

# CORPORATE GOVERNANCE CODE



ZAGREBAČKA  
BURZA

*Zagreb Stock Exchange*

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**Ante Žigman**

President of  
Hanfa Board

Dear readers,

We are pleased to present the new Corporate Governance Code, which has replaced the old Code, last updated in 2010. Numerous and significant changes in the EU regulatory framework have occurred since then, consequently leading to changes in the Croatian regulatory framework as well. The new Code complies with the newest and best international corporate governance practices, which will urge companies with shares admitted to trading on the regulated market of the Zagreb Stock Exchange to implement highly improved corporate governance practices. Domestic and international investors, companies subject to the Code and wider stakeholders have contributed to the preparation of the Code by providing their comments and advice, for which we thank them most sincerely. At the same time, we would also like to encourage them to continue playing a part in the development of the corporate governance in the Republic of Croatia.

Transparency of information and upholding the principle of good corporate governance both have the key role in ensuring the protection of investors. A good corporate reputation takes a long time to build, but is easy to lose and even harder to earn again. Therefore, Hanfa strongly believes that the companies will appreciate the importance of establishing high corporate governance standards and accepting the spirit of the Code. This, we are convinced, will bring numerous benefits in the long run, not only to the companies, but also to the market and economy of the Republic of Croatia as a whole.

Finally, good corporate governance rests upon people. Their values, attitudes, professional skills and behaviour, as well as their understanding of and respect for other stakeholders determine the long-term success of the company. Hanfa expects that the new Code, along with the purposes and principles it contains, will provide an important basis for anyone bearing responsibility for the success and sustainable development of companies.



**Ivana Gažić**

predsjednica Uprave  
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Good corporate governance goes way beyond the formal compliance with laws and regulations – it means sustainable business operations, consistent with good practices, the minimisation of risk, efficient decision-making processes and a transparent information flow, as well as the protection of shareholders' rights and a clear division of roles among management bodies. This requires active involvement of all participants in the business process – including shareholders, management and supervisory structure, as well as other stakeholders – in the creation of an environment that fosters excellence and the highest business standards.

As the operating environment for business entities grows increasingly more challenging, the establishment of a sound corporate culture constitutes one of the key elements for achieving optimal balance between the needs of society for competitiveness, growth and development on the one hand and shareholder interests on the other hand. In that respect, the guidelines provided in the Code facilitate adherence to the highest standards of corporate governance and transparency.

We believe that this revision of the Code opens a vital new chapter in the development of the corporate governance framework in Croatia and that, together with the local companies, the Regulator, investors and all other interested parties and interest holders, we can continue to work directly and indirectly on raising the quality of governance of listed companies to a higher level and thus enhance not only their own value but also the value of society as a whole.



# INTRODUCTION

## The Purpose of the Code

The purpose of the Code is to promote effective governance and accountability in companies whose shares are admitted to trading on the regulated market of the Zagreb Stock Exchange. Governance includes, but is not the same as, management. Management is concerned with day-to-day decision making, while the purpose of governance in addition includes establishing the vision and standards which influence those decisions. Governance includes matters such as the company's purpose, its relations with others and how it expects its leaders and workforce to behave.

Companies with good standards of governance and transparency attract capital more easily because they are more trusted by investors. It is not just individual companies that benefit, but the market and the country as a whole. Well governed companies are more likely to be successful in the longer term, which benefits those who invest in and work for them and the country's economy. Companies that behave ethically and have constructive relations with their stakeholders develop a good reputation that helps them to sustain their success.

This Code reflects developments in Croatian and EU law, and significant advances made in the understanding of the factors and practices that contribute to good governance. It replaces the previous edition of the Code published in 2010.

It aims to bring the standards expected of listed companies in line with those in other European countries with similar capital markets, while reflecting the specific circumstances in Republic of Croatia. If companies adopt the standards in the Code, it will demonstrate to investors that they can invest with confidence in the Croatian market.

A company's approach to governance is an integral part of how decisions are made, and risks and opportunities assessed. It therefore has a major influence on the company's strategy and the way in which it conducts its business.

Corporate governance is not just about the company's accountability to its shareholders, but also to other stakeholders and society as a whole. Failure to retain their support, either because the company behaves improperly or is perceived as ignoring stakeholder interests, can be just as damaging to a company's reputation and long-term prospects – and to the interests of the shareholders – as failures of the strategy or business model.

Higher standards of corporate governance will be achieved if companies adopt the spirit of the Code and the new reporting framework. The Code encourages all listed companies to see the Code as an opportunity to improve their long-term performance and to demonstrate to their investors and other stakeholders that they are a company that is committed to high standards and willing to engage in meaningful dialogue.

## How the Code is to be applied

The Code applies to all companies whose shares are admitted to trading on the regulated market of the Zagreb Stock Exchange, with the exception of closed-end AIFs.

Each section of the Code consists of Purpose, Principles and Provisions.

- The Purpose describes why the matters covered in the section are important for effective governance. They are for clarification purposes only, and there is no requirement for companies to act or report on them.
- The Principles describe the general objectives that the companies should achieve. Companies should make sure that their governance arrangements meet these objectives.
- The Provisions specify good practices that enable companies to meet the objectives set out in the Principles. Companies should either comply with the provision of the Code or explain why they have not done so.

### Interaction with law and rules of Zagreb Stock Exchange

Some parts of the Code overlap with mandatory legal provisions and the Zagreb Stock Exchange's rules. In most of these cases, the provisions in the Code are either more detailed or set higher standards than the relevant mandatory legal provisions or Zagreb Stock Exchange requirements. Therefore, compliance with the law or Zagreb Stock Exchange rules, while necessary, may not on its own be sufficient to comply with these Code provisions. Likewise, complying with the Code does not remove the requirement on companies to comply with the law or Zagreb Stock Exchange rules.

### How the Code should be applied for one-tier board structures

The Code has been written to be applied by companies with two-tier board structures – that is, a supervisory board and management board – as this is the most common governance structure among Croatian listed companies.

Companies with a single board of directors are required to report on how they have followed the Code. Appendix B contains a small number of provisions that are specifically addressed to those companies, and which take the place of the equivalent provisions for two-tier boards. The Appendix also contains guidance on how companies with a single board of directors should interpret the Code's other provisions.



## **Reporting on how the Code has been applied**

Companies are required annually to complete 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 questionnaires, guidance on how to complete them, information on when and how they should be submitted to HANFA and in case of compliance questionnaire published, are available at HANFA's and ZSE's website in the section dedicated to corporate governance.

Where a company does not comply with a Code Provision, it must:

- explain in what way the company does not comply with the Code provision and the reason why, with reference to the company's specific circumstances;
- describe the actions it has taken instead of complying with a Code provision to make sure it meets the objective set out in the relevant Code Principle; and
- if the company intends to comply with the Code provision in the future, specify when it will start doing so.

The management board is responsible for overseeing the completion of the annual questionnaires, and in case of compliance questionnaire, including the explanations for any cases of non-compliance with the Code. The completed questionnaires should be approved by the supervisory board before they are submitted to HANFA.

## **Implementation date**

Companies will be required to apply the Code from 1 January 2020. Notwithstanding the implementation date, the companies will be required to report on their governance practices in relation to year beginning 1 January 2019 using the new questionnaires to establish existing practices in order to monitor progress in the years following the implementation date.

This Code has been adopted by HANFA and ZSE.

### Purpose

The supervisory and management boards have different roles, but they share responsibility for the company's long-term success and for ensuring that its policies, people and processes are all working towards that aim. Only through genuine cooperation can they meet their joint responsibility.

The supervisory board's role is not just appointing and overseeing the management board. It should also be closely involved in setting the company's strategic direction and be a source of guidance and constructive challenge to the management board.

Supervisory board members will often have relevant knowledge and experience that supplements the expertise of the management board. They can provide objective insight on how the management board can promote the company's best interest. The management board should think of the supervisory board as an important ally, not as a body whose influence it wishes to limit or from whom information should be hidden.

In turn, the supervisory board should be willing to provide the management board with all the support it needs, while refraining to interfere in the day-to-day management of the company. It also needs to ensure that close cooperation with the management board does not reduce the objectivity with which the supervisory board carries out its guidance and oversight functions.

Board members have a particular responsibility for establishing the culture and values of the company. They should set clear expectations for themselves and for the workforce on how they should behave with colleagues and external stakeholders.

### Principles

- A. The supervisory and management boards shall ensure that the company has in place the strategy, resources, risk management and internal control systems and relations with shareholders to support its long-term success and sustainable development.**
- B. The supervisory and management boards shall ensure that systems are in place which enable them to cooperate effectively in the best interests of the company.**
- C. Members of the supervisory and management boards shall act with integrity and in accordance with the law and the company's own code of conduct, and set an example for all employees through their behaviour.**

## **Provisions**

### **Cooperation**

- 1.** The articles of association and other internal acts should set out clearly the authorities of the supervisory and management boards, in accordance with the relevant legislation, and the arrangements by which the two boards cooperate. The articles of association should be made freely available on the company's website.
- 2.** The two boards should agree which categories of decisions and transactions require the supervisory board's prior approval, and those on which the management board is required to consult the supervisory board before taking a decision. The supervisory board should adopt a resolution in which those categories of decisions will be set out, and a summary of these categories should be made freely available on the company's website. Major decisions affecting the company's strategy, expenditure, risk exposure and reputation should require the supervisory board's prior approval.
- 3.** The management board should provide the supervisory board and its committees with timely access to the company's facilities, premises, senior management and employees when necessary for the performance of their duties, and to all documents needed for these purposes. The procedures for doing so should be set out in internal acts and approved by the supervisory board.
- 4.** In addition to statutory reports required by law, the management board should report to the supervisory board at regular intervals on the company's operational performance, financial situation, its major financial and non-financial risks and the results of its engagement with shareholders and other stakeholders. The two boards shall agree on the format and frequency of these reports.
- 5.** If an event occurs, or seems likely to occur, that has the potential to affect significantly the company's performance, financial position or reputation, the president of the management board should notify the supervisory board immediately.

### **Rules of Conduct**

- 6.** The supervisory and management boards should agree on the rules of behaviour the members of both boards, employees and others acting on behalf of the company should follow. The rules and the sanctions if they are breached should be set out in a code of conduct or other internal act, and made freely available on the company's website. The code or other act must be approved by the supervisory board, who should keep its use and effectiveness under review.

# THE DUTIES OF BOARD MEMBERS

## Purpose

If a company is to achieve long-term success, the leadership of the company must dedicate itself to achieving that objective. It could be undermined if management and supervisory board members choose instead to pursue objectives of their own, which may sometimes conflict with the best long-term interests of the company.

It is therefore essential that all board members share a common duty always to put the interests of the company first, and to manage all conflicts of interest. This applies to members of the supervisory board as well as the management board, regardless of whether they were appointed by the general meeting, major shareholders or the workforce.

## Principles

**D. Members of the supervisory and management boards shall act in the best long-term interests of the company, not in their own interests or those of individual shareholders or other parties. When assessing the interests of the company, board members shall take into account the interests of employees, shareholders (including minority shareholders) and other stakeholders.**

## Provisions

### Conflicts of interest

7. Members of the supervisory and management boards should not be permitted to make decisions based on personal interests or the interests of persons connected with them, and board members should not participate in decisions where they have a conflict of interest. The supervisory board should give prior approval to a policy for managing conflicts of interest, which should be made freely available on the company's website.
8. Where a member of either board believes they have a potential conflict of interest with regard to a certain decision, they should inform the other members of their board. In the case of management board members, they should also inform the president of the supervisory board. The supervisory board should keep a record of all notifications relating to conflicts of interest.
9. Where a management or a supervisory board member has reason to believe that another member of a management or supervisory board has not declared an existing or potential conflict of interest, they should inform the president of the supervisory board. If they believe the president of the supervisory board has a conflict, they should inform the deputy president.

## Competition ban

- 10.** Members of the supervisory and management boards should not engage in activities that compete with the company's business, either on their own or another's behalf. They should not be members of management or supervisory board of companies that engage in such activities, or own significant holdings in them. Supervisory and management board members should inform the company secretary of all holdings in such companies, and details of these holdings should be made freely available on the company's website.

## Related Party Transactions

- 11.** No transactions involving members of the management or supervisory boards and the company (or persons related to either party) can be made without prior approval of the supervisory board. The fair value of all material transactions, as defined by law, should be confirmed by an independent expert prior to the transaction, whose report should be made freely available on the company's website.
- 12.** The supervisory board should ensure that procedures are in place for approving and publicly reporting such transactions that comply with legal provisions and financial reporting standards. The audit committee should review the effectiveness of these procedures at least once a year.

# APPOINTMENT OF BOARD MEMBERS

## Purpose

Choosing the right individuals for specific roles and making sure the overall composition and balance of both management and supervisory boards is right for the company's circumstances is crucial. Great care should be taken both in specifying what attributes are needed for each appointment and what gap it is intended to fill, and then in selecting the right person.

The needs of companies inevitably change over time, as does the environment in which they operate. It is important to look forward with the aim of identifying major changes early enough that the boards can be refreshed (if it is necessary) so that they are ready to meet the challenges ahead. A board that was built to deal with yesterday's problems may not be the right board for tomorrow.

## Principle

**E. The supervisory board shall ensure that formal and transparent procedures for the appointment of supervisory and management board members are in place, and that there is a sound succession plan for both management and supervisory boards.**

## Provisions

### Role of the supervisory board

13. The supervisory board should be responsible for appointing and dismissing members of the management board, and for recommending candidates for the supervisory board to the general meeting. It should ensure that formal and transparent procedures are in place for appointments to both management and supervisory boards.
14. 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 target was chosen and a plan setting out how it will be achieved. Progress on the plan should be reported annually.

### Role of the nomination committee

15. 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 president 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 (as defined in Appendix A);
- 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 president 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.

#### Election of supervisory board members by the general meeting

- 16.** When nominating candidates for the supervisory board to the general meeting for election, the company should make freely available on the company's website information on the following items within the general meeting materials:
- The candidate's CV, explaining what skills, knowledge, education and experience they have that will enable them to perform the role of the supervisory board member effectively;
  - An explanation of what the candidate adds to the board profile;
  - Any relations between the candidate and the company or persons related to the company;
  - Whether the candidate is nominated as an independent board member, and if so, why the supervisory board believes them to be independent; and
  - The candidate's other activities, including membership of the supervisory or management boards of other companies.
- 17.** When an existing supervisory board member is nominated, the materials for the general meeting should include details of their attendance at board and committee meetings during their previous mandate, and the conclusions of the most recent evaluation of their performance.
- 18.** The above-mentioned data should also be freely available on the company's website when appointing workforce representatives or other supervisory board members not elected by shareholders at the general meeting.

# THE SUPERVISORY BOARD AND COMMITTEES

## Purpose

The oversight of the management board and how it carries out its duties is only one part of an effective supervisory board's role. It should also be involved in setting and monitoring the company's strategy and culture and ensuring the management board understands the risks and opportunities and the environment in which it operates.

In both capacities, the supervisory board needs to be able to exercise objective and informed judgement. For that reason, it is very important to get the composition of the supervisory board right, and to keep it under review as the company's circumstances change.

The supervisory board needs relevant expertise so that it can understand the information it receives in its oversight role and contribute ideas to the development of the company's strategy. The supervisory board also needs sufficient independence. Independence is not just an absence of conflicts, but an attitude; for example, a willingness to raise difficult questions and challenge existing policies and new proposals where necessary. Diversity is also an important consideration to ensure that different perspectives are taken account of in the board's decision-making.

Even the most carefully constructed supervisory boards will not be able to operate effectively without adequate procedures, support, information and training. The president of the supervisory board has particular responsibility for making sure this is provided, and for planning the work programme and meeting agendas so that the board makes best use of its time. They should also ensure that the board regularly reviews its own performance, to identify how it might increase its effectiveness.

Some of the supervisory board's functions can require detailed consideration and a significant amount of time, particularly for the independent board members. It is therefore sensible to delegate some of these functions to board committees (in the case of the audit committee, this is required by law). In these cases, however, while the task has been delegated to a committee, the responsibility and final decision-making authority should remain with the supervisory board as a whole since the role of the committee is to make informed recommendations to the board.

## Principles

- F. The supervisory board shall be composed in such a way that it is able to execute its strategic and supervisory tasks effectively, bring a diversity of thought to its discussions, and exercise independent and objective judgement.**
- G. The supervisory board shall ensure it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.**
- H. The supervisory board shall establish committees to assist it in undertaking its tasks and ensure that they have the composition and resources necessary to carry out their role effectively.**



**I. Members of the supervisory board and committees shall perform their duties with due diligence and dedicate sufficient time to their duties.**

## **Provisions**

### Responsibilities of the supervisory board

**19.** In addition to the specific functions set out in this Code, the tasks of the supervisory board include:

- Appointing and dismissing members of the management board, and ensuring succession planning;
- Contributing to the development of, and approving the company's strategy, business plan and budget; and
- Monitoring the management board's performance in achieving its objectives and the manner in which it carries out its duties, including how it engages with shareholders and stakeholders.

### Composition

**20.** The supervisory board should have enough members to enable it to carry out its responsibilities and those of its committees effectively. It should develop a supervisory board profile which specifies the minimum number of members and the combination of skills, knowledge and education, as well as professional and practical experience that is required in the supervisory board.

**21.** The supervisory board should include members with different genders, ages, backgrounds and experience to ensure it brings different perspectives to its decision-making.

**22.** The majority of all supervisory board members should be independent. Either president or deputy president of the supervisory board should be independent.

### The president

**23.** In addition to the specific functions set out in this Code, the president of the supervisory board should:

- Ensure that the supervisory board, its committees and its individual members have the resources, support and information they need to operate effectively;
- Chair the meetings of the supervisory board, in a manner that encourages open and constructive debate;
- Maintain contact with, and ensure the cooperation of, the management board; and
- Ensure the orderly and efficient operation of the general meeting.

### Board committees

**24.** The supervisory board should establish at least a nomination committee, a remuneration committee and an audit committee. The supervisory board should stipulate the mandate and activities of each committee.

25. Where the supervisory board has fewer than five members, the functions of the nomination and remuneration committee may be combined in a single committee.
26. The supervisory board should ensure that the members of each board committee have the necessary skills, knowledge and education, as well as professional and practical experience to carry out the committee responsibilities effectively.
27. Each committee should have at least three members. The majority of the members of each committee should be independent, and the president should be an independent member of the supervisory board. Members of the management board cannot be members of the committees.
28. The terms of reference of each committee should be made freely available on the company's website. The company should include a report on the work of each committee in the annual report. This should include information on the number of meetings held and the members of the committee.

#### Time commitment

29. The minimum expected time commitment of each supervisory board member should be specified on their appointment. This should include the time needed for supervisory board committees as well as for the board itself. In the annual report, the company should publish a record of each member's attendance at board and committee meetings.
30. Members of the supervisory board should inform the company secretary of their membership of the supervisory or management boards of other companies.

#### Frequency and format of meetings

31. The frequency of supervisory board meetings should be determined in accordance with the needs of the company, but should be held at least every three months. The president of the supervisory board should ensure that there is a work plan, and that the timing and agenda of future meetings will enable the supervisory board to discharge all its responsibilities in a timely and effective manner. Committees should meet as often as necessary to discharge their responsibilities effectively, and should report regularly to the supervisory board on their activities.
32. While members of the management board should normally attend supervisory board meetings, the supervisory board should have the right to meet without the participation of the management board where it considers it appropriate. Members of the management board should not be present at meetings where the supervisory board discusses the performance and remuneration of the management board and its members. Persons who are not committee members should participate in committee meetings only at the invitation of the committee.

#### Support

33. The company should designate an individual perform the activities of a company secretary. That person should be responsible for ensuring that supervisory board procedures are complied with, advising the supervisory board on governance matters, supporting the president of the supervisory board and helping the supervisory board and committees to function efficiently.

### Quality and timeliness of information

- 34.** All materials required for a meeting of the supervisory board or a board committee should be provided to all its members at least one week before the meeting.
- 35.** Supervisory board meeting minutes should be made available to all supervisory board members. They should be drawn up in a clear manner and in accordance with the law. Reporting on all decisions should be accompanied by data on voting results, where applicable, including details of how individual members voted.
- 36.** The supervisory board should be entitled to receive information or advice from parties outside of the company at the company's expense if the supervisory board considers it necessary to carry out its duties effectively. The procedure for doing so should be specified in internal acts adopted by the management board with prior approval by the supervisory board.

### Training and development

- 37.** The president of the supervisory board should ensure that all supervisory board members receive induction training into their role on appointment, and ongoing training and education to refresh and improve their skills and knowledge.
- 38.** The president should ensure that the supervisory board receives regular updates and briefings from the management board and experts on matters relevant to the company and to their duties as supervisory board members.

### Supervisory board evaluation

- 39.** At least once a year, the supervisory board should evaluate the effectiveness and composition of the supervisory board and its committees, as well as the performance of individual members. The evaluation should be led by the president, or by the deputy president if the president is not independent.
- 40.** The evaluation should include an assessment of whether the supervisory board profile needs to be updated and should inform decisions on the overall size and composition of the supervisory board and its committees, and on whether to recommend individual supervisory board members for reappointment. The evaluation should also identify whether improvements could be made to the operation and preparation of supervisory board meetings.
- 41.** A report on the supervisory board's appraisal of the supervisory board and committees should be included in the annual report. The report should state how the evaluation was carried out, including whether external assessors had been employed and who had been consulted during the process. The report should summarise the actions that have been or will be taken as a result of the appraisal.

# THE MANAGEMENT BOARD

## Purpose

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

It is therefore essential to ensure that the management board has the necessary capabilities and resources to undertake its duties effectively, and that the performance of the management board and its individual members is kept under regular review and any shortcomings are addressed promptly before they result in a loss of value or reputation of the company.

## Principle

**J. The management board shall have the necessary skills, knowledge, education, experience and diversity to carry out its collective responsibilities effectively. Each individual member shall have the relevant expertise needed for their specific duties.**

## Provisions

### Responsibilities of the management board

**42.** The responsibilities of the management board should include:

- Developing and implementing the company's strategy and business plans;
- Managing the company's activities and resources;
- Enforcing the company's values and ethics;
- Selecting and appointing members of senior management;
- Implementing effective risk management and internal control systems; and
- Maintaining constructive relationships with all shareholders and with significant stakeholders.

**43.** The management board should adopt internal rules of procedure which define the distribution of responsibilities and manner of cooperation between management board members, including procedures for conducting meetings and adopting decisions. The rules of procedure should be approved by the supervisory board.

**44.** In the case of groups, the management board of the parent company should be responsible for ensuring it has effective oversight of the activities of the other companies in the group; and that there are rules setting out responsibilities and reporting arrangements at the parent company and subsidiary level.

## Composition

**45.** The supervisory board should ensure that the management board has sufficient members to enable it to carry out its responsibilities effectively. It should develop a management board profile which specifies the minimum number of members and the combination of skills, knowledge and education, as well as professional and practical experience that it requires.

## The president

**46.** The president of the management board should have overall responsibility for the company's day-to-day operations. The president should:

- Lead the development and implementation of the company's strategy, business plan and budget;
- Allocate responsibilities to other members of the management board, and oversee their performance;
- Ensure the management board functions effectively; and
- Maintain contact with the supervisory board, shareholders and significant stakeholders.

## Limits on other appointments

**47.** Members of the management board should obtain prior approval from the supervisory board before accepting an appointment to join a board of a company that is not part of the same group. Members of the management board should hold no more than two positions in management or supervisory boards of such companies.

## Board evaluation

**48.** At least once a year, the supervisory board should evaluate the effectiveness of the arrangements for cooperation between the supervisory and management boards, and the adequacy of the support and information it receives from the management board. The results should be included in the report from the supervisory board in the annual report.

**49.** At least once a year the management board should evaluate its own effectiveness and that of its individual members, and should report the conclusions of the evaluations to the supervisory board.

# REMUNERATION OF BOARD MEMBERS

## Purpose

The way in which individuals are incentivised has a significant impact on how they perform and behave. The design of remuneration packages can be very influential in this regard, and great care needs to be taken both in designing the packages and assessing whether any performance or other conditions have been met.

The remuneration of both supervisory and management board members needs to incentivise them to act in the best long-term interests of the company, in accordance with their duties.

For supervisory board members, this is best achieved by not having any performance-related fees that might risk compromising their independence and objectivity.

For management board members, targets for triggering performance-related bonuses should be challenging so that only exceptional performance is rewarded. Targets should be designed in a way that management board members are not tempted to take excessive risks that are inconsistent with the strategy, or to behave unethically.

## Principle

**K. The supervisory board shall ensure there is a formal and transparent policy and procedure for determining the remuneration of management board members that aligns their interests with the long-term interests of the company and the successful and ethical delivery of the company's strategy.**

## Provisions

### Role of remuneration committee

**50.** The main responsibilities of the remuneration committee are to:

- 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 president 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.

## Remuneration of management board members

- 51.** The supervisory board should determine the annual remuneration of each management board member, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy. The remuneration policy should be prepared in accordance with the relevant legal requirements.
- 52.** Levels of remuneration for management board members, and key performance indicators which are taken into account when determining performance-based part of remuneration, should be appropriate in relation to the agreed strategy and risk appetite, the economic environment within which the company operates, and the pay and conditions of employees within the company.
- 53.** Where shares are awarded to a member of the management board as a part of the remuneration package, the management board member should not dispose of those shares for at least two years from the day on which the shares were awarded to the management board member. Where options to buy shares are awarded to a member of the management board as a part of the remuneration package, the management board member should not exercise any such option prior to the expiry of two years from the day on which the option was awarded to them. The remuneration policy should include provisions specifying the circumstances in which part of a management board member's remuneration would be withheld or recovered.

## Remuneration of supervisory board members

- 54.** Levels of remuneration for the president of the supervisory board and other supervisory board members should reflect the time commitment and responsibilities involved, including on board committees.
- 55.** Remuneration of supervisory board members should not include variable or other performance-related elements.

## Reporting on remuneration

- 56.** Companies should make freely available on their website their remuneration policy as approved by the shareholders at the general meeting.
- 57.** The annual remuneration report should include information on the remuneration of all individual board members. In addition to the information required by law, the report should include details of:
  - any payments received by each supervisory and management board member from the company, or persons related to the company, that were additional to the remuneration they received as supervisory or management board members;
  - any loans, advance payments or guarantees made to each supervisory and management board member by the company or its associated companies; and
  - any gifts, services or other benefits of significant value received by each supervisory and management board member.

# RISK, INTERNAL CONTROL AND AUDIT

## Purpose

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

Risk management and internal control should not be seen as a compliance function that can be adequately dealt with at a junior level within the company. It should be incorporated into the company's strategy, business model and governance processes, starting with the supervisory and management boards.

The most significant risks will differ between companies but may include financial, operational and organisational risks, as well as external risks such as changes in economic circumstances or risks associated with technology (for example, information security threats and competitors with new business models).

Good stewardship by the management and supervisory boards should not inhibit sensible risk-taking that is critical to growth. However, the assessment of risks as part of the normal business planning process should support better decision-taking, ensure that the management and supervisory boards as well as senior management respond promptly to risks when they arise. A clear explanation in the company's annual report of its principal financial and non-financial risks and how they are being managed can also provide reassurance to shareholders and others that the boards understand and are dealing with the challenges facing them.

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

## Principle

- L. The supervisory board shall ensure that there are effective structures, policies and procedures in place to identify, report, manage and monitor the significant risks facing the company and to ensure the independence and effectiveness of internal and external audit functions.**

## Provisions

### Roles of the supervisory and management boards

- 58.** The management board should adopt, upon prior approval by the supervisory board, a policy specifying the nature and extent of the risks the company needs and is willing to take in order to achieve its long-term strategic objectives (the "risk appetite").



**59.** The management board should:

- Identify the major financial, operational and external risks associated with achieving the strategy and sustaining the company's activities;
- Design and maintain adequate risk management and internal control systems to manage and mitigate those risks; and
- Report regularly to the supervisory board on the status of the major risks.

#### Role of the audit committee

**60.** 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.

**61.** Unless undertaken by the supervisory board or a separate board committee, the audit committee should:

- Monitor the effectiveness of the company's overall internal control and risk management systems; and
- Monitor the application of the procedures for reporting breaches of the law or the company's code of conduct.

#### Relations with the external auditor

**62.** The audit committee should oversee the process of selecting and appointing the external auditor in accordance with the requirements of the law, and make recommendations to the supervisory board on the choice of external auditor and the terms of their appointment.

**63.** The audit committee should agree an annual work plan with the external auditor covering the scope and materiality of the activities to be audited. The audit committee should meet the external auditor as needed to discuss issues identified in the course of the audit, and to monitor the quality of the services provided.

**64.** The audit committee should monitor the independence and objectivity of the external auditor. It should approve a policy on the provision of permitted non-audit services by the external auditor and monitor the implementation of that policy.

## Risk management and internal control

- 65.** 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.
- 66.** The company should maintain an effective risk management system that is adequate for the objectives, size and scale of the activities of the company. The system should include processes that can ensure reliable risk identification, measurement, response, reporting and monitoring; and should cover external risks facing the company as well as financial and operational risks. The company should designate clear internal responsibilities for maintaining the risk management system. Those responsible for it should liaise closely with the audit committee.
- 67.** The company should have an internal audit function with responsibility for supervising the effectiveness of internal control system, including the management of risks. The audit committee should agree an annual internal audit work plan with the internal auditor, receive the internal auditor's reports and monitor the implementation of their recommendations.
- 68.** The audit committee should recommend the appointment or dismissal of the head of the internal audit function to the supervisory board. Where there is no internal audit function, the audit committee should review the need for one once a year, as part of its review of the internal control system.

## Whistle-blowing

- 69.** The management board should adopt and make freely available at the company's website, with the prior approval of the supervisory board, a procedure for reporting actual or suspected breaches of the law or of the company's code of conduct. The procedure should ensure that employees or external stakeholders do not suffer negative consequences if they report suspected misconduct.
- 70.** The management board should report any breaches identified through this procedure immediately to the supervisory board and agree what actions should be taken as a result. The audit committee should review the effectiveness of the procedure and how it has been applied at least annually.

# DISCLOSURE AND TRANSPARENCY

## Purpose

Shareholders and potential investors require access to regular and reliable information for them to assess the performance and leadership of the company. Without it, they have no clear basis on which to make investment decisions. Insufficient or unclear information may therefore make it more difficult for companies to attract investment or retain the support of shareholders.

Openness and transparency are also required if companies are to have constructive relations with their important stakeholders, whose continuing good will is essential to the company's long-term success.

## Principles

- M. The company shall ensure that shareholders and other stakeholders have easy and non-discriminatory access to information about the company's ownership structure, corporate governance arrangements and financial and operational performance.**
- N. The supervisory and management boards are jointly responsible for the accuracy and integrity of the financial and other information published by the company.**

## Provisions

### Use of the company website

- 71.** The company should use its website as the main medium for disclosure of information of interest to shareholders, potential investors and other stakeholders, including all information that the company is required to disclose in accordance with the law, listing rules, this Code and its own articles of association.
- 72.** The information to be made freely available and easily accessible on the website should include:
  - The company's annual report;
  - Half-yearly and quarterly reports, and other financial information the publication of which may be required;
  - Information on the terms of reference, composition and members of the supervisory board and its committees, and the management board;
  - The company's articles of association and other internal acts in accordance with this Code;
  - The company's policies on environmental and social impact, human rights and corruption and bribery;

- The company's code of conduct, and details of how to report suspected misconduct;
- Data on any cross-shareholdings involving the company;
- Details of changes in the shareholdings of supervisory and management board members, other persons discharging managerial responsibilities, as well as persons closely associated with them, notifiable under applicable laws and regulations, and any related party transactions;
- The remuneration policy for both supervisory board and management board and annual remuneration report;
- A calendar of events for the next twelve months, including dates of the general meeting, publication of financial results, dividend payments and investor conferences;
- All materials related to the general meeting, including the decisions of the meeting; and
- The name and contact details of the person in charge for investor relations.

**73.** The company should ensure that the information on the website is kept up to date and published in accordance with time limits prescribed in law and regulations. All data on the website should be freely available in both Croatian and English.

#### Annual report

**74.** In addition to the information that companies are required to disclose in accordance with the law and Zagreb Stock Exchange rules, the annual report should include:

- A record of the number of supervisory board and committee meetings held, and each member's attendance at those meetings;
- Details of all shares and other financial instruments of the company held by supervisory and management board members notifiable under applicable laws and regulations, and in other companies that compete with the company's business;
- Details of all contracts and agreements between members of the management or supervisory boards and the company (or persons related to either party);
- The results of the supervisory board's evaluation of its own effectiveness, and the effectiveness of the arrangements for cooperation with the management board; and
- A report on the work of each board committee, including information on the number of meetings held, the members of the committee and their attendance record.

# SHAREHOLDERS AND THE GENERAL MEETING

## Purpose

The duty to act in the long-term interest of the company, rather than the narrow interest of particular individuals or entities, requires supervisory and management board members to take into account the views of, and impact on, all their shareholders when taking decisions. It is therefore important to ensure that all shareholders, irrespective of the size of their shareholding, have equal opportunities to engage in discussion with the company and to express their views through their votes at the general meeting.

Investors place great importance on access to information and voting rights, so it is unlikely they are to invest in companies that they believe will attempt to restrict their ability to assess the company's performance or governance, or create obstacles to exercising their voting rights.

## Principle

- O. The company shall take action to ensure that all shareholders are treated equally, have access to the company, and are able to participate fully in the general meeting, and to remove barriers to their participation.**

## Provisions

### Relations with shareholders

- 75.** The company should ensure that all shareholders, irrespective of the number or class of shares they hold, have equal access to information about the company and how they can exercise and protect their rights.
- 76.** The company should establish effective formal mechanisms to enable minority shareholders to raise issues directly with the presidents of the supervisory and management boards. Details of how these mechanisms operate should be freely available on the company's website.
- 77.** The company should designate an individual as the investor relations contact for all shareholders, whose responsibilities should include ensuring that shareholders receive a rapid response to requests for information. Their contact details should be freely available on the company's website.

### General meeting

- 78.** The company should not place any restrictions on the ability of shareholders to convene or participate in a general meeting, or to place items on the agenda, other than as specified in the law or Zagreb Stock Exchange Rules.

79. The company should provide all shareholders with the opportunity to exercise their votes by proxy or electronically, and should not place any restrictions on their ability to do so other than as specified in the law or Zagreb Stock Exchange Rules. An explanation of the different means by which shareholders can exercise their votes should be included in the documents for the meeting.
80. The company should ensure that the notice of a general meeting is issued no later than 30 days before the general meeting. The agenda, resolutions and all other documents required for the meeting should be made freely available on the company's website at the same time. All documents should be available in Croatian and English.
81. The president and deputy president of the supervisory board, the presidents of the supervisory board committees, and all members of the management board should attend general meetings and be available to answer questions from shareholders. The external auditor should attend the general meeting at which the financial reports are presented.
82. The company should make freely available the decisions of a general meeting on its website without delay. The company should make freely available the answers to questions asked at a general meeting on its website within 30 days of the meeting.

## SECTION 10

# STAKEHOLDERS AND CORPORATE SOCIAL RESPONSIBILITY

### Purpose

Responsible business conduct, which demonstrates that the company can be trusted to act fairly and ethically, is a prerequisite for long-term success. It also contributes to the sustainable development of the Croatian economy. When taking decisions on the company's strategy and business plan, the management and supervisory boards should consider the impact of their proposed actions on their stakeholders, the environment and society, and on the company's reputation.

The company's employees and other stakeholders such as customers, suppliers, public authorities and local communities all have an interest in the company's activities. Regular engagement with these stakeholders can help the company to understand their views and concerns and provide an opportunity to explain the company's position in a positive way.

### Principles

- P. **The supervisory and management boards shall ensure that the company's strategy takes account of the potential environmental and social impact of its activities, and that its policies, culture and values promote ethical behaviour, respect for human rights, and a sound and stimulating work environment.**

**R. The supervisory and management boards shall ensure that there is regular dialogue between the company and its major stakeholders.**

**Provisions**

Corporate Social Responsibility

**83.** The supervisory and management boards should agree and adopt policies on:

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

The policies should be freely available on the company's website.

**84.** When the management board seeks the supervisory board's prior approval on decisions, the supporting documents should explain how the recommended action is consistent with the policies.

Stakeholder engagement

**85.** The supervisory and management boards should jointly identify who they consider to be the company's key stakeholders. The management board should ensure that there are effective mechanisms in place for regular engagement with those stakeholders, and that the supervisory board is informed of the results of that engagement.

**86.** The supervisory board should be entitled to organise meetings with external stakeholders where it considers it necessary to improve its understanding of matters relevant to the company, including their views on the company's performance and reputation. The president of the management board should be notified in advance of such contacts.

**87.** The mandate for each committee should specify the purposes for which the president of the committee can communicate directly with the company's stakeholders and the procedure to be followed.

# DEFINITIONS

## Independence of members of the supervisory board and its committees

A member of the supervisory board or one of its committees cannot be classified as independent if they are a person who:

- is a significant shareholder or a member of the group of significant shareholders; represents a significant shareholder or a group of significant shareholders; or is a spouse, close relative or in-law to a significant shareholder;
- has been a member of the management board of the company or any related companies within the previous three years; or is a spouse, close relative or in-law of any of the members of the management board;
- has been an employee of the company, or of any of its dependent or related companies, within the previous three years;
- has been appointed as an employee representative;
- receives other payments from the company in addition to the remuneration received for carrying out their supervisory board activities;
- is or has been, within the previous three years, in any significant business relation with the company or its associated companies, directly or indirectly as a partner, shareholder, member of the supervisory or management boards or a senior manager of an organisation which has significant business relations with the company;
- is or has been within the previous three years, a partner or an employee of an audit company which provides or provided any audit or non-audit services to the company or its associated companies;
- has significant relations with members of the company's management board through their involvement in other companies, bodies or organisations; or
- has been a member of the supervisory board for more than 12 years.

Supervisory boards seeking independent members should treat this definition as an initial assessment of independence only. A candidate's ability to make an independent and effective contribution to the supervisory board will also be influenced by factors such as their past experience, their character and their personal values. Nomination committees should assess these factors when considering candidates.

## Significant shareholders and shareholdings

An individual or a legal person directly or indirectly holding 5% or more of a company's shares is considered to be a significant shareholder. This definition should be used when assessing the independence of supervisory board and committee members and candidates for appointment to the board or committee, and when determining whether any members of the supervisory or management boards hold more than the permitted number of shares in competitor companies.



# APPLYING THE CODE TO COMPANIES WITH A ONE TIER BOARD STRUCTURE

Companies with a single board of directors (a 'one tier' board) are also required to apply the Code and report on how they have done so by completing the annual compliance questionnaire.

When applying the Code, companies with a one tier board should interpret the provisions as follows:

- References to the supervisory and management boards together should be interpreted as meaning the board of directors;
- References to the supervisory board alone should be interpreted as meaning the non-executive directors, and to the president of the supervisory board as meaning the president of the board of directors;
- References to the management board alone should be interpreted as the executive directors, and to the president of the management board as meaning the CEO;

There are some exceptions to these interpretations in Sections 3 to 5 of the Code, as explained below.

## **Exceptions**

In Section 4 of the Code on the supervisory board and committees, the following references to the supervisory board should be interpreted as meaning the board of directors as a whole:

- Provisions 20 and 21 (on board composition);
- Provisions 24 and 26 (on board committees);
- Provision 31 (on frequency and format of meetings);
- Provisions 34 and 35 (on quality and timeliness of information);
- Provisions 37 and 38 (on training and development); and
- Provisions 39, 40 and 41 (on board evaluation).

In Section 5 of the Code on the management board, Provision 44 (on a parent company's responsibilities for the group) should be interpreted as meaning the board of directors as a whole.

Also in Section 5, companies with a single board of directors do not need to comply or explain with Provisions 43 (rules of procedure), 45 (composition), 48 and 49 (evaluation of the management board and its cooperation with the supervisory board).

## **Additional provisions**

There are some additional provisions that are relevant only to companies with a single board of directors. They have the same status as all other provisions in the Code, and companies with one tier boards are required either to comply with them or explain why they have not done so. Those companies, however, do not have to comply or explain with the equivalent provisions addressed to companies with a two-tier structure (as indicated below).

### Provision 88 (replacing Provisions 1 and 2)

The articles of association and other internal acts should set out clearly the board's authorities and which matters are reserved for its decision. These should include all major decisions affecting the company's strategy, expenditure, risk exposure and reputation. The articles of association should be made freely available on the company's website.

### Provision 89 (replacing Provision 16)

When nominating board candidates to the general meeting for election, the company should make freely available on the company's website information on:

- The candidate's CV, explaining what skills, knowledge, education and experience they have that will enable them to be an effective member of the board;
- Whether the candidate will be an executive or non-executive member of the board; and
- The candidate's other activities, including membership of the supervisory or management boards of other companies.

For nominated non-executive members, the company should also provide information on:

- Any relations between the candidate and the company or persons related to the company; and
- Whether the candidate is nominated as independent, and if so, why the company believes them to be independent.

### Provision 90 (replacing Provisions 19 and 42)

In addition to the specific functions set out in this Code, the board's responsibilities should include:

- Developing and implementing the company's strategy and business plans;
- Managing the company's activities and resources;
- Setting and enforcing the company's values and ethics;
- Appointing and dismissing members of the senior management, and monitoring their performance and the manner in which they carry out their duties;
- Implementing effective risk management and internal control systems; and
- Maintaining constructive relationships with all shareholders and with significant stakeholders.

### Provision 91 (replacing Provision 22)

At least half of the board members should be non-executive directors, of whom the majority should be independent. At least one of the president or deputy president should be independent. The same person should not simultaneously hold the positions of both president and CEO.

### Provision 92 (replacing Provision 25)

If there are fewer than five non-executive directors on the board, the functions of the nomination and remuneration committee may be combined in a single committee.

### Provision 93 (replacing Provision 32)

Executive directors should not be present at meetings of the board or committees where the non-executive directors discuss their performance and remuneration. Persons who are not committee members should participate in committee meetings only at the invitation of the committee.

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