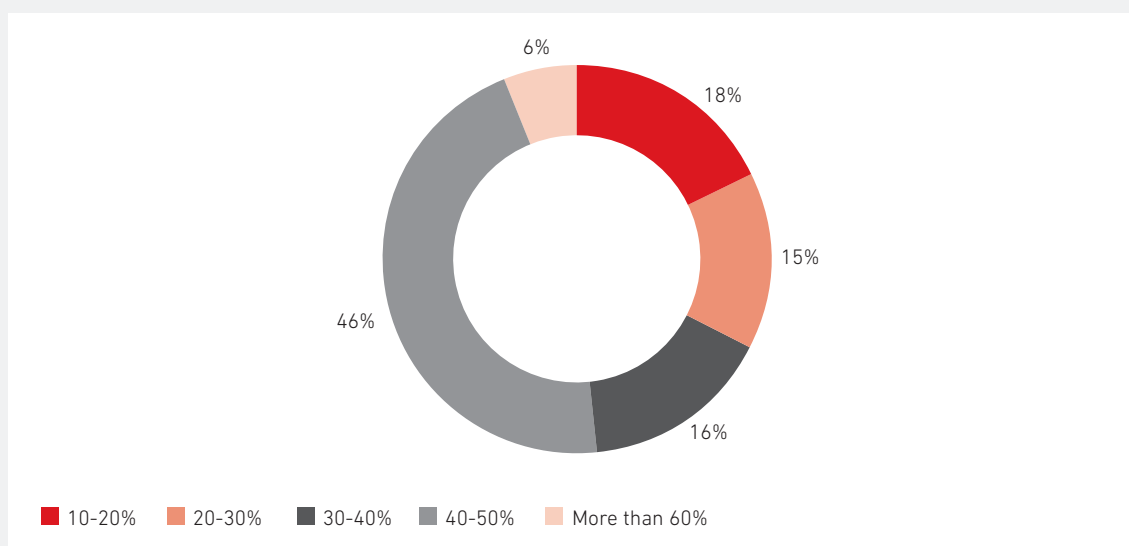
Chart 43 Management board age structure as at 31/12/2019 by segments of the regulated market



Source: 2019 Governance practices questionnaire for share issuers

- The majority of management board members older than 56 years of age sat on management boards of issuers whose shares are admitted to trading on the Regular Market (29.5%), a share significantly higher compared to the official and Prime Market, where the percentages totalled 16% and 10% respectively.
- There were no members younger than 35 years of age on management boards of issuers whose shares are admitted to trading on the Prime Market, with the majority of their members being between 46 and 55 years old.

Chart 44 Share issuers who set a target percentage of management board female members in 2019



Source: 2019 Governance practices questionnaire for share issuers

According to the corporate governance practices questionnaire, 68 issuers set a target percentage of female management board members. In 2019, the majority of issuers (31 or 46%) set a target percentage of female management board members ranging between 40% and 50%, while 4 issuers (6%) set a target percentage higher than 60%.

Meetings of the management board

- In 2019, the number of management board meetings held ranged from 1 to 239 (the number of meetings held by an issuer on the Regular Market), while the average number of management board meetings held during the year was 22. (In 2018, the number of management board meetings held ranged from 1 to 238 (the number of meetings held by an issuer on the Regular Market, too), while the average number of the meetings held during the year was 19.)
- In 2019, 38 issuers (38.4%) reported having a schedule of meetings of the management board (32 issuers or 35.2% in 2018).
- A total of 59 issuers (59.6%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 11 issuers (18.6%) reported changes in this regulation having occurred during the year. (In 2018, 49 issuers (45.4%) reported having an internal regulation on management board activities, and 6 of them (12.2%) 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 2019, the average duration of management board membership was 6 years (the same as in 2018).
- As at 31 December 2019, the average number of terms of office of management board members was 2.36 (2.27 in 2018). In 2019, the largest number of consecutive terms of office (9 and 10) was reported by 3 management board members in 2 issuers from the trade sector. (In 2018, the largest number of consecutive terms of office (9) was reported by 2 management board members in issuers from the tourism industry and trade sector.)
- In 2019, a total of 32 issuers reported new appointments (first term of office - 47 newly appointed members). (In 2018, 20 issuers reported a total of 35 newly appointed management board members.)
- Out of the 47 newly appointed management board members, 4 (8.5%) were women. (In 2018, out of the 35 newly appointed management board members, 6 (17.1%) were women.)

Resignations of management board members

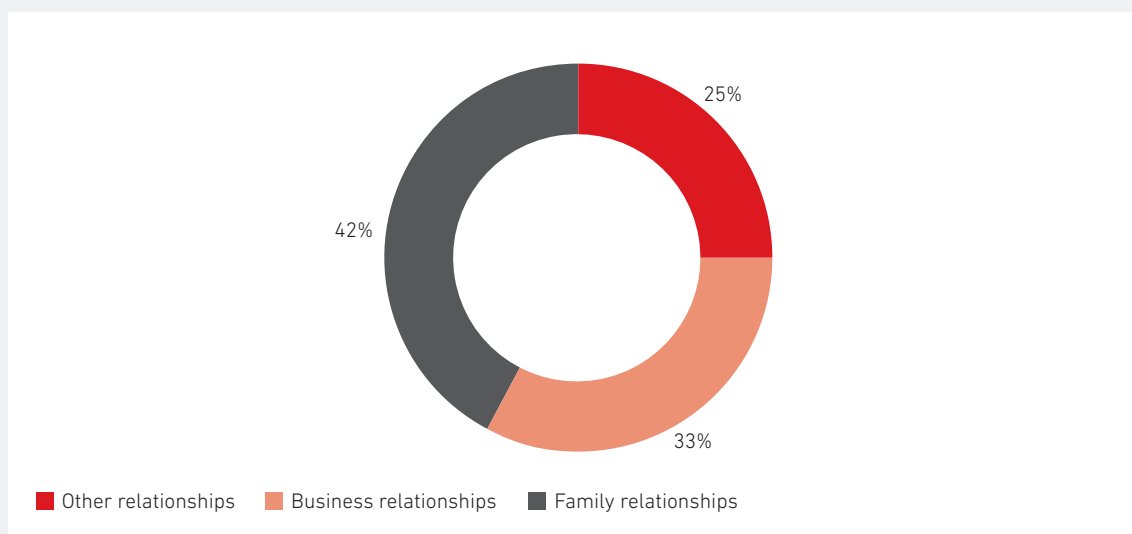
Resignations of management board members are submitted in writing.

- In 2019, a total of 26 management board members resigned prior to the expiry of their terms of office, mostly due to personal reasons (14 management board members due to the same reasons in 2018).

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

Chart 45 shows the proportion of management board members related to other management board members in 2019. The data describing types of relationships are provided for 2019 for the first time, as they were not collected through the governance practices questionnaire before.

Chart 45 Relationship between management board members and other management board members in 2019

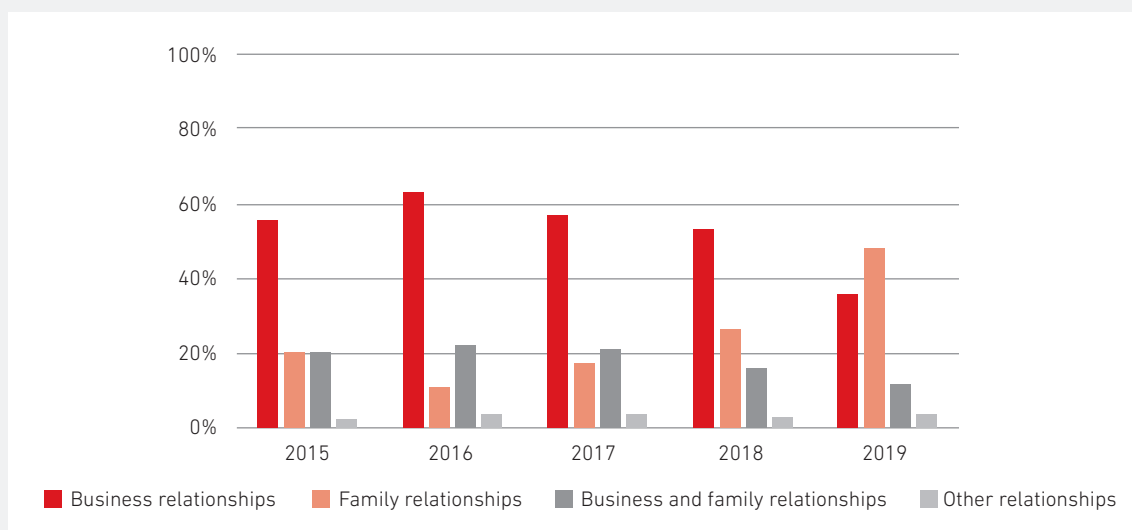


Source: 2019 Governance practices questionnaire for share issuers

- In 2019, a total of 11 management board members in 6 issuers were related with other management board members. The majority of management board members (5 or 45.5%) were related by family relationships, followed by business relationships (4 or 36.4%) and other relationships (2 or 18.2%).

Chart 46 shows the relationship between management board members and supervisory board members from 2015 to 2019 by types or relationships.

Chart 46 Relationship between management board members and supervisory board members from 2015 to 2019



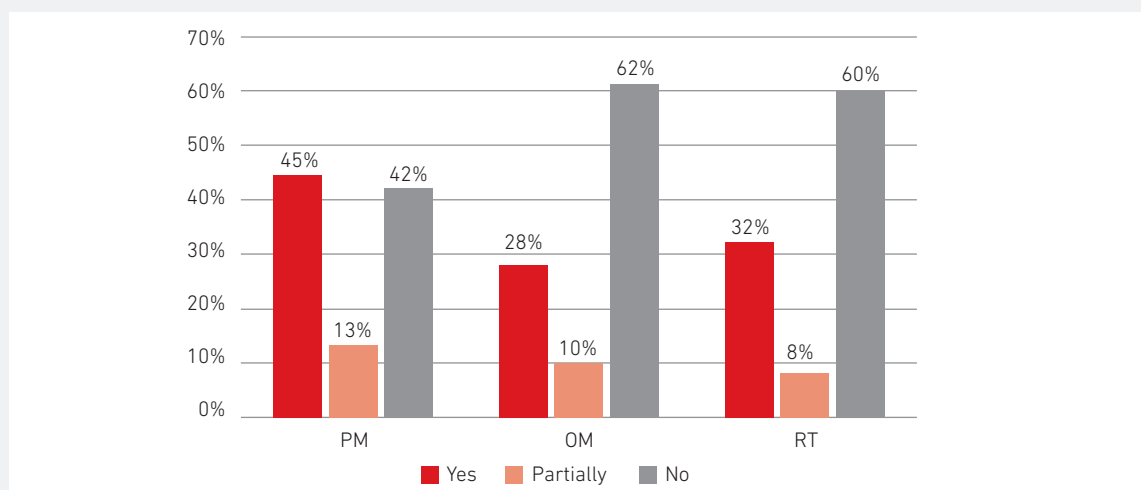
Source: 2019 Governance practices questionnaire for share issuers

- In the period observed, the majority of management board members were related to supervisory board members by business relationships (16 management board members were related to supervisory board members on average), while 1 management board member on average was related to supervisory board members by other relationships.
- In 2019, a total of 25 management board members in 21 issuers were related to supervisory board members. The majority of them were related by family relationships (12 management board members or 8.0%), followed by business relationships (9 management board members or 36.0%), business and family relationships (3 management board members or 12.0%) and other types of relationships (1 management board member or 4.0%).
- In 2019, a total of 74 management board members were at the same time management board members in 3 other companies on average (82 management board members in 2 other companies on average in 2018), of which 1 was an issuer on the regulated market, and 2 were linked companies (within the meaning of Article 473 of the Companies Act) on average (in 2018, 1 issuer on the regulated market and 1 linked company on average, too).
- In 2019, 94 management board members were at the same time supervisory board members in 2 other companies on average, of which 1 was a linked company (within the meaning of Article 473 of the Companies Act) on average. (In 2018, 88 management board members were at the same time supervisory board members on average in one company that was not an issuer, of which 1 is a linked company on average).
- In 2019, a total of 49 issuers (49.5%) reported having in place rules of procedure of the management board adopted by the supervisory board which defines the division of responsibilities and cooperation among management board members (48 issuers or 44.4% in 2018).
- Supervisory boards of 90 issuers (90.0%) ensured that the management board was defined by a minimum number of members and a combination of members that possessed an appropriate level of education, skills, knowledge and professional and practical experience (the data are provided for 2019 for the first time).
- In the last 12 months, supervisory boards of 70 issuers (70.0%) assessed the efficiency of arrangements for cooperation between the supervisory board and management board (the data are provided for 2019 for the first time).

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

Chart 47 shows the compliance of the share issuers with the provisions of the section "Appointment of board members" by segments of the regulated market.

Chart 47 Share issuers' compliance with the section "Appointment of board members" in 2019 by segments of the regulated market

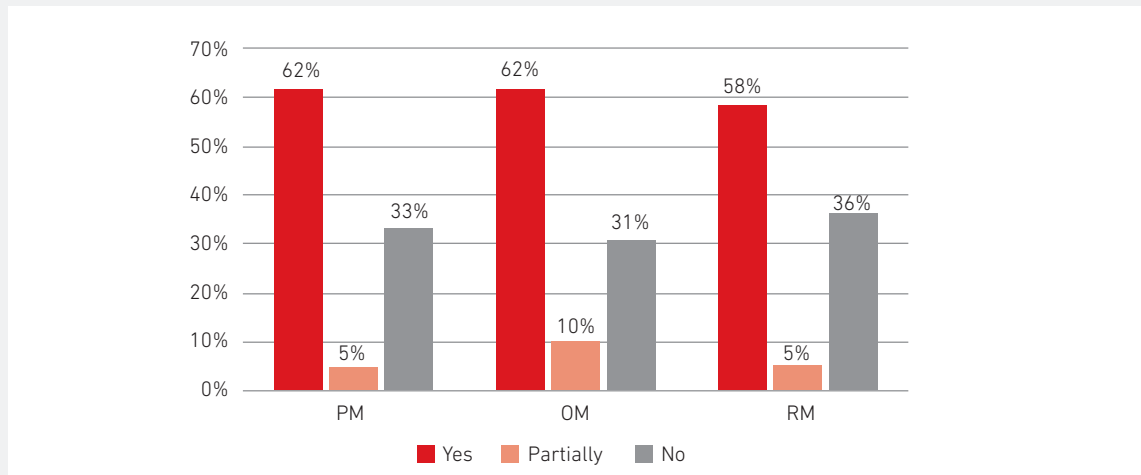


Source: 2019 Compliance questionnaire for share issuers, internal calculation

The issuers on the official and Regular Market had more than 60.0% of NO answers to the questions relating to the section “Appointment of board members”, while the highest percentage of YES answers was provided by issuers on the Prime Market. Furthermore, the issuers whose shares are admitted to trading on the Prime Market had approximately the same percentage of YES and NO answers to the questions relating to this section.

Chart 48 shows the compliance of the share issuers with the section “Management board” in 2019 by segments of the regulated market.

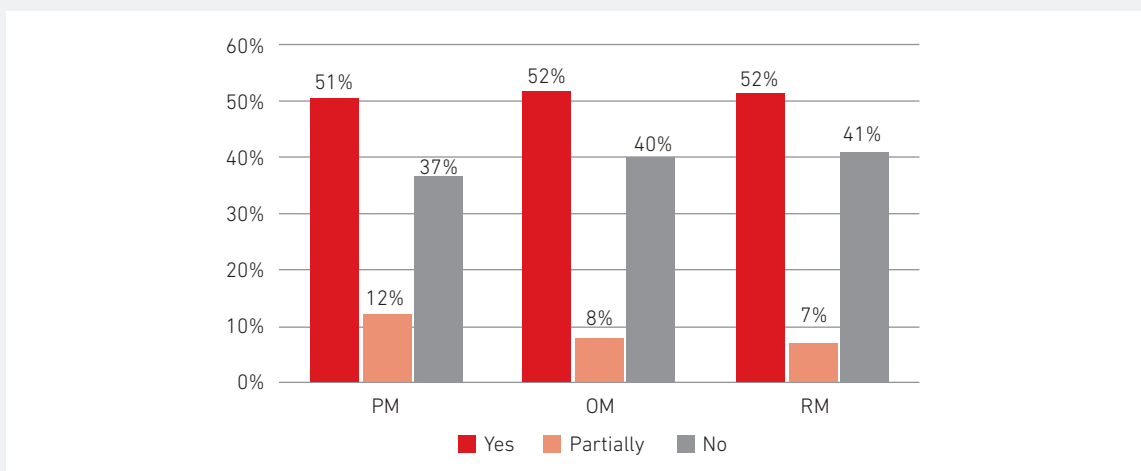
Chart 48 Share issuers’ compliance with the section “Management board” in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaire for share issuers, internal calculation

Broken down by segments of the regulated market and as regards the questions from the compliance questionnaire relating to Section 5 of the Code (Management board), the issuers whose shares are admitted to trading on the Prime Market and Official Market had more than 60.0% of YES answers on average, while issuers on the Regular Market provided the majority of NO answers (36.0%).

Chart 49 Share issuers’ compliance with the section “Duties of board members” in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaire for share issuers

Approximately 50.0% of the share issuers on all the segments of the regulated market fully complied with the section “Duties of board members” in 2019, while about 40.0% of the issuers on each of the segments of the regulated market failed to comply.

3.5 Duties and responsibilities of board members

The system of governance of each company is defined by its statute. The general meeting is an obligatory governing body, while governance and supervision of a company may be the function performed by one governing body, namely a board of directors in the case of a **one-tier governance system**, or by two separate governing bodies, namely a management board and supervisory board in the case of a **two-tier governance system**. Even though the supervisory board and management board have different roles, they share responsibility for the company's long-term success and should ensure that policies, staff and processes of the company are all directed towards that goal.

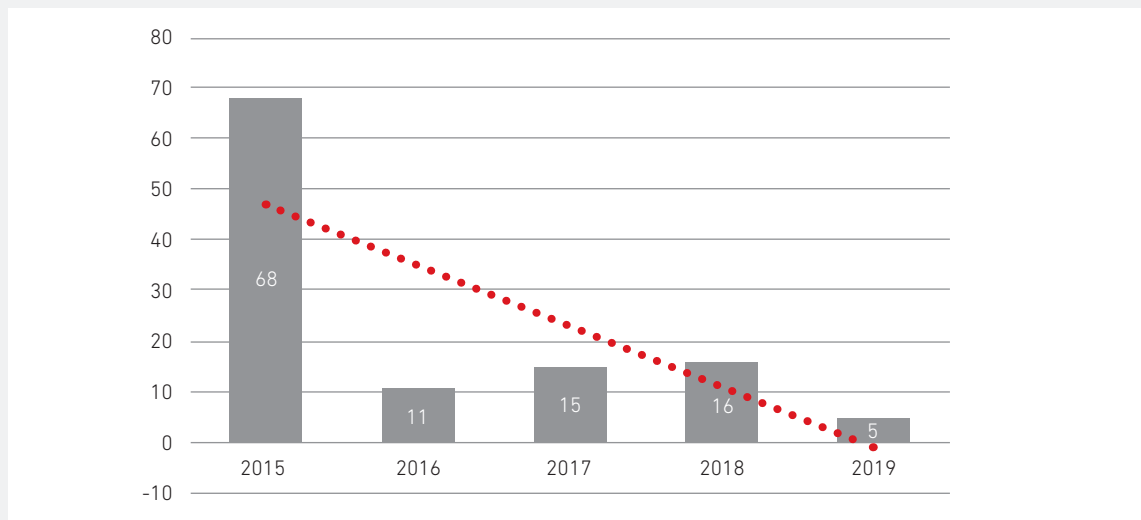
Conflicts of interest

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 2019, **5 cases of conflicts of interest were reported** by **2 issuers** whose shares were admitted to trading on the **Official Market**, due to which the persons involved abstained from voting on entering related party transactions. (In 2018, 3 issuers reported 16 cases of conflicts of interests, of which 2 issuers reported 14 cases of conflicts of interest due to which the persons involved abstained from voting on entering related party transactions.)
- Out of the 5 cases of conflicts of interest reported in 2019, one case was reported by the supervisory board, while 4 cases were reported by the senior management (the data are provided for 2019 for the first time).

Chart 50 shows the number of cases of conflicts of interest reported from 2015 to end-2019.

Chart 50 Number of cases of conflicts of interest reported in the period from 2015 to 2019

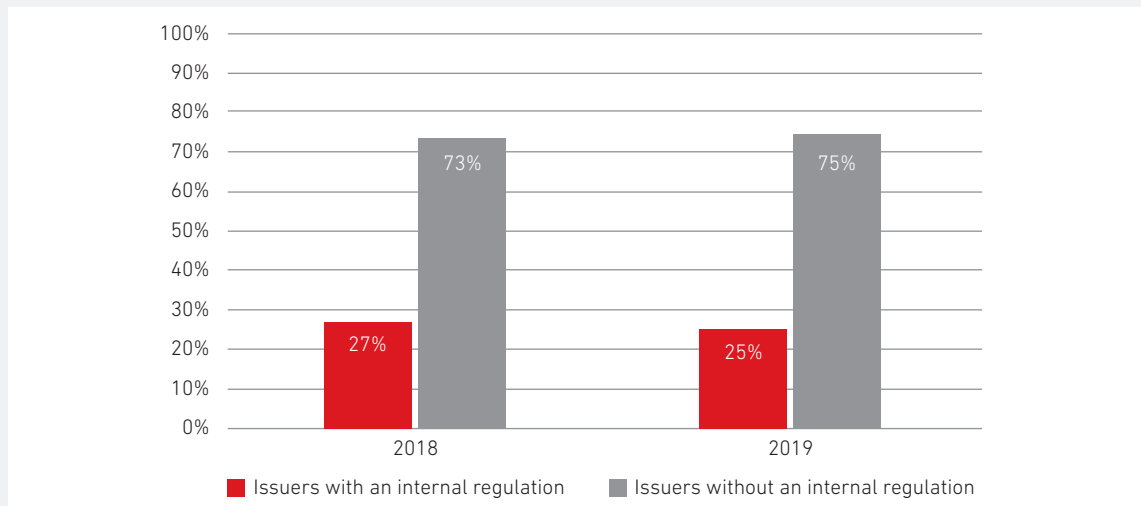


Source: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

Related party transactions

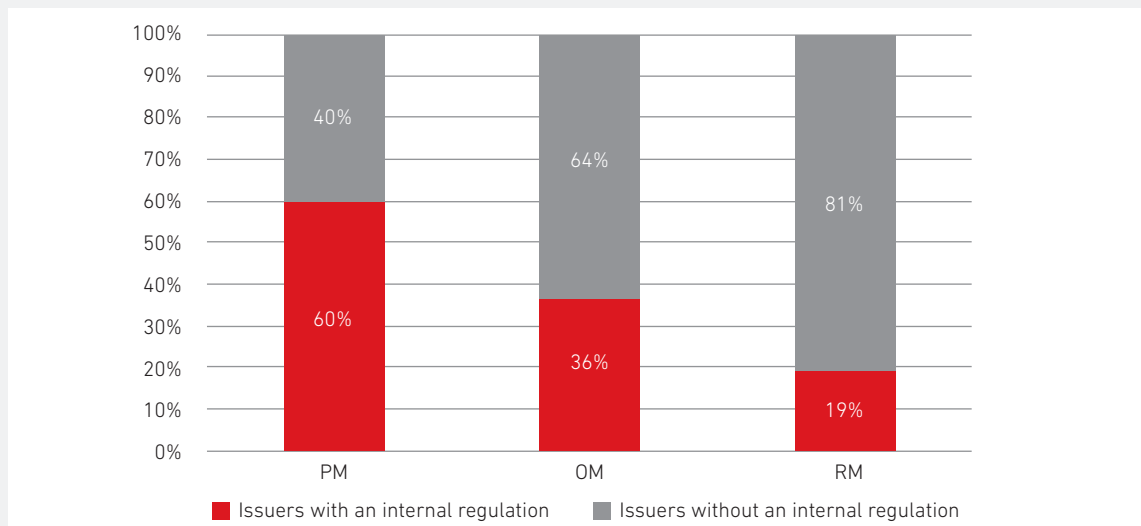
- In 2019, a total of 25 issuers (25.3%) reported having in place an internal regulation for cases of related party transactions (29 issuers or 26.9% in 2018).
- The majority of issuers (74 issuers or 74.7%) who submitted their governance practices questionnaire **reported not having an internal regulation for cases of related party transactions** (79 issuers or 73.1% in 2018).
- Broken down by segments of the regulated market:
 - out of the 5 issuers on the Prime Market, 3 (60.0%) reported having an internal regulation for cases of related party transactions
 - 8 issuers (36.4%) on the Official Market reported having an internal regulation in place for cases of related party transactions
 - 14 issuers (19.4%) on the Regular Market reported having an internal regulation in place for cases of related party transactions.

Chart 51 Share issuers who reported having/not having an internal regulation for cases of related party transactions in 2018 and 2019



Source: Governance practices questionnaire for share issuers, 2018 and 2019

Chart 52 Share issuers who reported having/not having an internal regulation for cases of related party transactions in 2019 by regulated market segments



Source: 2019 Governance practices questionnaire for share issuers

Table 18 sets out the average value of reported transactions concluded by the issuer in the period from 2015 to 2019 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.

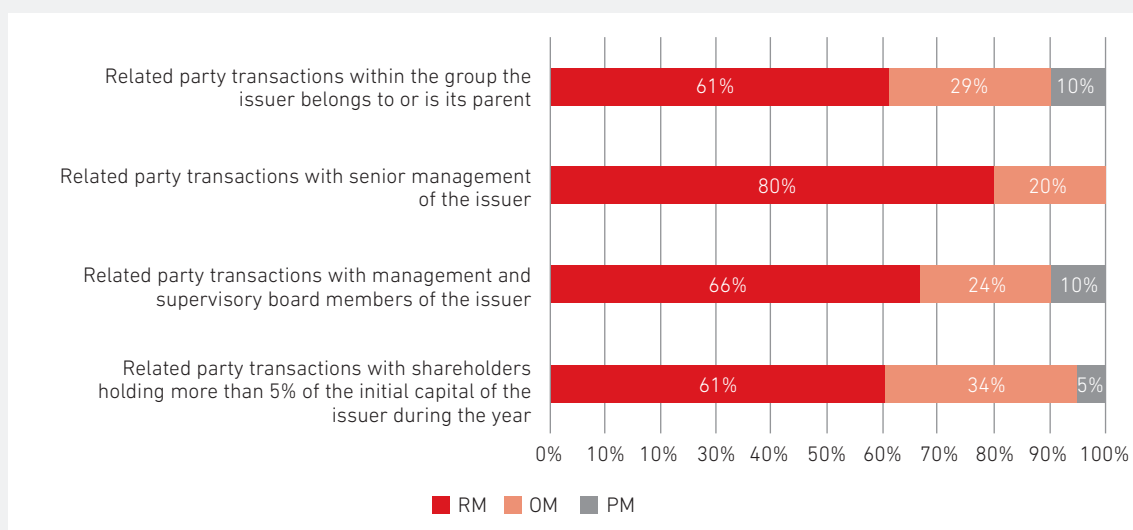
Table 18 Average value of reported related party transactions from 2015 to 2019

		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 senior management of the issuer	within the group the issuer belongs to or is its parent
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: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- The total number of reported transactions of the issuer with shareholders holding more than 5% of the initial capital of the issuer was lower in 2019 than in 2018, but higher than in 2017, 2016 and 2015. In spite of the lower number of transactions reported, the average gross value of transactions of the issuer with shareholders holding more than 5% of the initial capital of the issuer was higher by 25% than in 2018.
- The total number of reported transactions of the issuer with management and supervisory board members of the issuer was higher in 2019 compared to 2018, 2017 and 2015. 2019 saw the lowest average gross value of reported transactions of the issuer with management and supervisory board members of the issuer relative to the 2015-2018 period.
- In 2019, the total number of reported transactions of the issuer with senior management of the issuer was equal to that in 2018 (10). In 2017 and 2015, the number of such transactions reported was lower, while in 2016 that number was higher than in 2019. Even though the number of transactions reported was equal to that in 2018, the total average gross value of such transactions was by 39% higher in 2019 compared to 2018.
- The total number of reported transactions concluded by the issuer within the group the issuer belongs to or is its parent was the highest since 2015 (50 reported transactions in 2015). In 2019, the average gross amount of such transactions was by 1% lower than in 2018.

Chart 53 Number of transactions concluded by the issuer in 2019 with related persons by categories and segments of the regulated market



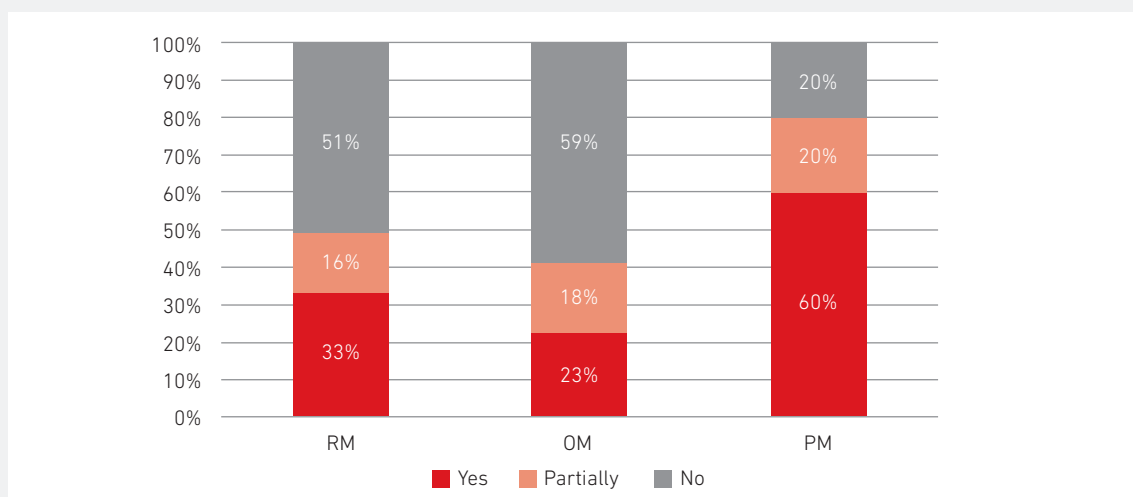
Source: 2019 Governance practices questionnaire for share issuers

- The largest number of transactions with related parties (shareholders holding more than 5% of the issuer's capital during the year, members of the management and supervisory board of the issuer, senior management of the issuer, within the group the issuer belongs to or is its parent) was concluded by issuers on the Regular Market (75 transactions with their gross value reaching about HRK 16.8bn).
- The average number of transactions with related parties (of all the categories) amounted to 19 for the Regular Market, 9 for the Official Market and 2 for the Prime Market (the data are provided for 2019 for the first time).

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

- Supervisory boards of 32% of the issuers gave their consent to the code of conduct or another internal regulation establishing rules of behaviour to be followed by supervisory and management board members, employees and other persons acting on behalf of the company.

Chart 54 Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2019



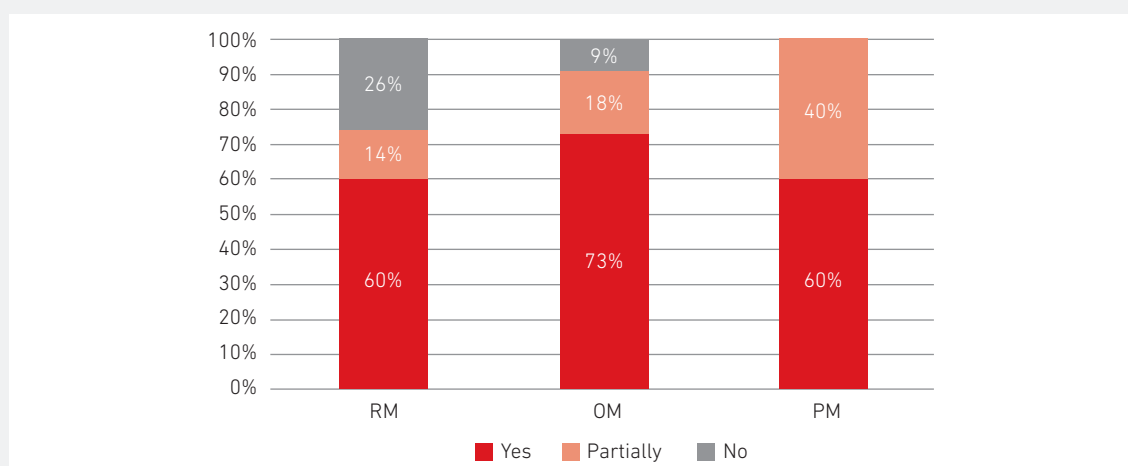
Source: 2019 Compliance questionnaire for share issuers

- 26 issuers (26.0%) published their codes of conduct for management and supervisory board members on their websites (the data are provided for 2019 for the first time).
- 3 issuers (60.0%) 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, while 2 issuers (40.0%) did not publish their codes of conduct.
- 23 issuers (23.0%) whose shares are admitted to trading on the Official and Regular Market reported having published codes of conduct for management and supervisory board members on their websites, while more than half of the rest of the issuers who submitted their 2019 compliance questionnaire (77 issuers or 77.0%) did not publish the codes on their websites (the data are provided for 2019 for the first time).

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

- In 2019, 63 issuers (63.0%) laid down the prohibition on the participation in the decision-making processes which give rise to conflicts of interest, while 16 issuers (16.0%) did so only partially (the participation in such decision-making processes is subject to the provisions of the Companies Act) (the data are provided for 2019 for the first time).

Chart 55 Prohibition on the participation in the decision-making processes which give rise to conflicts of interest for management and supervisory board members



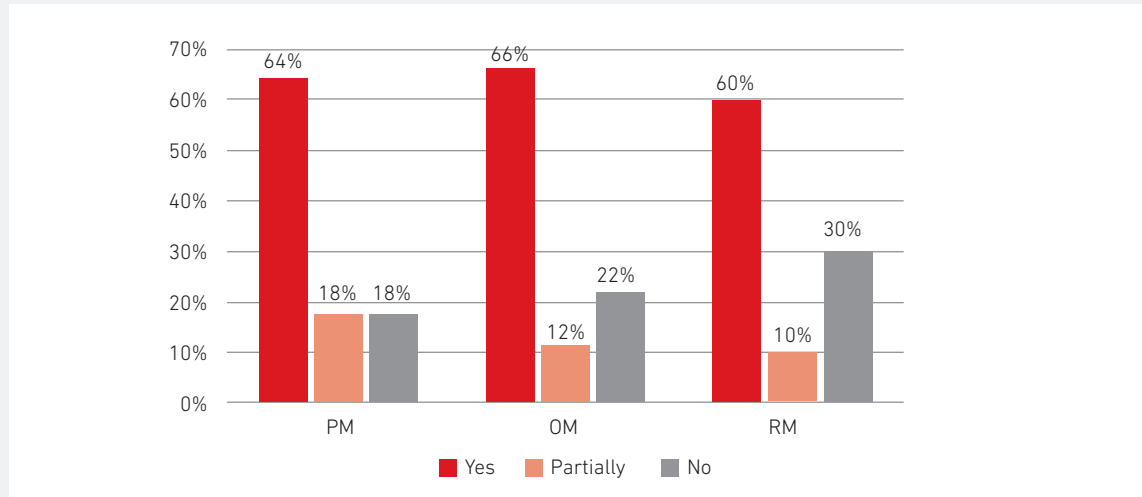
Source: 2019 Compliance questionnaire for share issuers

- Prohibition on the participation in the decision-making processes which give rise to conflicts of interest for management and supervisory board members was laid down by the majority of issuers on the regular, official and Prime Market of the ZSE.
- Although the largest portion of issuers who prohibited participation in the decision-making processes which give rise to conflicts of interest for management and supervisory board members was accounted for by issuers on the Official Market, the data provided lead to the conclusion that this was the area dominated by the Prime Market, as all the issuers whose shares are admitted to trading on this market reported having fully or partially prescribed prohibition on the participation in the decision-making processes related to conflicts of interest.
- A total of 18 issuers (18.0%) reported having made their conflict of interest management policy available on their websites free of charge, 6 issuers (6.0%) made the policy partially available, while 76 issuers (76.0%) did not make their conflict of interest management policy available on their websites.
- Conflict of interest management policies were made available on their websites free of charge by 9 issuers (12.3%) on the Regular Market, 7 issuers (31.8%) on the Official Market and 2 issuers (40.0%) on the Prime Market.

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

Chart 56 shows the issuers' compliance with the section "Leadership" in 2019. Data on the compliance with this section are provided for 2019 for the first time as the data from the compliance questionnaire were collected for 2019 for the first time.

Chart 56 Share issuers' compliance with the section "Leadership" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaire for share issuers, internal calculation

Issuers whose shares are admitted to trading on the Prime, Official and Regular Market had, on average, 60.0% or more of YES answers to questions from the compliance questionnaire relating to Section 1 of the Code (Leadership). The majority of NO answers relating to this section of the Code (30.0%) were provided by issuers whose shares are admitted to trading on the Regular Market (the data are provided for 2019 for the first time).

3.6 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.

Table 19 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 2019. The amounts shown in Table 19 are average amounts paid to the entire management board (not to a single management board member).

Table 19 Remuneration paid to management board members in the 2015-2019 period

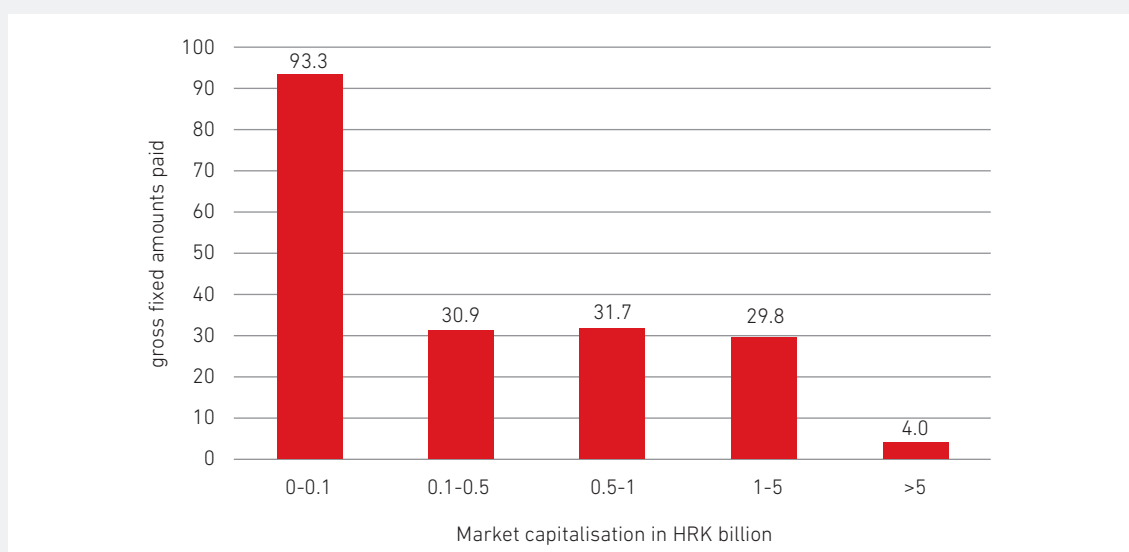
		Average gross amount of remuneration (in HRK)		Average amount of options held by management board members (in HRK)	Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration		
2019	Number of issuers	84	39	2	31
	Amount	2,257,302	2,031,888	1,114,077	822,969
2018	Number of issuers	73	19	3	10
	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: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2019, 84 issuers paid a gross fixed amount of remuneration to management board members totalling HRK 189,613,350. (In 2018, 73 issuers paid a gross fixed amount of remuneration to management board members totalling HRK 181,587,549.)

- The gross fixed amount of remuneration paid to management board members in 2019 reached HRK 2,257,302 on average (HRK 2,487,501 in 2018).
- The gross fixed amount of remuneration paid to management board members in 2019 ranged from HRK 68.4 thousand to HRK 15.4m (from 173.8 thousand to 30.2m in 2018). As in the previous year, the highest gross amounts of fixed remuneration were paid in 2019 to management board members of issuers from the tourism industry and banking sector, while the lowest gross amounts of fixed remuneration were paid in the property and funds industry.
- A total of 39 issuers paid gross variable remuneration to management board members reaching HRK 79,243,628 (in 2018, the amount totalling HRK 44,189,747 was paid by 19 issuers).
- The gross variable remuneration paid to management board members in 2019 reached HRK 2,031,888 on average (HRK 2,325,776 in 2018).
- The gross variable amount of remuneration paid to management board members in 2019 ranged from HRK 1.5 thousand to HRK 12.4m (from 20.1 thousand to 8.9m in 2018). In 2019, the highest and lowest gross amounts of fixed remuneration were paid in 2019 to management board members of issuers from the telecommunications industry and transport sector respectively. (In 2018, the highest amount was paid in the banking sector and the lowest in the agriculture sector).
- In 2019, 2 issuers from the trade sector and food industry granted options to management board members in the amount of HRK 2,228,154, with single amounts of the options granted ranging between HRK 506.3 thousand and HRK 1.7m. (In 2018, 3 issuers from the food industry, other activities and tourism industry granted options to management board members in the amount of HRK 36,810,299, with single amounts of the options granted ranging from HRK 238.2 thousand to HRK 35.1m).
- A total of 31 issuers paid other benefits to management board members in the amount reaching HRK 25,512,045. (In 2018, other benefits totalling HRK 11,978,023 were paid by 10 issuers). Single amounts of other benefits paid to management board members in 2019 ranged from HRK 2.5 thousand to HRK 7.5m (from 5.6 thousand to 4.4m in 2018).
- A total of 30 issuers reported having submitted the annual management board remuneration report to the general meeting (14 issuers in 2018).

Chart 57 Total gross amounts of fixed remuneration paid to management board members in 2019 (in HRK million) in relation to market capitalisation of the issuer (in HRK billion)



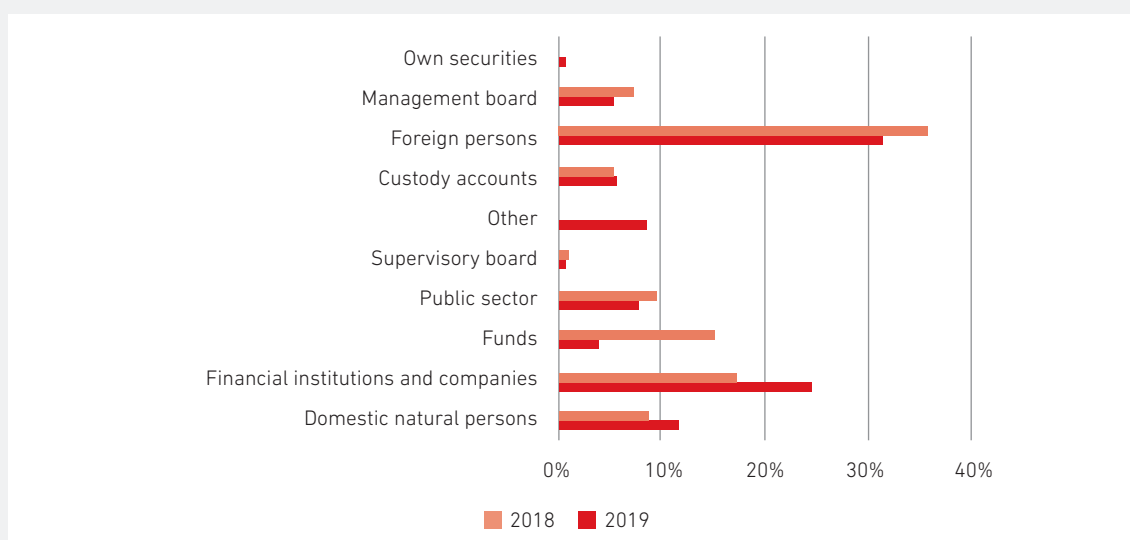
Source: 2019 Governance practices questionnaire for share issuers, ZSE

In 2019, management board members were paid gross fixed remuneration reaching HRK 189,613,350. The largest amount of gross fixed remuneration reaching HRK 93,264,512 was paid to management board members by issuers with their market capitalisation totalling HRK 0-0.1bn, while the smallest amount of gross fixed remuneration reaching HRK 3,950,837 was paid to management board members by issuers with their market capitalisation totalling more than HRK 5bn.

- In 2019, the gross fixed amount of remuneration totalling more than HRK 5m was paid to management board members by 11 issuers, of which 2 issuers on the Prime Market, 3 issuers on the Official Market and 6 issuers on the Regular Market. The total amount reached HRK 91,892,796 and accounted for 48.4% of the total gross fixed remuneration paid to management board members during the year. (In 2018, 7 issuers paid gross fixed remuneration to management board members totalling more than HRK 5m.)

Chart 58 shows the ownership structure of issuers who paid gross fixed remuneration to management board members totalling more than HRK 5m in 2018 and 2019..

Chart 58 Ownership structure of share issuers who paid gross fixed remuneration to management board members totalling more than HRK 5m in 2018 and 2019



Source: 2018 and 2019 Governance practices questionnaire for share issuers, CDCC

- The ownership structure of share issuers who paid gross fixed remuneration to management board members totalling more than HRK 5m in 2019 was dominated by foreign persons with a 31.3% share. (In 2018, this ownership structure was also dominated by foreign persons with a 35.8% share, followed by financial institutions and companies with a 17.24% share.)

Management board remuneration policy

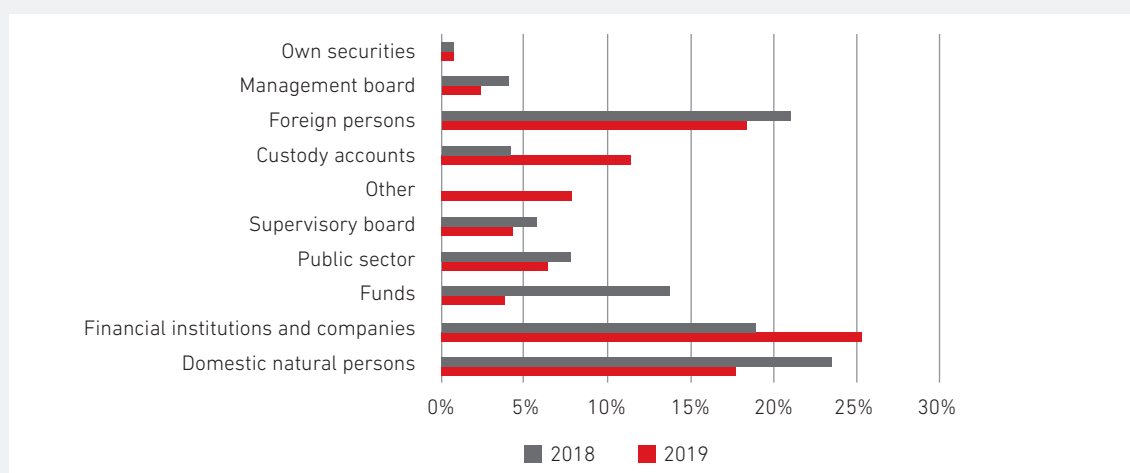
The supervisory board determines the annual remuneration of each management board member, based on recommendations by the remuneration committee and in accordance with the remuneration policy approved by the general meeting. The remuneration of management board members and key performance indicators taken into account when determining performance-based part of remuneration should be at an adequate level, taking account the strategy agreed, risk appetite, economic environment the company is operating in, and pay and working conditions of the company's employees.

- In 2019, 22 issuers (22.2%) reported having in place a remuneration policy for management board members, of which 1 issuer on the Prime Market, 8 issuers on the Official Market and 13 issuers on the Regular Market. (In 2018, 23 issuers (21.3%) reported having in place a remuneration policy for management board members, while the data by segments of the regulated market are provided for 2019 for the first time.)

- 11 of 22 issuers (50.0%) who have in place a remuneration policy for management board members reported having publicly disclosed the policy. (In 2018, 10 out of 23 issuers (43.5%) reported having publicly disclosed the remuneration policy for management board members).
- The remuneration policy of 22 issuers (22.0%) was approved by shareholders at the general meeting (the data are provided for 2019 for the first time, as they were not collected through the compliance questionnaire before).
- The remuneration policy of 16 issuers (16.0%) includes provisions specifying in more detail circumstances in which part of a management board member's remuneration would be withheld or recovered (the data are provided for 2019 for the first time, as they were not collected through the compliance questionnaire before).
- The level of remuneration of management board members of 83 issuers (83.0%) takes account of the strategy agreed, risk appetite, economic environment the company is operating in, and pay and working conditions of the company's employees (the data are provided for 2019 for the first time, as they were not collected through the compliance questionnaire before).

Chart 59 shows the ownership structure of the share issuers who reported having in place a remuneration policy for management board members in 2018 and 2019.

Chart 59 Ownership structure of share issuers with a remuneration policy for management board members in place in 2018 and 2019



Source: 2018 and 2019 Governance practices questionnaire for share issuers, CDCC

The issuers who reported having in place a remuneration policy for management board members in 2019 were mostly owned by financial institutions and companies (25.4%) and foreign persons (18.4%). The issuers who reported having in place a remuneration policy for management board members in 2018 were mostly owned by domestic natural persons (23.6%) and foreign persons (21.1%).

Severance allowance for management board memberse

- In 2019, a total of 19 issuers (19.2%) reported having agreed the amount of severance allowance for management board members totalling HRK 56,094,419. (In 2018, 14 issuers (13.0%) reported the amount of HRK 40,845,435.)
- In 2019, the amounts of severance allowance agreed ranged from HRK 40.5 thousand to HRK 20.1m (from HRK 150.0 thousand to HRK 11.4m in 2018).
- 10 out of 19 issuers who had agreed the amount of severance allowance for management board members in 2019 paid the allowance in the amount of HRK 14,797,834, which accounted for 26.4% of total severance allowance for management board members agreed in 2019. (In 2018, 6 issuers paid severance allowance to management board members in the amount of HRK 3.067.726.)

Remuneration of supervisory board members

Pursuant to Article 269 of the Companies Act, 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.

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

- In 2019, 26 issuers (26.3%) reported having in place a remuneration policy for supervisory board members (2 issuers on the Prime Market, 7 issuers on the Official Market and 17 issuers on the Regular Market), of which 16 issuers (16.2%) reported having publicly disclosed the policy.
- In 2019, 70 issuers (70.7%) reported their levels of remuneration of supervisory board members being determined by the general meeting, 15 issuers (15.2%) reported their levels of remuneration of supervisory board members being determined by the statute, and 12 issuers (12.1%) reported their levels of remuneration of supervisory board members being determined in another manner.
- In 2018, 23 issuers reported their levels of remuneration of supervisory board members being determined by the statute, 57 issuers reported their levels of remuneration being determined by the general meeting, and 28 issuers reported their levels of remuneration of supervisory board members being determined in another manner.

In 2019, fixed amounts of remuneration of supervisory board members in the amount of HRK 38,323,312 were paid by 75 issuers. Table 20 shows the amounts of remuneration paid to supervisory board members in the period from 2015 to 2019.

Table 20 Remuneration paid to supervisory board members in the 2015-2019 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fiksni iznos	Variable remuneration ⁹	
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: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2018, 2017, 2016 and 2015

⁹ Pursuant to the Code, the remuneration of supervisory board members should not include variable or other elements relating to business performance.

- In 2019, fixed amounts of remuneration paid to supervisory board members ranged from HRK 1.5 thousand to HRK 3.3m (from HRK 1.6 thousand to HRK 3.8m in 2018).
- 12 issuers paid other benefits to supervisory board members in the total amount of HRK 3,517,524, with single amounts of other benefits ranging between HRK 1.5 thousand and HRK 1.7m (In 2018, other benefits were paid to supervisory board members by one issuer.)
- 26 issuers reported having submitted the annual supervisory board remuneration report to the general meeting (16 issuers in 2018).
- Levels of remuneration of the chair and members of the supervisory board of the majority of the issuers (60 issuers or 60.0%) reflected the time commitment and responsibilities of their roles.
- Remuneration policies and/or internal acts of 44 issuers (44.0%) prohibit the inclusion of variable or other elements relating to business performance in the remuneration of supervisory board members.
- 23 issuers (23.0%) reported having included data on the remuneration of individual supervisory board members in the annual remuneration report.

Remuneration paid to senior management

- In 2019, 62 issuers paid fixed remuneration to their senior management in the total amount of HRK 387,245,699, with single amounts of the remuneration ranging from HRK 300.9 thousand, reported by an issuer from the manufacture of wearing apparel sector, to HRK 31.0m, reported by an issuer from the food industry. (In 2018, 57 issuers paid fixed remuneration to their senior management in the total amount of HRK 310,040,362, with single amounts of the remuneration ranging from HRK 12.9 thousand, reported by an issuer from the construction industry, to HRK 28.9m, reported by the issuer from the tourism industry.)
- In 2019, 31 issuers paid variable remuneration to their senior management in the total amount of HRK 73,835,174, with single amounts of variable remuneration ranging from HRK 2.3 thousand, reported by an issuer from the banking sector, to HRK 9.8m, reported by an issuer from the tourism industry. (In 2018, 15 issuers paid fixed remuneration to their senior management in the total amount of HRK 34,079,541, with single amounts of the remuneration ranging from HRK 30 thousand, reported by an issuer from the banking sector, to HRK 8.3m, reported by an issuer from the tourism industry.)
- 2 issuers granted options to their senior management in the total amount of HRK 2,840,736 (2 issuers, too, in 2018, with the total amount reaching HRK 13,939,146), with the average value of options granted totalling HRK 1.4m (HRK 6.9m in 2018).
- In 2019, 13 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 23,240,431, with single amounts ranging from HRK 70.3 thousand to HRK 6.7m. (In 2018, 10 issuers agreed the amount of severance allowance for their senior management in the total amount of HRK 262,009,861, with single amounts ranging from HRK 86.0 thousand to HRK 225.9m).

Table 21 Remuneration paid to the senior management in the 2015-2019 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)
		Fixed remuneration	Variable remuneration	
2019	Number of issuers	61	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: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

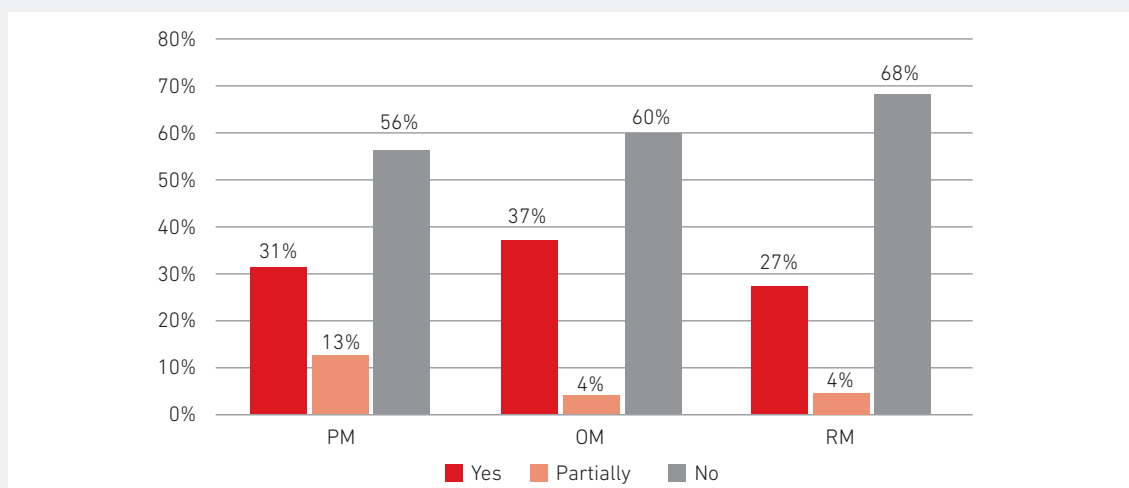
Severance allowance for the senior management

- In 2019, severance allowance in the total amount of HRK 5,631,422 was paid to the senior management by 13 issuers, with single amounts of the severance allowance ranging from HRK 4.0 thousand to HRK 2.2m. (In 2018, severance allowance in the total amount of HRK 3,943,499 was paid to the senior management by 12 issuers, with single amounts of the severance allowance ranging from HRK 86 thousand to HRK 746.1 thousand).
- In 2019, other benefits in the amount of HRK 8,917,148 were paid to the senior management by 23 issuers, with single amounts ranging from HRK 5.0 thousand to HRK 2.1m. (In 2018, other benefits in the amount of HRK 7,799,085 were paid to the senior management by 11 issuers, with single amounts ranging from HRK 23.5 thousand to HRK 3.0m.)

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

Chart 60 shows the compliance of the share 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.

Chart 60 Share issuers' compliance with the section "Remuneration of board members" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaires, internal calculation

3.7. Risks, internal control and audit

Managing company risks

The company should maintain an effective risk management system, adequate for the objectives, size and scale of the activities of the company. It should include processes that can ensure reliable risk identification, measurement, mitigation, reporting and monitoring; and should cover external risks the company is exposed to, as well as financial and operational risks. The company should define clear internal responsibilities for maintaining the risk management system, and responsible persons should maintain close contact with the audit committee.

Risk management has proved to be of special importance for the company, especially at a time of the economic and financial crisis and difficult business environment. 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.

- In 2019, 27 issuers or 27.3% (30 issuers or 27.8% in 2018) reported having a person in charge of risk management:
 - 3 issuers on the Prime Market
 - 7 issuers on the Official Market
 - 16 issuers on the Regular Market.
- Out of the 27 issuers who reported having a person in charge of risk management in 2019, 7 were from the banking sector. (In 2018, the majority of 30 issuers who reported having appointed a person in charge of risk management were also from the banking sector.)
- The most frequent risks faced by issuers in 2019 were:
 - liquidity risk (25 issuers)
 - macroeconomic environment risk (17 issuers)
 - operational risk (14 issuers)
 - credit risk (13 issuers).
- The most common materialised risks in 2018 were credit risk, liquidity risk, operational risk, currency risk and macroeconomic environment risk.
- In 2019, the majority of issuers (86 or 86.0%) reported maintaining an effective risk management system that ensures reliable risk identification, measurement and monitoring (the data are provided for 2019 for the first time).

Internal control and audit

Internal control and audit 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.

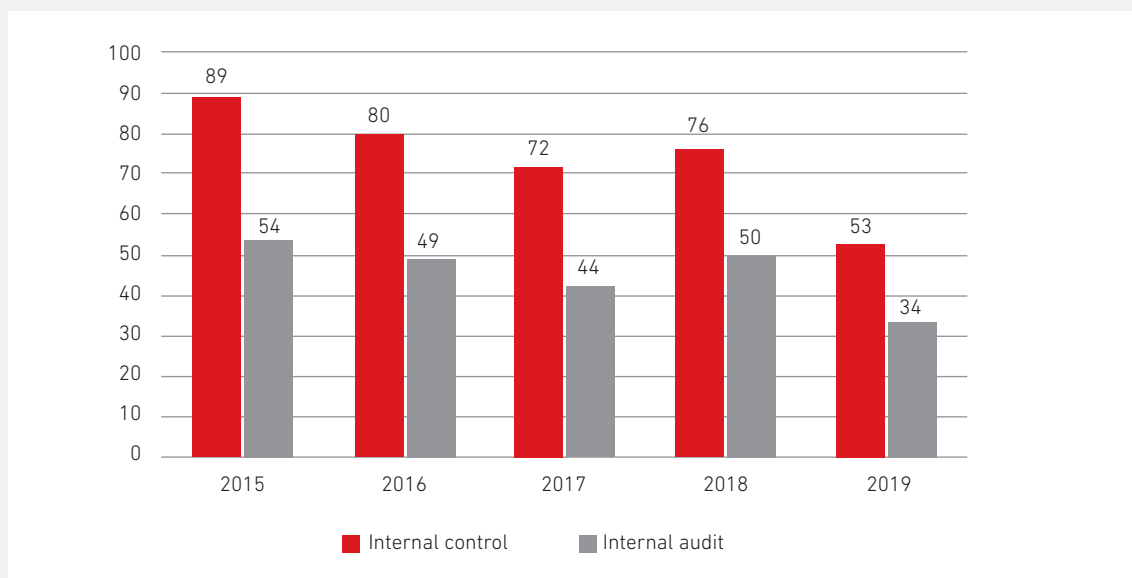
An important function of the internal control system is ensuring the reliability of the information used by the management board and published in financial statements and other disclosures. Robust and independent internal and external audit investigations are essential components of this system.

The company should have in place an internal audit function in charge of supervising the effectiveness of the internal control system, including risk management.

- In 2019, 53 issuers or 53.5% reported having in place an internal control system (76 issuers or 70.4% in 2018). Broken down by segments of the regulated market, this system was established by:
 - 5 issuers on the Prime Market
 - 15 issuers on the Official Market
 - 33 issuers on the Regular Market.
- In 2019, there were 12 employees in each internal control system on average (the data are provided for 2019 for the first time as they were not collected through the governance practices questionnaire before).
- The majority of the issuers who reported having in place an internal control system in 2019 were from the tourism industry (11 issuers), followed by 7 issuers from the banking sector and 4 issuers from the food industry. (In 2018, the majority of issuers who reported having in place an internal control system was from the tourism industry (22 issuers), followed by 9 issuers from the food industry and 8 issuers from the banking sector.)
- In 2019, a total of 34 issuers (34.3%) reported having in place an internal audit system (50 issuers or 46.3% in 2018). Broken down by segments of the regulated market, this system was established by:
 - 4 issuers on the Prime Market
 - 11 issuers on the Official Market
 - 19 issuers on the Regular Market.
- In 2019, there were 5 employees in each internal audit system on average (the data are provided for 2019 for the first time as they were not collected through the governance practices questionnaire before).
- The majority of the issuers who reported having in place an internal audit system in 2019 were from the banking sector (7 issuers), followed by 4 issuers from the tourism industry and 3 issuers from the food industry. (In 2018, 10 of the issuers who reported having in place an internal audit system was from the tourism industry, followed by 8 issuers from the banking sector and 8 issuers from the food industry.)
- The audit committee of 27 issuers (27.3%) who reported not having in place an internal audit system assessed the need for this function within the framework of internal control system assessment once in the previous 12 months (the data are provided for 2019 for the first time as they were not collected through the compliance questionnaire before).
- The audit committee of 31 issuers (out of the total of 34 issuers) who reported having in place an internal audit system had approved their internal audit plan in the previous 12 months (the data are provided for 2019 for the first time as they were not collected through the compliance questionnaire before).
- The audit committee of 31 issuers (out of the total of 34 issuers) who reported having in place an internal audit system received the internal auditor's reports and supervised the implementation of their recommendations (the data are provided for 2019 for the first time as they were not collected through the compliance questionnaire before).
- Market capitalisation of shares of 34 issuers who had in place an internal audit system in 2019 amounted to HRK 109.9bn. (Market capitalisation of shares of 50 issuers who had in place an internal audit system in 2018 reached HRK 102.6bn.)

Chart 61 shows the number of issuers who reported having in place internal audit and control systems in the period from 2015 to 2019.

Chart 61 Number of issuers with internal audit and control systems in place in the 2015-2019 period

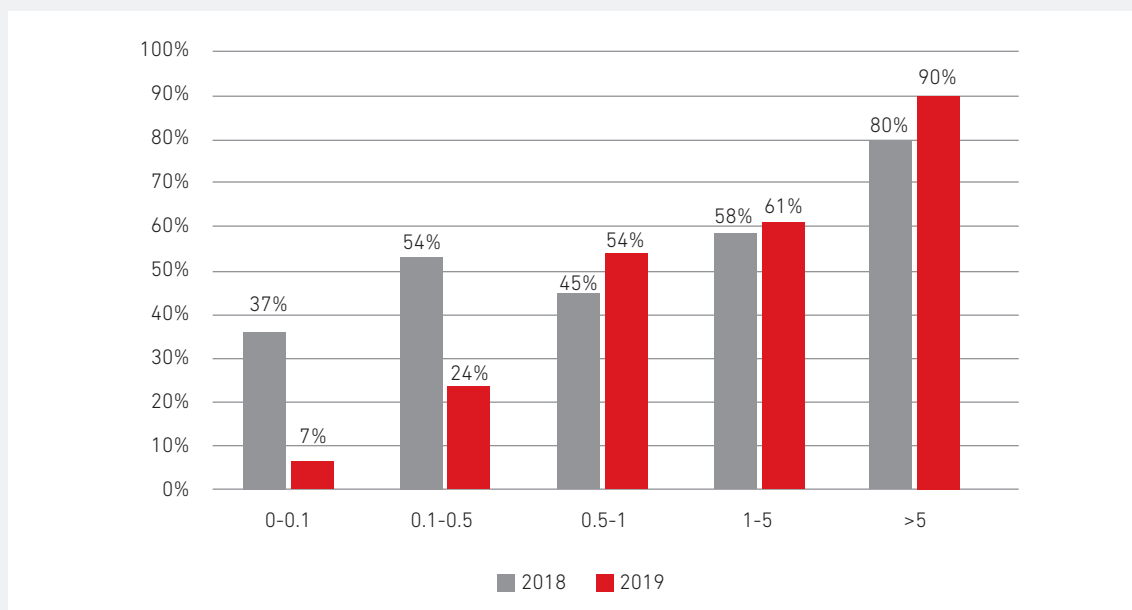


Source: 2019 Governance practices questionnaire for share issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

All 5 issuers whose shares were admitted to trading on the Prime Market in 2019 had in place an internal control system, while 4 issuers (80.0%) had in place an internal audit system. Out of the 23 issuers on the Official Market, 15 (65.2%) had in place an internal control system, while 11 issuers (47.8%) had in place an internal audit system. Out of the 86 issuers on the Regular Market, 33 (38.4%) had in place an internal control system, while 19 issuers (22.1%) had in place an internal audit system.

Chart 62 shows the share of issuers who had in place an internal audit system in 2019 in relation to their market capitalisation, while Chart 63 shows their ownership structure.

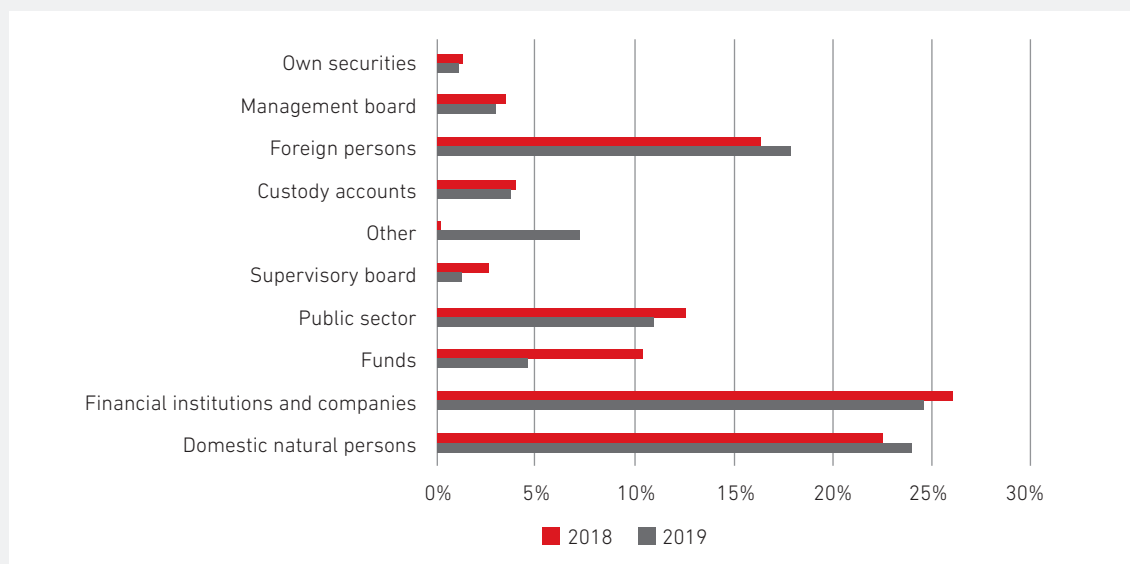
Chart 62 Share of issuers having in place an internal audit system in 2018 and 2019 in relation to their market capitalisation (in HRK billion)



Source: Governance practices questionnaire for share issuers for 2018 and 2019, ZSE

A total of 4 issuers on the Official Market whose market capitalisation of shares reached HRK 0-0.1bn as at 31 December 2019 had in place an internal audit system in 2019, while market capitalisation of those shares accounted for 6.6% of market capitalisation of all the shares in that range. A total of 4 issuers (2 issuers on the Official Market and 2 issuers on the Regular Market) whose market capitalisation amounted to over HRK 5bn as at 31 December 2019 and who had in place an internal audit system in 2019 accounted for 90.3% of total market capitalisation of all the shares that is larger than HRK 5bn.

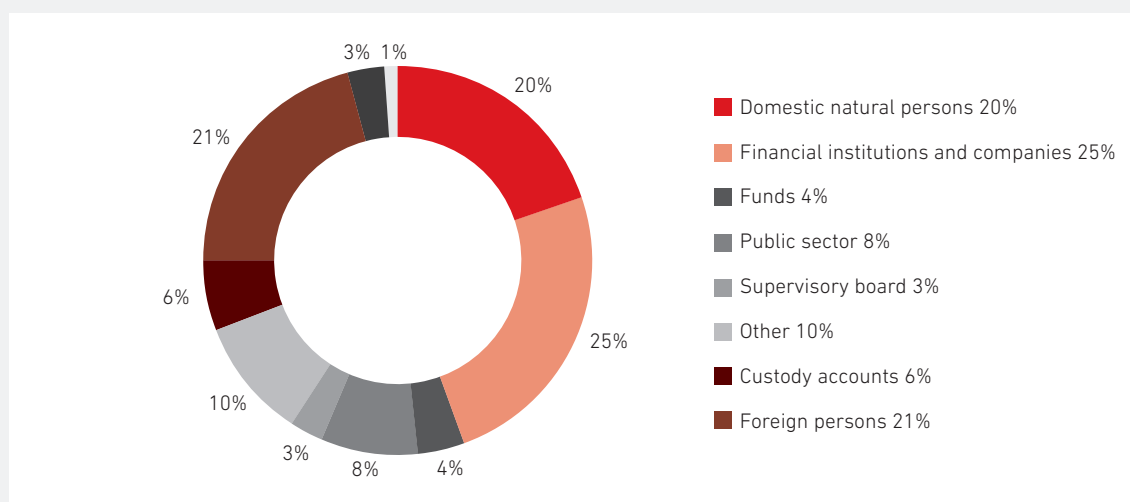
Chart 63 Ownership structure of share issuers having in place an internal audit system in 2018 and 2019



Source: Governance practices questionnaire for share issuers for 2018 and 2019, CDCC

The ownership structure of share issuers who had in place an internal audit system as at 31 December 2019 was dominated by financial institutions and companies with a 24.6% share, followed by domestic natural persons with a 24.0% share. (In 2018, the ownership structure of share issuers who had in place an internal audit system was also dominated by financial institutions and companies with a 26.1% share and domestic natural persons with a 22.6% share).

Chart 64 Ownership structure of share issuers having an internal control system in place in 2019



Source: 2019 Governance practices questionnaire for share issuers, CDCC

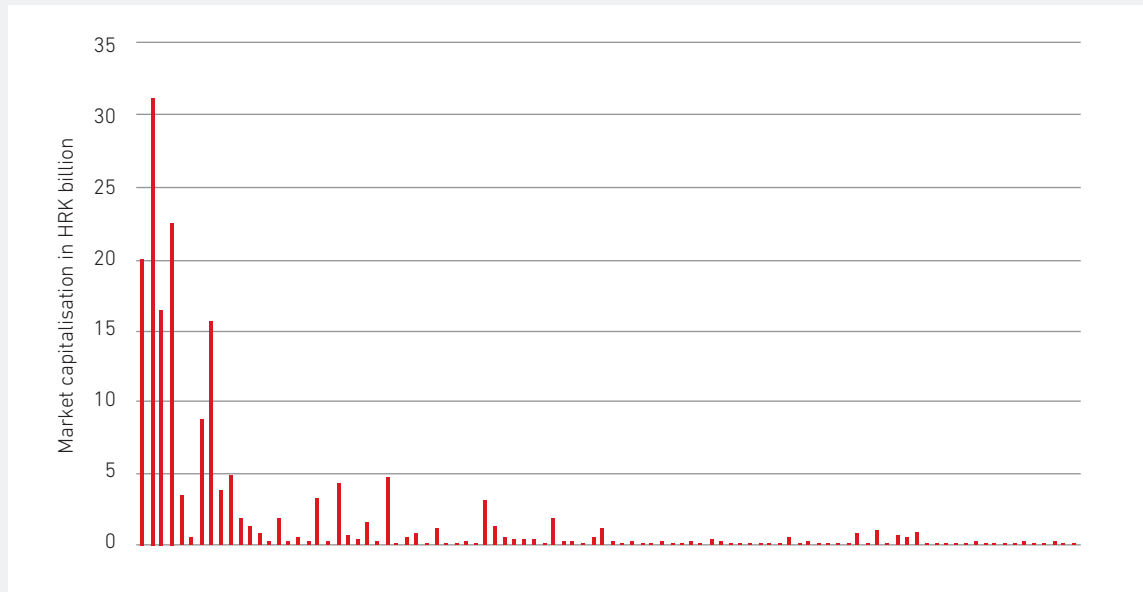
The largest share in the ownership structure of issuers who had an internal control system in place in 2019 was accounted for by financial institutions and companies (24.8%), while the share of domestic natural persons amounted to HRK 19.9% (the data are provided for 2019 for the first time).

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, nor do they provide any other services to the company.

- A total of 51 issuers or 51.5% (67 issuers or 62.0% in 2018) received financial statement audit services from one of the four largest audit firms:
 - Deloitte d.o.o. provided their services to 18 issuers (24 issuers in 2018)
 - PricewaterhouseCoopers d.o.o. provided their services to 12 issuers (20 issuers in 2018)
 - KPMG d.o.o. provided their services to 11 issuers (10 issuers in 2018)
 - Ernst&Young d.o.o. provided their services to 10 issuers (13 issuers in 2018).
- Broken down by segments of the regulated market, financial statement audit services were provided by one of the four largest audit firms for (the data are provided for 2019 for the first time):
 - 4 issuers on the Prime Market
 - 19 issuers on the Official Market
 - 28 issuers on the Regular Market.
- The majority of the issuers (15) that received financial statement audit services from one of the four largest audit firms belonged to the tourism industry. (In 2018, the majority of those issuers (17) belonged to the tourism industry, followed by the banking sector and food industry - 6 issuers from each of the sectors).
- At end-2019, market capitalisation of the issuers who used services provided by the four largest audit firms totalled HRK 117.6bn and accounted for 79.8% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2019. (In 2018, market capitalisation of the issuers who used services provided by the four largest audit firms totalled HRK 121bn and accounted for 92.65% of total capitalisation of shares admitted to trading on the regulated market as at 31 December 2018.)
- A total of 14 issuers used services of the same audit firm for longer than 7 years (19 issuers in 2018), of which 1 issuer on the Prime Market, 2 issuers on the Official Market and 11 issuers on the Regular Market.
- The average length of time during which the issuers used services of the same audit firm was 5 years (5 years too in 2018).
- The average length of time during which the issuers used services of the same certified auditor in the same audit firm was 3 years (3 years too in 2018).
- The average gross amount paid to an audit firm for audit services provided in 2019 reached HRK 330.4 thousand (HRK 360.6 thousand in 2018), with all the amounts ranging between HRK 29.0 thousand and HRK 5.9m (between HRK 25 thousand and HRK 5m in 2018).
- In 2019, audit firms provided services other than audit services to 18 issuers, with the average gross amount paid to an audit firm for other services during the year amounting to HRK 183.3 thousand. (In 2018, other services were provided to 14 issuers, with the average gross amount paid to an auditor for other services totalling HRK 434.2 thousand).

Chart 65 Gross amount paid to external audit firms for audit services provided during 2019 in relation to market capitalisation of issuers

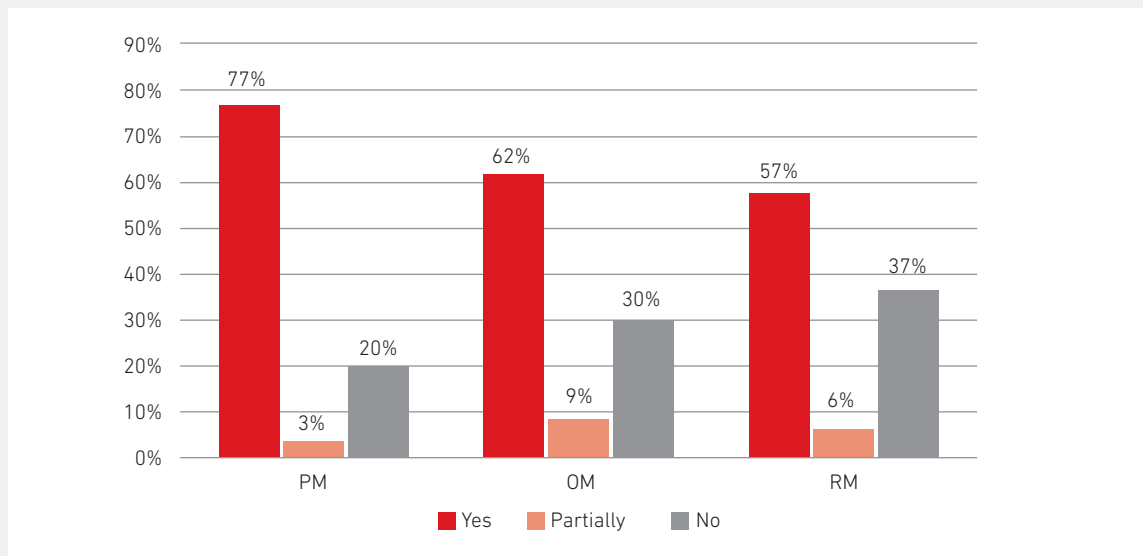


Source: 2019 Governance practices questionnaire for share issuers, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2019 and market capitalisation of issuers was as high as 0.7231 (in 2018, it stood at 0.8447).

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

Chart 66 Share issuers' compliance with the section "Risks, internal control and audit" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaire, internal calculation

3.8 General meeting

The general meeting is the only governing body of the issuer whose work is open to participation by all shareholders. Management board members, executive directors and members of the supervisory board and board of directors should all participate in the work of the general meeting. As opposed to the management and supervisory board or board of directors, the general meeting is not a permanent governing body of the issuer and is convened ad hoc, but at least once a year pursuant to the law.

Internal rules of procedure of the general meeting

- In 2019, a total of 42 issuers or 42.4% (44 issuers or 40.7% in 2018) reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 6 issuers on the Official Market and 32 issuers on the Regular Market.
- Out of the 42 issuers who had in place rules of procedure of the general meeting, 4 issuers reported changes in their rules of procedure during the year (7 issuers in 2018).

Participation in the general meeting

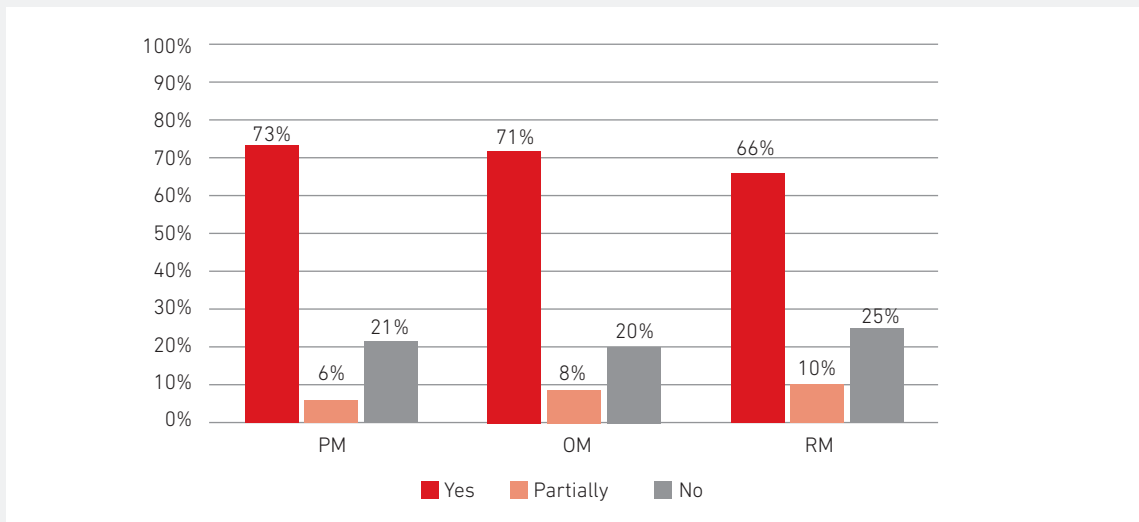
Participation in the work of the general meeting is a fundamental and inalienable right of shareholders. The chair and deputy chair of the supervisory board, chairs of the supervisory board committees and all management board members should be present at the general meeting. In other words, even those members of the management and supervisory board who are not submitters or petitioners are obliged to attend the general meeting. External auditors should be present at the general meeting at which financial statements are presented.

- In 2019, a total of 106 general meetings were held (131 general meetings in 2018).
- According to the data from the governance practices questionnaire, 70 issuers reported having held only 1 general meeting in 2019, 12 issuers held 2 general meetings, while 4 issuers held 3 general meetings. (In 2018, 79 issuers reported having held only 1 general meeting during the year, 23 issuers held 2 general meetings, and 2 issuers held 3 general meetings).
- Two issuers on the Regular Market held no general meetings in 2019 (4 issuers in 2018).
- General meetings held in 2019 were attended by 52 shareholders on average (79 shareholders in 2018), while 10 general meetings were attended by 1 shareholder only (the same as in 2018).
- Only 10 issuers (10.0%) were allowed, on the basis of the statute or another internal regulation, to vote online without limitations (the data are provided for 2019 for the first time).
- In 2019, 97 issuers (97.0%) published a notice of the general meeting not later than 30 days prior to the date of holding it, while 90 issuers (90.0%) ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge. A total of 37 issuers (37.0%) ensured that all documents required for the general meeting were available in Croatian and English (the data are provided for 2019 for the first time).
- In 2019, 96 issuers (96.0%) made general meeting decisions available free of charge (the data are provided for 2019 for the first time).
- The chair and deputy chair of the supervisory board, chairs of supervisory board committees and all management board members attended general meetings of 51 issuers (51.0%) (the data are provided for 2019 for the first time).
- External auditors attended general meetings of 45 issuers (45.0%) at which financial statements were presented (the data are presented for 2019 for the first time).

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

Chart 67 shows the compliance of the share issuers with the section "Shareholders and the general meeting" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2019. Data on the compliance with this section of the Code are provided for 2019 for the first time as the questionnaires were submitted to Hanfa for 2019 for the first time.

Chart 67 Share issuers' compliance with the section "Shareholders and the general meeting" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaires, internal calculation

3.9 Transparency and corporate social responsibility

Investor relations

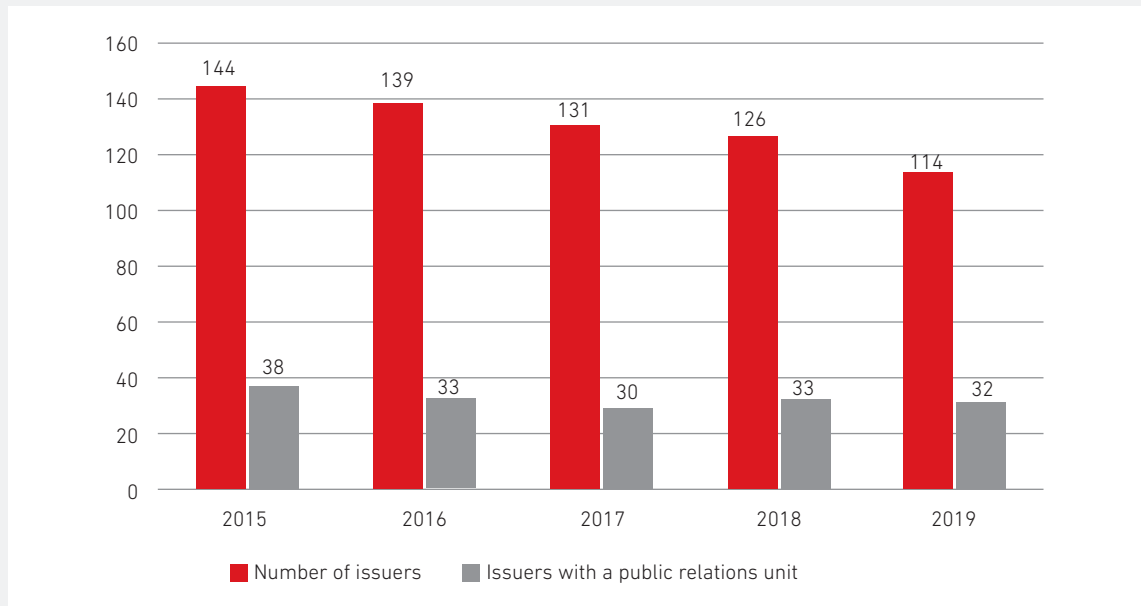
Investors should be allowed to access regular and reliable information based on which they can evaluate business performance of issuers, which serves as a basis for making investment decisions. Incomplete information may make it difficult for companies to attract investors, while transparency is also required if issuers want to maintain constructive relations with stakeholders, which is essential for the company's long-term success.

Issuers should ensure an efficient and practical information exchange via their websites. For the purpose of equal treatment of all shareholders irrespective of the country of their registered office, all information published by issuers on their websites should be provided both in Croatian and English.

- In 2019, 98 issuers had their websites in Croatian, of which 67 issuers (68.7%) had their websites in English as well. (In 2018, 108 issuers had their websites in Croatian, of which 76 issuers (70.4%) had their websites in English as well.)
- One issuer on the Regular Market did not have a website in 2019. (In 2018, all the 108 issuers who submitted their governance practices questionnaire had their own websites.)
- In 2019, 95 issuers (95.0%) made sure that the information published on their websites were up-to-date and published within deadlines prescribed by law and regulations (the data are provided for 2019 for the first time as they were not collected through the compliance questionnaire before).
- In 2019, 32 issuers (32.3%) had a separate organisational unit or employees in charge of investor relations exclusively (33 issuers or 30.6% in 2018). Broken down by segments of the regulated market, a separate organisational unit or employees in charge of investor relations were reported by:
 - 5 issuers on the Prime Market
 - 7 issuers on the Official Market
 - 20 issuers on the Regular Market.
- A separate organisational unit or employees in charge of investor relations were reported mostly by issuers from the tourism industry (9 issuers). (In 2018, a separate organisational unit or employees in charge of investor relations were reported mostly by issuers from the banking sector (6), followed by issuers from the food industry and tourism industry (5 issuers from each of the sectors).)

Chart 68 shows the number of issuers who had a separate organisational unit or employees in charge of investor relations in the period from 2015 to 2019.

Chart 68 Number of issuers who had an organisational unit or employees for investor relations in the 2015-2019 period



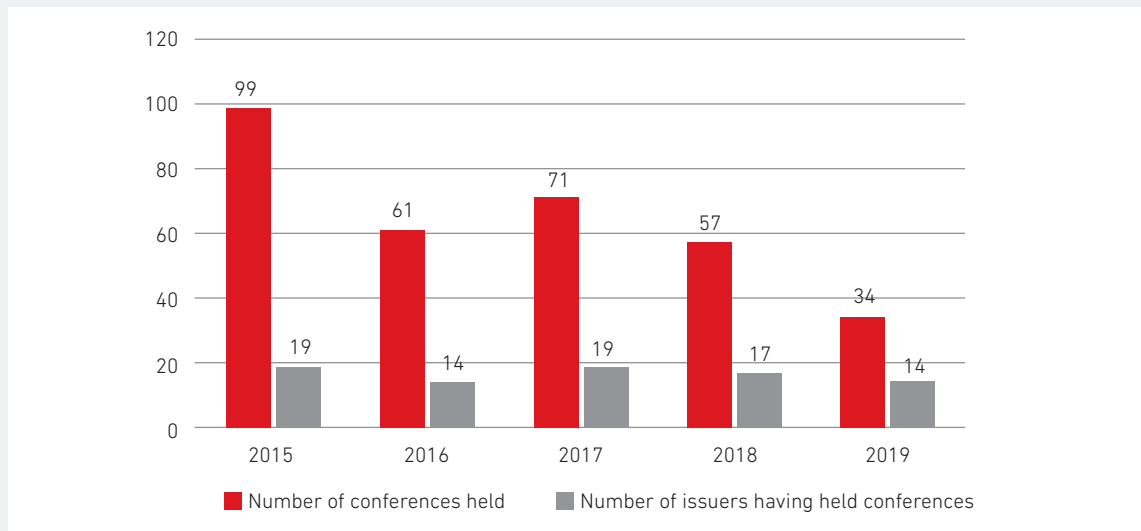
Source: 2019 Governance practices questionnaire, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

The data in Chart 68 show that there were more issuers who had an organisational unit or employees in charge of investor relations exclusively in 2018 and 2019 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 2019 (28.1%) and the smallest in 2017 (22.9%).

- A total of 7 issuers or 7.1% (10 issuers or 9.3% in 2018) had an institution in charge of monitoring the position of issuers on the capital market (drawing up market position analyses etc.)
- In 2019, 28 issuers or 25.9% (37 issuers or 34.26% in 2018) reported having published the calendar of significant events on their websites:
 - 5 issuers on the Prime Market
 - 12 issuers on the Official Market
 - 11 issuers on the Regular Market.
- A total of 14 issuers or 14.1% (17 issuers or 15.7% in 2018) reported having held one or more press conferences in 2019, of which 4 issuers on the Prime Market, 5 issuers on the Official Market and 5 issuers on the Regular Market.
- The largest number of press conferences (9) was reported by an issuer on the Official Market. (In 2018, the largest number of conferences (15) was also reported by an issuer on the Official Market.)

Chart 69 shows the number of issuers who held press conferences in the period from 2015 to 2019 and the number of the conferences held in that period.

Chart 69 Number of issuers who held press conferences and the number of the conferences held in the 2015-2019 period



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

The largest number of press conferences held (99) was reported in 2015, but that year also saw the largest number of issuers whose shares are admitted to trading on the regulated market. The smallest number of press conferences held was reported in 2019, the year which also saw the smallest number of issuers whose shares are admitted to trading on the regulated market in the period observed.

- The most common reasons for convening a press conference in 2019 were presentations of business results (5 issuers) and presentations of significant activities and investments (4 issuers). (In 2018, the most common reasons for convening a press conference were also presentations of business results (4 issuers).)

Dividend payments

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

- In 2019, a decision on the payment of dividend out of profits generated in 2018 was adopted by 25 issuers or 25.3% (in 2018, a decision on dividend payment was made by 30 issuers (27.8%), of which:
 - 5 issuers on the Prime Market
 - 5 issuers on the Official Market
 - 15 issuers on the Regular Market.
- The largest number of issuers (5) who adopted a decision on the payment of dividend out of profits generated in 2018 belonged to the tourism industry, followed by the food industry (3 issuers) and the banking sector (3 issuers).
- The total market capitalisation of issuers that adopted a decision on dividend payment in 2019 reached HRK 120.7bn. Among these issuers, the largest market capitalisation was reported by an issuer from the energy sector (HRK 31.2bn), and the smallest by an issuer from the transport industry (HRK 159.6m).
- In 2019, 2 issuers (1 issuer on the Prime Market and 1 issuer on the Regular Market) made dividend payments both in cash and in stock (1 issuer in 2018).
- The average amount of dividend per stock in 2019 totalled HRK 73.50 (HRK 66.00 in 2018).

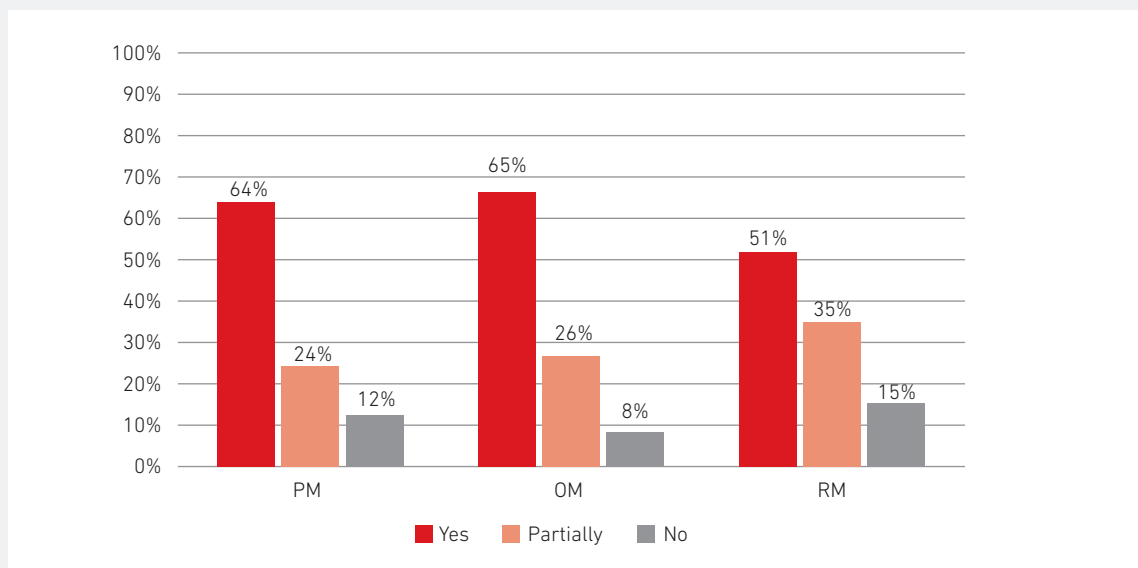
Corporate Governance Code

- A total of 70 issuers or 70.7% (5 issuers on the Prime Market, 19 issuers on the Official Market and 46 issuers on the Regular Market) published their compliance questionnaire for 2019 on their websites (78 issuers or 72.2% in 2018).
- In 2019, 29 issuers (29.3%) complied with another corporate governance code in addition to the Code (3 issuers on the Prime Market, 7 issuers on the Official Market and 19 issuers on the Regular Market).
- Out of the 29 issuers who complied with another corporate governance code in addition to the Code in 2019, 17 issuers complied with an internal code, 6 issuers complied with the Code of Corporate Governance of Companies in which the Republic of Croatia Holds Shares, while 6 issuers complied with other codes. (In 2018, 29 issuers 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

Chart 70 shows the compliance of the share issuers with the section "Disclosure and transparency" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2019. (The data are provided for 2019 for the first time as the share issuers were obliged to submit the compliance questionnaire in 2019 for the first time.)

Chart 70 Share issuers' compliance with the section "Disclosure and transparency" in 2019 by segments of the regulated market

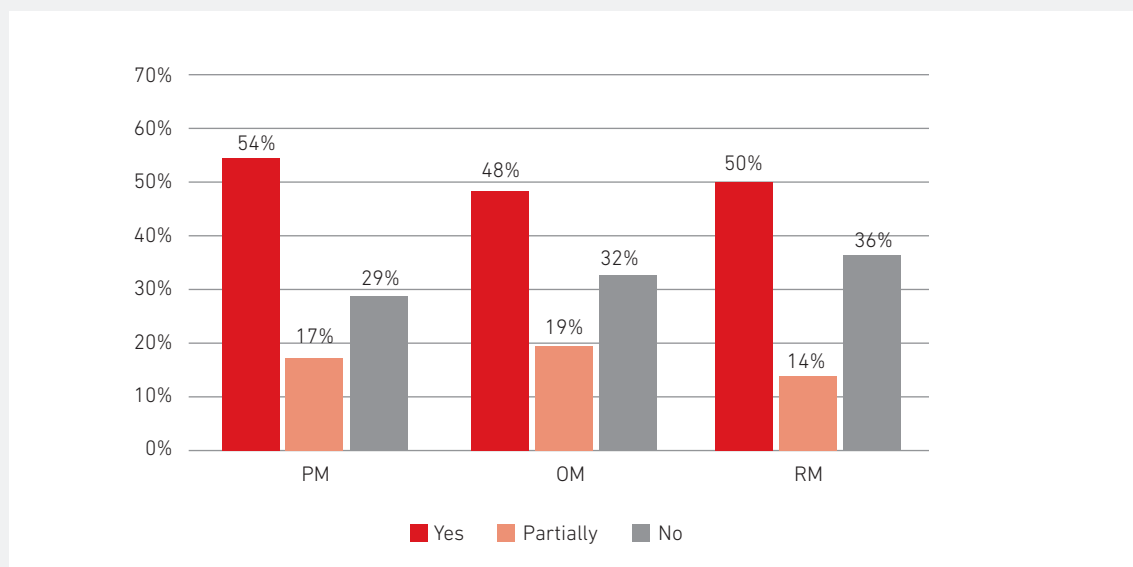


Source: 2019 Compliance questionnaires, internal calculation

Issuers on all the three segments of the regulated market provided more than 50% of YES answers on average to the questions relating to the section of the Code "Disclosure and Transparency", while NO answers were provided to 12% of the questions by issuers on the Prime Market, to 8% of the questions by issuers on the Official Market and to 15% of the questions by issuers on the Regular Market. The answers "Partially" to questions relating to the section "Disclosure and Transparency" ranged between 24% (issuers on the Prime Market) and 35% (issuers on the Regular Market).

Chart 71 shows the compliance of the share issuers with the section "Stakeholders and corporate social responsibility" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2019. (The data are provided for 2019 for the first time as the share issuers were obliged to submit the compliance questionnaire in 2019 for the first time.)

Chart 71 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2019 by segments of the regulated market



Source: 2019 Compliance questionnaires, internal calculation

Issuers on the Prime Market and Regular Market provided more than 50.0% of YES answers on average to questions from this section, with 29.0% (issuers on the Prime Market) and 36.0% (issuers on the Regular Market) of NO answers. Issuers on the Official Market provided less than 50.0% of YES answers and just above 30.0% of NO answers to these questions.

4

Annual Report on Corporate Governance of Corporate Bond Issuers



Introduction

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

At the end of 2019, 8 issuers had a total of 10 issued corporate bonds, of which 8 bonds were admitted to trading on the Official Market and 2 bonds on the Regular Market. Out of the 8 issuers, 5 issuers had only corporate bonds admitted to trading and were obliged to submit to Hanfa the governance practices questionnaire for bond issuers, while the remaining 3 issuers had both bonds and shares admitted to trading and were obliged to submit to Hanfa the governance practices questionnaire for share issuers.

Out of the 5 corporate bond issuers obliged to submit to Hanfa the governance practices questionnaire for 2019, 4 issuers or 80% submitted the questionnaire to Hanfa. The following data relate to issuers who submitted to Hanfa their 2019 governance practices questionnaire for bond issuers.

4.1 Capital and its origin

Initial capital

Table 22 shows data on the initial capital of corporate bond issuers and market capitalisation of corporate bonds in the period from 2015 to 2019.

Table 22 Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2015 to 2019

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

Source: Court register, ZSE

- Initial capital of corporate bond issuers fell by 16.0% at the end of 2019 (due to, among other things, a decrease in the number of issuers with corporate bonds admitted to trading on the regulated market at the end of 2019, that reached 16.7% compared to end-2018).
- Market capitalisation of corporate bonds admitted to trading on the regulated market amounted to HRK 3.4m at the end of 2019, falling by 1.9% compared to the end of the previous year.

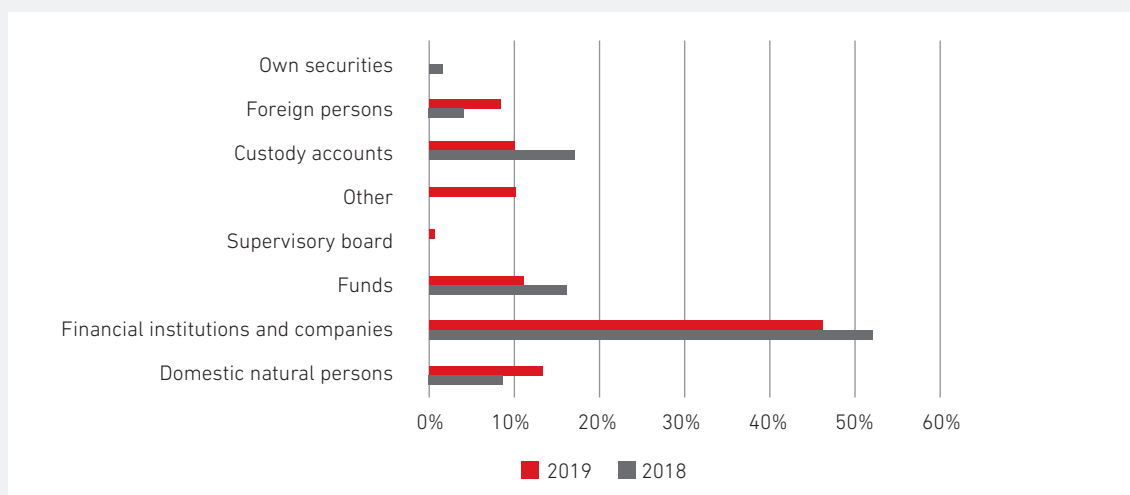
Ownership structure of corporate bond issuers

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

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

Chart 72 presents the ownership structure of corporate bond issuers as at 31 December 2018 and 2019 by the above-mentioned categories.

Chart 72 Ownership structure of corporate bond issuers as at 31/12/2018 and 31/12/2019



Source: CDCC

In 2019, the ownership structure of corporate bond issuers was dominated by financial institutions and companies with a 46.2% share (in 2018, this share reached 52.3%), followed by domestic natural persons with a 13.4% share (8.7% in 2018) and funds with a 11.1% share (16.0% in 2018).

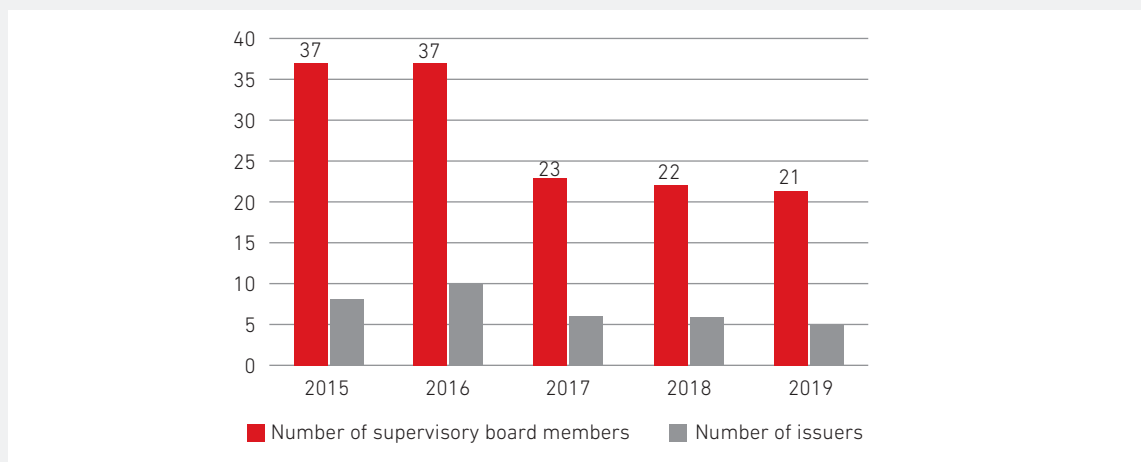
4.2 Supervisory board and its committees

Supervisory board

- At the end of 2019, supervisory boards of corporate bond issuers consisted on average of 6 members (6 members at the end of 2018, as well).
- At the end of 2019, the participation of women on supervisory boards of corporate bond issuers was 50% higher than that of women on management boards (at the end of 2018, the participation of women on supervisory boards of corporate bonds issuers was about 4 times higher than that of women on management boards of corporate bond issuers).

Chart 73 presents the number of supervisory board members of corporate bond issuers from 2015 to 2019.

Chart 73 Number of supervisory board members of corporate bond issuers in the 2015-2019 period

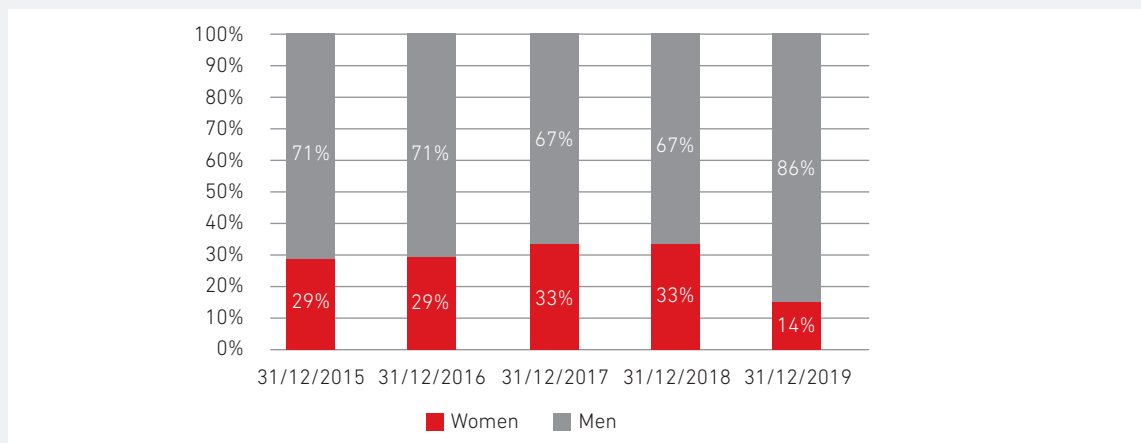


Source: Court register

The number of supervisory board members in the observed period ranged from 37 members in 2015 and 2016 to 23 members in 2019. The reduction in the number of supervisory board members was caused by a decrease in the number of corporate bond issuers.

Gender composition of corporate bond issuers' supervisory board members in the period from 2015 to 2019 is shown in Chart 74.

Chart 74 Bond issuers' supervisory board gender structure in the 2015-2019 period



Source: Court register

- According to the court register, in the observed period, the average share of women on supervisory boards of corporate bond issuers totalled 28%, exceeding the average number of women on management boards of corporate bond issuers in the same period (20%).

Table 23 Age structure of supervisory board members from 2015 to 2019

Age of supervisory board members	2015	2016	2017	2018	2019
Younger than 35	5.33%	4.76%	1.89%	2.44%	-
Between 36 and 45	29.33%	34.92%	35.85%	26.83%	23.53%
Between 46 and 55	25.34%	26.99%	26.41%	36.58%	29.41%
Older than 56	40.00%	33.33%	35.85%	34.15%	47.06%

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

- During the observed period, the smallest percentage of members of the corporate bond issuers' supervisory boards were under 35 years of age. In 2019, the majority of supervisory board members of corporate bond issuers were older than 56 (as at 31 December 2018, 36.6% of supervisory board members of corporate bond issuers were 45 to 55 years old, 34.2% of them were older than 55 years of age, 26.8% of them were between 35 and 45 years old, while 2.4% of them were younger than 35 years of age).
- As at 31 December 2019, the majority of supervisory board members of corporate bond issuers (69.6%) had a university degree (87.8% of supervisory board members at the end of 2018).
- The average number of corporate bond issuers' supervisory board meetings held in 2019 was 7 (9 meetings in 2018).

Supervisory board committees

- One corporate bond issuer (25.0%) had all three supervisory board committees set-up in 2019 (one issuer in 2018, as well).
- Observed by individual committees, 4 issuers (100,0%) have an audit committee and one issuer has a remuneration committee, i.e. a nomination committee (in 2018, 7 issuers had an audit committee, 4 issuers had remuneration committee, and 4 issuers had nomination committee).
- In accordance with the code, each of the supervisory board committees had minimum three members (same as in 2018).
- Out of 4 issuers that had an audit committee in 2019, 3 issuers (75,0%) had internal working procedures of that committee, and 1 issuer publicly disclosed the working procedures of the audit committee (in 2018, out of 7 corporate bond issuers that had an audit committee, 6 issuers had internal working procedures of that committee).
- The average number of audit committee meetings during 2019 was 3. Issuers with an established remuneration committee and a nomination committee held 2 meetings each in 2019 (in 2018, an average of 4 meetings of the audit committee were held, one issuer held 3 meetings of the remuneration committee, and 2 issuers held a total of 8 meetings of the nomination committee).

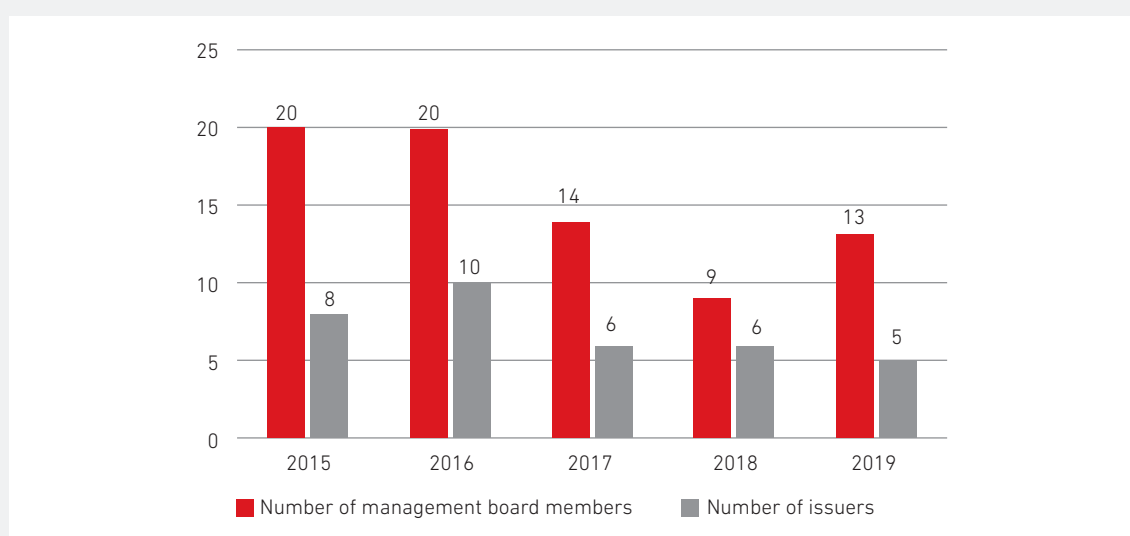
4.3 Management board

The following analysis presents the data on management board members of corporate bond issuers in the 2015 - 2019 period.

- Two corporate bond issuers (50.0%) had a one-tier governance system in 2019, and 2 issuers (50.0%) had a two-tier system (the data is first provided for 2019).
- Management boards of corporate bond issuers consisted of two members on average at the end of 2019 (3 members on average at the end of 2018).

Number of management board members of corporate bond issuers in the period from 2015 to 2019 is shown in Chart 75.

Chart 75 Number of management board members of corporate bond issuers in the 2015-2019 period

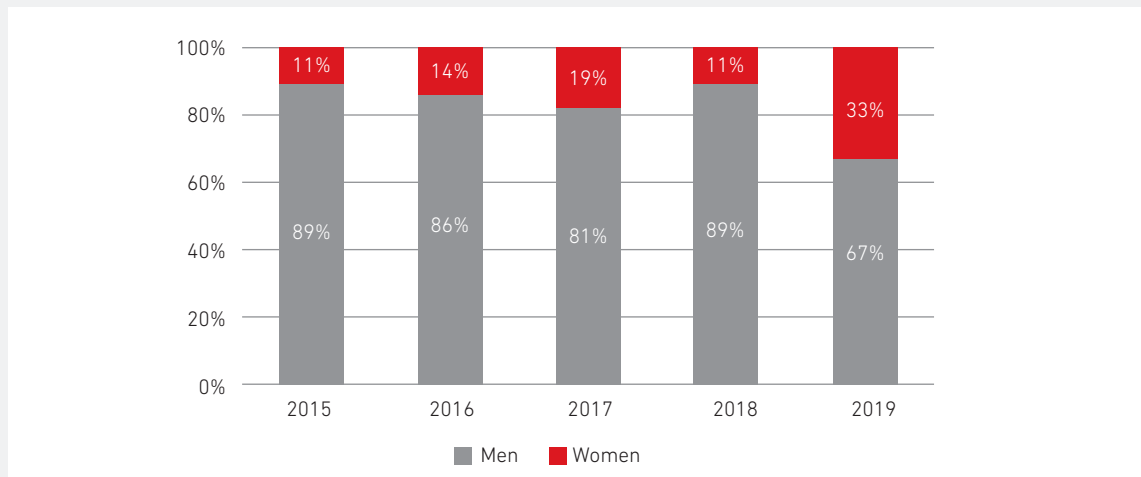


Source: Court register

- The number of management board members of bond issuers varies from 2015 to 2019, but at the end of 2019 it returned to the approximate level of 2017.
- The number of bond issuers was the highest in 2016, and at the end of 2019 there were 5 bond issuers.

Chart 76 shows the share of women on management boards of corporate bond issuers from 2015 to 2019.

Chart 76 Share of women on management boards of corporate bond issuers in the 2015-2019 period



Source: Court register

- In the observed period (2015 - 2019), the average share of women on management boards of corporate bond issuers totalled 18%, which is less than the average share of women on supervisory boards of corporate bond issuers in the same period (28%).

Table 24 Age structure of management board members of corporate bond issuers in the 2015-2019 period

Age of management board members	2015	2016	2017	2018	2019
Younger than 35	5.00%	5.13%	-	-	-
Between 36 and 45	47.50%	48.72%	50.00%	30.00%	44.44%
Between 46 and 55	32.50%	30.76%	43.33%	60.00%	33.33%
Older than 56	15.00%	15.38%	6.67%	10.00%	22.22%

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

- During almost all observed periods, the majority of management board members were between 36 and 45 years of age, except in 2018, when the majority of management board members were between 46 and 55 years old.
- At the end of 2019, 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 (88.9%) and a postgraduate specialist study / postgraduate professional study conducted at the university (11.11%).
- A total of 3 issuers (75%) reported having an internal regulation on management board activities (rules of procedure of the management board) which they did not modify during the year (in 2018, 5 issuers (71.4%) reported having an internal regulation on management board activities, and 1 of them reported changes in this regulation having occurred during the year).
- One issuer reported having a schedule of meetings of the management board (4 issuers in 2018). The average number of corporate bond issuers' management board meetings held in 2019 was 30 (33 meetings in 2018).
- In 2019, only one member of corporate bond issuers' management board resigned before the expiry of their term due to personal reasons (the data is first provided for 2019).

4.4. Duties and responsibilities of board members

Conflicts of interest and related party transactions

- In 2019, 1 issuer (25%) reported having in place an internal regulation for cases of related party transactions (4 issuers in 2018).
- No conflicts of interest were reported in 2019 (same as in 2018).

Table 25 shows the average value of transactions concluded by corporate bond issuers in the period from 2015 to 2019, with the shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members and senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 25 Average value of related party transactions from 2015 to 2019

		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 senior management of the issuer	within the group the issuer belongs to or is its parent
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 for bond issuers, 2019; Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2019, as in the previous years, the highest related party transaction value was connected with transactions concluded by issuers with shareholders owning more than 5% of the initial capital of the issuer, while the lowest related party transaction value was connected with transactions concluded with management and supervisory board members of the issuer.

4.5 Remuneration of board members

Remuneration of management board members

- In 2019, 2 issuers of corporate bonds (50.0%) reported having a remuneration policy for management board members, and only 1 issuer (25.0%) published the remuneration policy for management board members on its website (in 2018, 4 corporate bond issuers had a remuneration policy for management board members, and 1 issuer published the remuneration policy for management board members on its website).

Table 26 shows the average amount of remuneration paid by corporate bond issuers to management board members in the 2015 - 2019 period.

Table 26 Remuneration paid to management board members of corporate bond issuers in the 2015-2019 period

		Average gross amount of remuneration (in HRK)		Average amount of other benefits (in HRK)	Average value of options held by management board members (in HRK)
		Fixed remuneration	Variable remuneration		
2019	Number of issuers	4	2	0	1
	Amount	3,422,717	2,163,245	0	237,165.18
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: 2019 Governance practices questionnaire for corporate bond issuers, Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2019, 4 corporate bond issuers (100%) paid gross fixed remuneration to management board members in the amount of HRK 13,690,870 (6 issuers in 2018).
- The gross fixed amount of remuneration paid to management board members in 2019 reached HRK 3,422,717 on average (HRK 4,617,662 in 2018).
- The gross fixed amount of remuneration paid to management board members in 2019 ranged from HRK 549.3 thousand to HRK 9.9 m.
- A total of 2 corporate bond issuers paid variable remuneration to management board members in the amount of HRK 4,326,490.
- The average amount of gross variable remuneration paid to management board members in 2019 reached HRK 2,163,245.
- No corporate bond issuer paid other remuneration to management board members (in 2018, other remuneration was paid to management board members by 3 corporate bond issuers).
- No corporate bond issuer allocated options to management board members in 2019 (1 issuer in 2018).

Remuneration of supervisory board members

- In 2019, 2 issuers of corporate bonds (50.0%) reported having a remuneration policy for management board members, and only 1 issuer (25.0%) published the remuneration policy for management board members on its website (in 2018, 4 corporate bond issuers had a remuneration policy for management board members, and 1 issuer published the remuneration policy for management board members on its website).

Table 27 shows the average amount of remuneration paid by corporate bond issuers to supervisory board members in the 2015 - 2019 period.

Table 27 Remuneration paid to supervisory board members of corporate bond issuers in the 2015-2019 period

		Average gross amount of remuneration (in HRK)		Average gross amount of other remuneration (in HRK)
		Fixed remuneration	Variable remuneration	
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 for bond issuers, 2019; Annual Report on Corporate Governance for 2015, 2016, 2017 and 2018

- In 2019, two corporate bond issuers reported having a remuneration policy for supervisory board members, and one issuer published the policy on its website.
- For 2 issuers, the amount of remuneration for supervisory board members is determined by the general meeting (3 issuers in 2018).
- In 2019, no corporate bond issuer reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting (one issuer in 2018).

Remuneration of senior management

- In 2019, a total of 4 issuers paid remuneration to senior management; all 4 issuers paid fixed remuneration, and 2 issuers paid variable remuneration in addition to fixed remuneration to senior management (in 2018, 4 issuers paid fixed remuneration and 3 issuers paid variable remuneration, in addition to fixed remuneration, to senior management).
- The amounts of **fixed remuneration** paid to senior management in 2019 ranged from HRK 549.3 thousand by issuers from the construction industry up to HRK 16.0 m by issuers from the banking sector (in 2018, they ranged from HRK 3.3 m paid by issuers in the construction industry up to HRK 20.8 m by issuers from the transportation and storage sector).

- The amount of **variable remuneration** paid to senior management ranged from HRK 265.5 thousand by issuers from the production of pharmaceutical products up to HRK 4.7 m by issuers from the banking sector (in 2018, it ranged from HRK 305.6 thousand paid by issuers from the transportation and storage sector up to HRK 3.2 m by issuers from the banking sector).
- In 2019, 2 issuers agreed severance pay with senior management in the amount ranging from HRK 284.2 thousand to HRK 359.6 thousand (in 2018, one issuer agreed severance pay in the amount of HRK 280 thousand).
- In 2019, both issuers paid severance allowance to senior management ranging in the amount from HRK 27.8 thousand to HRK 284.2 thousand (the issuer that had agreed severance allowances paid the amount in 2018, as well).
- In 2019, one issuer allocated shares to senior management, and no issuer paid other remuneration to senior management (data on allocated shares is first given for 2019; in 2018, 2 issuers paid other remuneration to senior management with the amounts ranging from HRK 72.0 thousand to HRK 1.2 m).

4.6 Risks, internal control and audit

Internal control and audit

- In 2019, two issuers had internal control system in place (5 issuers in 2018).
- On average, 48 employees work in the internal control system, and the most persons employed in the internal control system was reported by an issuer from the banking sector (data is for the first time provided for 2019).
- Three issuers reported having an internal audit system in place (5 issuers in 2018).

Managing company risks

- Two issuers (50%) reported having a person in charge of risk management (4 issuers in 2018).
- The most frequent risks faced by corporate bond issuers in 2019 were liquidity risk, credit risk and interest rate risk (liquidity risk, interest rate risk, credit risk, operational and political risk in 2018).

External audit

- In 2019, a total of four corporate bond issuers used services of four different external auditors (in 2018, four issuers used services of three different external auditors).
- Two issuers used services of the largest audit firms - the Big Four (two issuers in 2018, as well).
- At the end of 2019, the average length of the time period during which issuers used services of the same external audit firm was 2 years (it was 2 years in 2018, as well).
- 4 issuers reported the gross amount paid to an external audit firm for audit services provided in 2019 ranging from HRK 31.0 thousand to HRK 1.7 m (from HRK 62 thousand to HRK 2.2 m in 2018). External auditors were paid an average of HRK 551.5 thousand by issuers (HRK 586.4 thousand in 2018).
- One issuer reported the gross amount paid to an external audit firm for other services provided in 2019, and the amount totalled HRK 1.1 thousand (2 issuers in 2018, the amount averaged HRK 17.5 thousand).

4.7 Transparency and corporate social responsibility

- In 2019, 4 issuers had their websites in both Croatian and English (in 2018, 4 issuers had their websites only in Croatian and 3 issuers had websites also in English).
- In 2019, 2 issuers (1 issuer from the construction industry and 1 issuer from the real estate business sector, have a separate department or employees exclusively in charge of relations with investors (data is first time provided for 2019).
- Two issuers published a calendar of important events on their website, one from the real estate business sector and one from the production of pharmaceutical products (in 2018, 1 issuer from the production of pharmaceutical products).
- Two issuers reported holding a press conference in 2019, of which 1 issuer held 13 press conferences during the year (in 2018, 2 issuers as well, of which 1 issuer held a total of 15 press conferences).

Corporate Governance Code

- In 2019, one issuer published the questionnaire from the Code on its website (one issuer in 2018, as well).
- In 2019, one issuer, in addition to the Code, adheres to another corporate governance code, i.e. the issuer's in-house code (in 2018, 3 issuers adhered additionally to another code, of which 1 issuer adhered to the Code of Corporate Governance of Companies in which the Republic of Croatia Holds Shares, and 2 issuers further adhered to the principles of corporate governance and in-house regulations).
- The issuer that further adheres to the internal code in 2019 belongs to the production of pharmaceutical products sector (out of 3 issuers that further adhered to another code in 2018, 1 belonged to the transportation and storage sector, 1 to the banking sector and 1 to the production of pharmaceutical products sector).

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