

ANNUAL REPORT ON CORPORATE GOVERNANCE

2022



Annual Report on Corporate Governance

2022

The logo for HANFA, featuring the word "HANFA" in a bold, dark blue, sans-serif font. Above the text is a red, curved line that arches over the letters, resembling a stylized wave or a protective shield.

HANFA

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INTRODUCTION



Implementation of the Corporate Governance Code and other regulations in 2022

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

Companies whose shares are listed on the regulated market (stock exchange) in the Republic of Croatia, with the exception of shares of closed-ended investment funds, started to apply the Code on 1 January 2020. Notwithstanding this date, companies informed Hanfa of the level of their compliance with the Code, i.e. their corporate governance practices, also for the year starting on 1 January 2019, in order to enable the identification of the existing practices and monitoring of the progress in the years following the entry into force of the Code. The initial level of companies' compliance with the Code is presented in the 2020 Annual Report on Corporate Governance, while the 2021 Annual Report on Corporate Governance presents the progress in the compliance with Code.

15 July 2022 saw the entry into force of the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia¹, which governs the introduction of the euro as the official currency in the Republic of Croatia as of 1 January 2023, price conversion rules, the supply and changeover of kuna cash for euro cash, dual circulation, dual display of prices, the application of the principle of the continuity of legal instruments, budgets, financial plans, business records, financial accounts and taxes in the euro adoption process, supervision of the implementation of the Act and misdemeanour provisions.

In addition to legislative and other preparations for the entry of the Republic of Croatia into the euro area, i.e. for the introduction of the euro as the official currency, in its Decision of 25 January 2022, the Council of the Organisation for Economic Co-operation and Development (hereinafter: OECD) invited the Republic of Croatia to open the accession process. Furthermore, at the meeting held on 10 June 2022, the OECD member countries adopted the Roadmap for the Accession Process of the Republic of Croatia, while the Government of the Republic of Croatia adopted a Decision on the Adoption of the Initial Memorandum for the Accession of the Republic of Croatia to the OECD at its session on 27 October 2022. Croatia's OECD accession is subject to negotiations and the assessment of the alignment of the legislative framework of the Republic of Croatia with OECD corporate government principles (G20/OECD Principles of Corporate Governance). These principles were amended on 8 June 2023.²

In its Communication of 11 December 2019 titled "The European Green Deal", the European Commission set out a European Green Deal for the European Union and its citizens, specifying the areas covered by the green deal.³ The document committed the European Commission, among other things, to review Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013⁴. In accordance with the Green Deal, on 14 December 2022, this Directive was amended by Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022, that entered into force on 5 January 2023⁵.

In addition, the end of 2022 saw the entry into force of Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022⁶, which aims to achieve a gender-balanced representation among top management positions in listed companies by establishing requirements and measures concerning the selection of candidates for appointment or election to director positions based on transparency and merit.

¹ Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia (Official Gazette, No 57-803/2022), Amendment to the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia (Official Gazette, No 88-1379/2022)

² OECD, [https://one.oecd.org/document/C/MIN\(2023\)14/FINAL/en/pdf](https://one.oecd.org/document/C/MIN(2023)14/FINAL/en/pdf)

³ Communication from the European Commission, The European Green Deal, <https://eurlex.europa.eu/legalcontent/HR/TXT/HTML/?uri=CELEX:52019DC064>

⁴ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ L 182, 29.6.2013

⁵ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ L 322, 16.12.2022

⁶ Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022 on improving the gender balance among directors of listed companies and related measures, OJ L 315, 7.12.2022

SUMMARY OF KEY INFORMATION IN THE 2022 ANNUAL REPORT ON CORPORATE GOVERNANCE



SUMMARY OF KEY INFORMATION IN THE 2022 ANNUAL REPORT ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

Given that since 1 January 2023 the euro has been the official currency in the Republic of Croatia, all the data in this report are displayed in this currency.

Data on compliance with the Code (via the compliance questionnaire) and data on governance practices (via the governance practices questionnaire) for 2022 were submitted by all of the companies obliged to submit their data to Hanfa.

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

As at 31 December 2022, there were 88 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which two were closed-ended investment funds. A total of 86 share issuers were therefore obliged to submit their compliance questionnaire for 2022 (91 share issuers in 2021).

The compliance questionnaire was submitted to Hanfa by all the 86 share issuers subject to the submission obligation. For the purpose of presenting the actual state of play regarding the compliance with the Code and its individual sections, the total number of share issuers that had submitted their compliance questionnaires did not cover share issuers whose answers provided in the compliance questionnaire were not correct, consistent or consistent with publicly available data (4 share issuers) and a share issuer that had failed to submit its compliance questionnaire within the deadline and in the prescribed manner. The sample serving as the basis for calculating overall compliance covered therefore 81 share issuers.

The analysis of data on share issuers' compliance with the Code in 2022 showed that the level of overall compliance of share issuers with the Code was higher than the one reached in 2021: 68% of all the questions in the 2022 compliance questionnaire were answered "YES" and 23% of the questions were answered "NO", while the remaining 9% were answered "Partially" (in 2021, 65% of all the questions in the compliance questionnaire were answered "YES" and 26% of the questions were answered "NO", while the remaining 9% were answered "Partially")

The comparative analysis of data submitted in the 2021 and 2022 compliance questionnaires points to a **growing trend in compliance** with all the sections of the Code.

According to data provided in the compliance questionnaire for the year 2022, share issuers comply most with the following sections of the Code:

Code section	Level of compliance in 2022	Level of compliance in 2021
<i>Leadership</i>	79%	75%
<i>Shareholders and the general meeting</i>	73%	72%

According to data provided in the compliance questionnaire for the year 2022, share issuers comply least with the following sections of the Code:

Code section	Level of compliance in 2022	Level of compliance in 2021
<i>Appointment of board members</i>	49%	44%
<i>Stakeholders and corporate social responsibility</i>	60%	56%

A significant rise in the level of share issuers' compliance in 2022 relative to 2021 was recorded with respect to the sections "Management board" and "Risks, internal control and audit" (4% of "YES" answers more compared to 2021).

Furthermore, this year's Annual Report on Corporate Governance assesses the progress in share issuers' compliance with each individual section of the Code. The total number of issuers comprising the sample for the calculation of overall compliance in 2022 (81 issuers) did not include 2 issuers whose shares were admitted to the regulated market during 2022. The total number of issuers comprising the sample therefore reached 79.

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

- progress in comparison with the market,
- progress made by individual issuers in 2022 compared with 2021 by individual sections of the Code.

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

The following table provides an overview of compliance progress by sections of the Code in share issuers that received a positive score in 2022 (a score of 1 or 2):

Code section	Level of compliance in 2022	Number of issuers in 2022	Level of compliance in 2021	Number of issuers in 2021
<i>Leadership</i>	8%	6	14%	10
<i>Duties of board members</i>	10%	8	13%	9
<i>Appointment of board members</i>	23%	18	28%	20
<i>Supervisory board and its committees</i>	15%	12	20%	14
<i>Management board</i>	14%	11	6%	4
<i>Remuneration of board members</i>	10%	8	27%	19

<i>Risks, internal control and audit</i>	10%	8	14%	10
<i>Disclosure and transparency</i>	6%	5	4%	3
<i>Shareholders and the general meeting</i>	6%	5	11%	8
<i>Stakeholders and corporate social responsibility</i>	8%	6	13%	9

The comparison of the level of compliance progress in share issuers that made a progress in compliance (and received a score of 1 or 2) with individual sections of the Code in 2022 with the level of compliance progress reached in 2021 showed a **declining trend in compliance progress** as regards most of the sections of the Code. A rising level of compliance progress made in 2022 compared to 2021 was recorded with respect to the sections “Management board” and “Disclosure and transparency”.

OVERVIEW OF SELECTED CORPORATE GOVERNANCE AREAS RELATING TO SHARE ISSUERS



INTRODUCTION

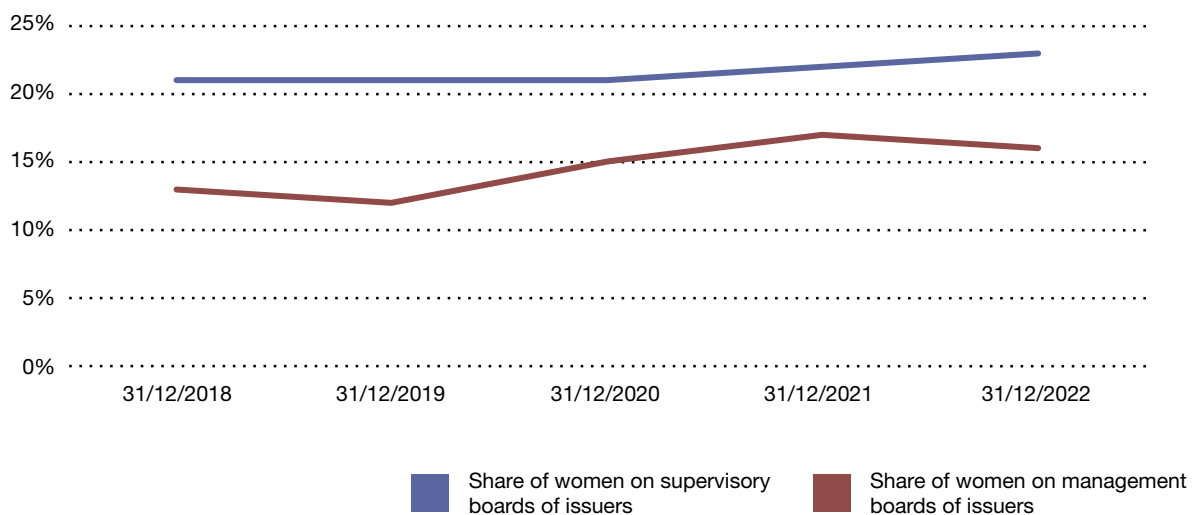
The 2022 Annual Report on Corporate Governance shows the compliance with recommendations of the Code for individual selected corporate governance areas. This chapter shows the compliance in the following corporate governance areas: gender diversity, independence of supervisory board members, independence of audit committee members, conflicts of interest, internal control system, ESG policies, and reporting.

GENDER STRUCTURE OF MANAGEMENT AND SUPERVISORY BOARDS

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

The following chart shows changes in the share of women on management and supervisory boards of issuers in the Republic of Croatia from 2018 to 2022.

Chart 1 Overview of women's participation in management and supervisory boards of issuers in the Republic of Croatia, 2018 – 2022



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

In the period from 2018 to 2022, the share of women on management boards and supervisory boards grew slightly (from 13% to 16% and from 21% to 23% respectively). The average share of women on issuers' management and supervisory boards amounted to 15% and 22% respectively.

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

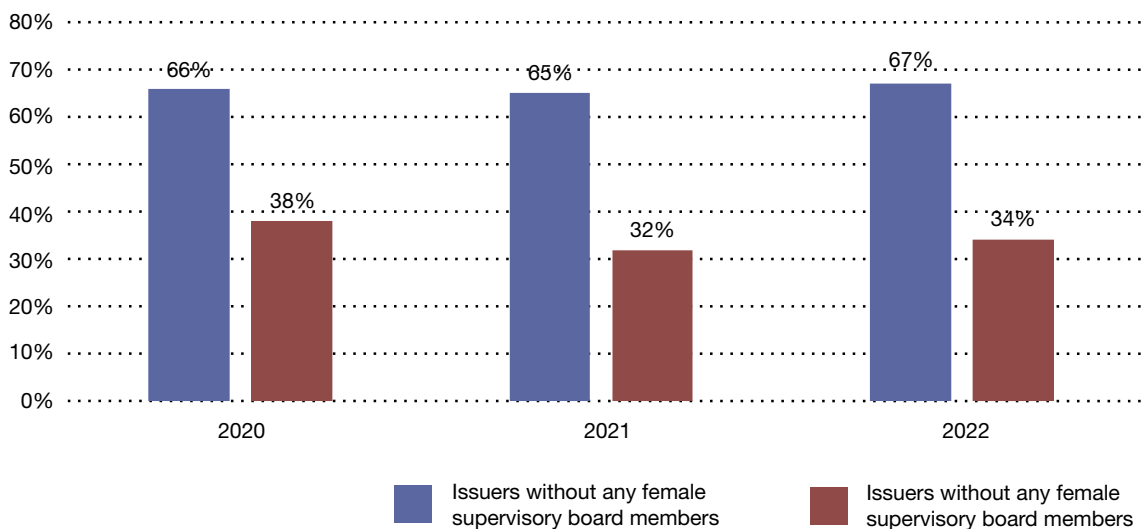


Source: court register

In 2022, the number of women chairing supervisory boards fell relative to 2021. As regards the number of issuers with female management board chairs, an upward trend is evident in the observed period.

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

Chart 3 Number of issuers without any female board members in 2020, 2021 and 2022



Source: Governance practices questionnaire 2020, 2021 and 2022

In the period observed, the share of issuers with no female management board members was very high and even rose slightly in 2022 compared to 2020 and 2021 (it ranged from 65% to 67%), leaving significant room for improvement. The share of issuers with no female supervisory board members fell relative to 2020, and grew compared to 2021;

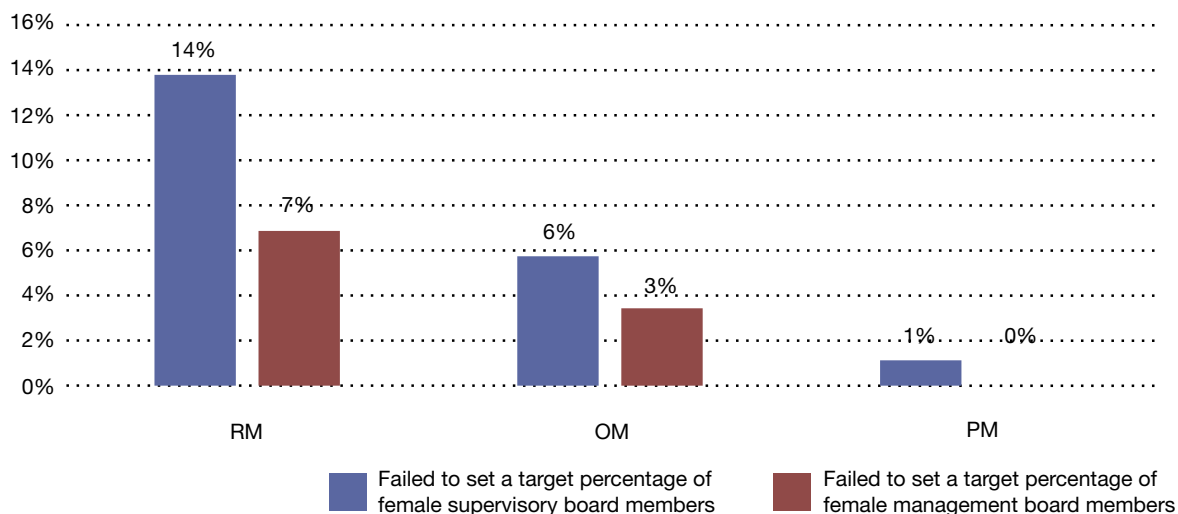
however, this share was not very high in the period observed (it ranged from 32% to 38%), which points to certain progress towards achieving gender diversity goals.

TARGET PERCENTAGE OF FEMALE BOARD MEMBERS

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

According to the data from the governance practices questionnaire, a total of 69 out of 87 issuers (79%) set the target percentage of female supervisory board members to be achieved within the next five years. The issuers that failed to set this percentage do not comply with the requirements of the Code. According to the corporate governance practices questionnaire, 75 out of 87 issuers (86%) set the target percentage of female management board members.

Chart 4 Share of the issuers that failed to set the target percentage of female board members in 2022, by segments of the regulated market



Source: Governance practices questionnaire 2022

In 2022, the target percentage of female supervisory board members failed to be set by 14% of issuers on the Regular Market (RM), 6% of issuers on the Official Market (OM), and 1% of issuers on the Prime Market (PM) (in 2021, 23% of issuers on the Regular Market and 33% of issuers on the Official Market). The target percentage of female management board members failed to be set by 7% of issuers on the Regular Market and 3% of issuers on the Official Market (in 2021, 12% of issuers on the Regular Market and 19% of issuers on the Official Market, while all issuers on the Prime Market set the target percentage of female management board members). All issuers on the Prime Market set the target percentage of female management board members in 2022.

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

- 5 issuers on the Prime Market,
- 13 issuers on the Official Market, and
- 51 issuers on the Regular Market.

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

- 5 issuers on the Prime Market,
- 16 issuers on the Official Market, and
- 54 issuers on the Regular Market.

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

26 out of 75 issuers that had set the target (35%) achieved the target percentage of female management board members (17 issuers on the Regular Market, 5 issuers on the Official Market and 4 issuers on the Prime Market).

35 out of 69 issuers that had set the target (51%) achieved the target percentage of female supervisory board members (24 issuers on the Regular Market, 7 issuers on the Official Market and 4 issuers on the Prime Market).

In the following years, the achievement of the target percentage and compliance with the Code (with target percentages and deadlines defined by share issuers themselves) by the share issuers that have set that target will be subject to monitoring. Data on the achievement of the target percentage in 2022 compared to 2021 show a slight rise in the number of women on management boards (6%) and a more significant rise in the number of women on supervisory boards (10%). In 2021, these percentages amounted to 29% and 41% for management and supervisory boards respectively.

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

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

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

Source: Governance practices questionnaire 2020, 2021 and 2022

According to the data from the governance practices questionnaire, 16% of the issuers that had set the target percentage of female management board members achieved that percentage and also have a nomination committee in place. A total of 23% of the issuers that had set the target percentage of female supervisory board members achieved that percentage and also have a nomination committee in place.

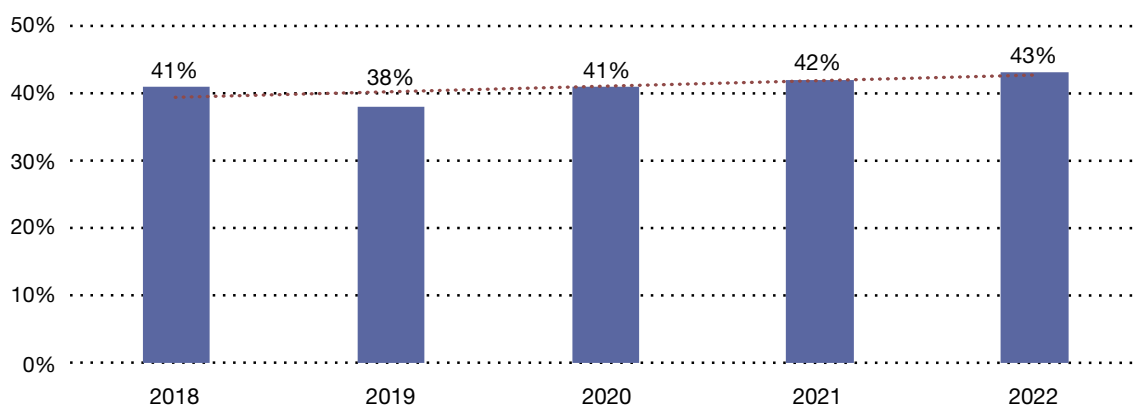
INDEPENDENCE OF SUPERVISORY BOARD MEMBERS

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

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

The following chart provides a comparative overview of the share of independent supervisory board members in share issuers in the Republic of Croatia from 2018 to 2022.

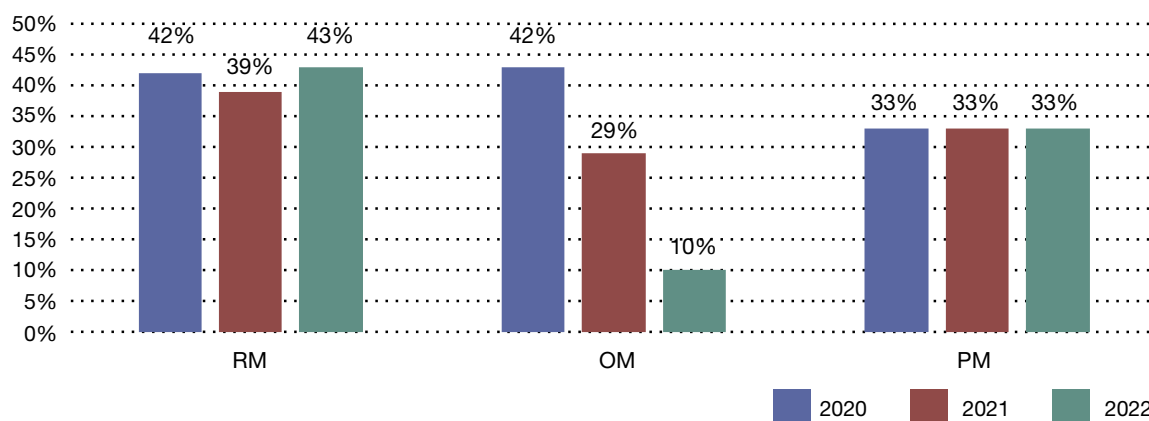
Chart 5 Independent supervisory board members in share issuers in the Republic of Croatia, 2018 – 2022



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

The level of independence of supervisory board members of share issuers in the 2018-2022 period shows a slight upward trend. The average number of independent supervisory board members of share issuers in all segments of the regulated market from 2018 to 2022 reached 41%. This means that in that period, 59% of supervisory board members were not independent.

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

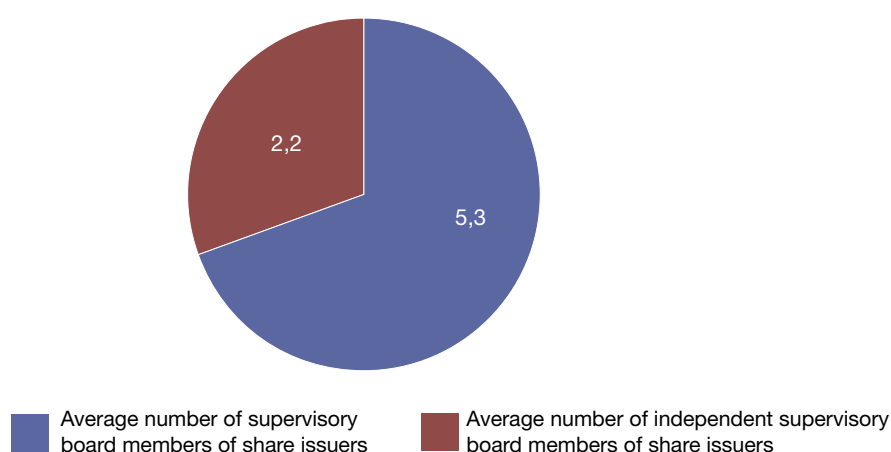


Source: Governance practices questionnaire 2020, 2021 and 2022

The level of independence of share issuers' supervisory board members in 2020, 2021 and 2022 changed slightly on the Regular Market (from 42% to 39% and back to 43%), while the Official Market saw a more significant decline in the share of issuers with an independent majority of supervisory board members compared to 2020 and 2021 (from 43% to 10%). The share of issuers on the Prime Market with an independent majority of supervisory board members held steady relative to 2020 and 2021. However, shares of issuers with an independent majority of supervisory board members by individual segments of the regulated market are lower than 50%.

According to data collected from share issuers, supervisory boards consist of 5 members on average. Pursuant to the Code, the majority of supervisory board members should be independent. The following chart shows the average number of supervisory board members and the average number of independent supervisory board members in 2022.

Chart 7 Average number of supervisory board members and average number of independent supervisory board members of share issuers in 2022



Source: Governance practices questionnaire 2022

The chart shows that the average number of supervisory board members totals 5, while the number of independent supervisory board members reaches 2, which means that the minimum majority independence requirement set by the Code for supervisory board members was not fulfilled.

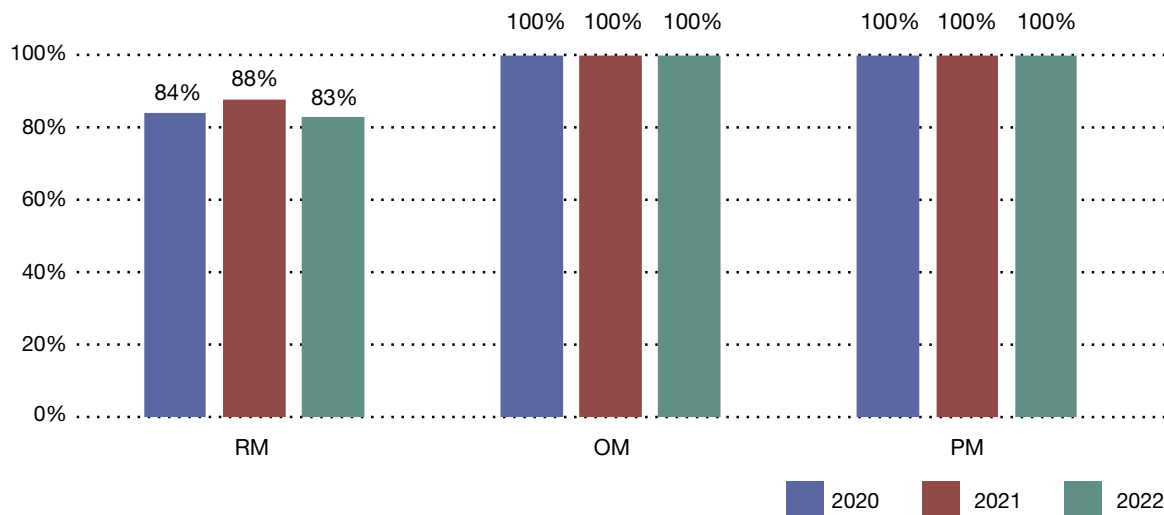
Even though data on independent supervisory board members of share issuers in the Republic of Croatia point to certain (slight) progress towards the increase in their independence, share issuers should put in an additional effort in order to ensure the independence of the majority of their supervisory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

According to data collected, the relationship between supervisory board members and management board members (predominant business relationship reaches 54%) and other supervisory board members (predominant business relationship reaches 72%), as well as related party transactions affect the achievement of the objective regarding the independence of the majority of supervisory board members, which, as a consequence, may have an impact on the effectiveness of the work of the supervisory board and its decision-making process.

INDEPENDENCE OF AUDIT COMMITTEE MEMBERS

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

Chart 8 Proportion of share issuers with an audit committee in place in 2020, 2021 and 2022



Source: Compliance questionnaire 2020, 2021 and 2022

2022 saw a slight decrease in the compliance of share issuers with the Code as regards the establishment of the audit committee by the supervisory board on the Regular Market given that during the year, certain issuers that had an audit committee in place withdrew their shares from the regulated market. Issuers on the Official Market and Prime Market were fully aligned with the Code in this respect, over all the three years observed.

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

According to data collected, the average number of share issuers' audit committee members in 2022 was 3, and 1 member of the audit committee was independent on average. These data fully correspond to the data on the average number of audit committee members and the average number of independent audit committee members in the previous year. Therefore, as regards the independence of audit committee members, there were no changes relative to the previous year. To conclude, in 2022, as in the previous year, the minimum majority independence requirement set by the Code for audit committee members was not met.

Issuers have recognised the significance of the audit committee, as evidenced by the increase in the share of the issuers that have set it up. They should therefore put in an additional effort in order to ensure the independence of the majority of audit committee members and to comply with the Code.

CONFLICTS OF INTEREST

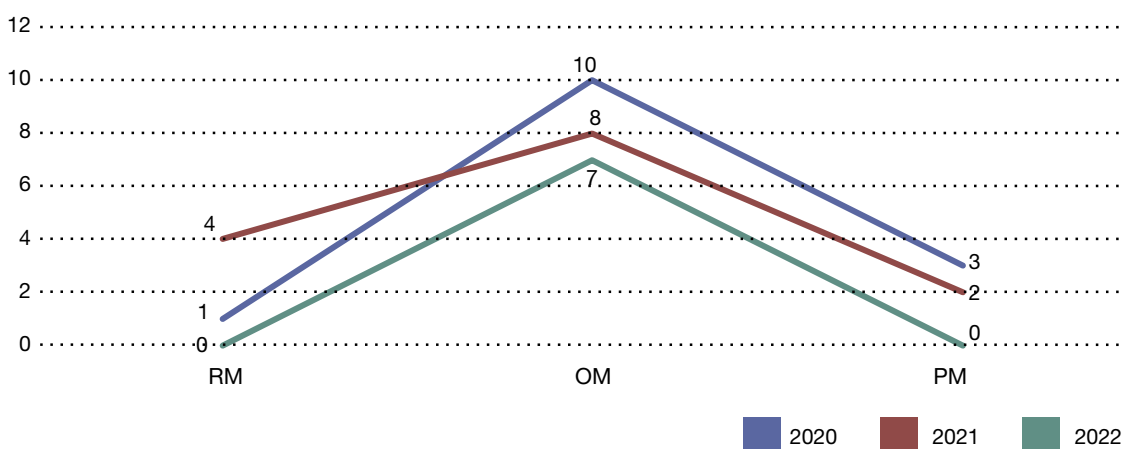
Members of the supervisory and management board are obliged to act in the best long-term interest of the company instead of in their own interest or in the interest of individual shareholders or other parties. In order to ensure acting in the best long-term interest of the company, situations should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

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

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

For the sake of comparison, the following chart shows the number of reported conflicts of interest in 2020, 2021 and 2022 by segments of the regulated market.

Chart 9 Number of conflicts of interest reported during the year, in 2020, 2021 and 2022, by segments of the regulated market



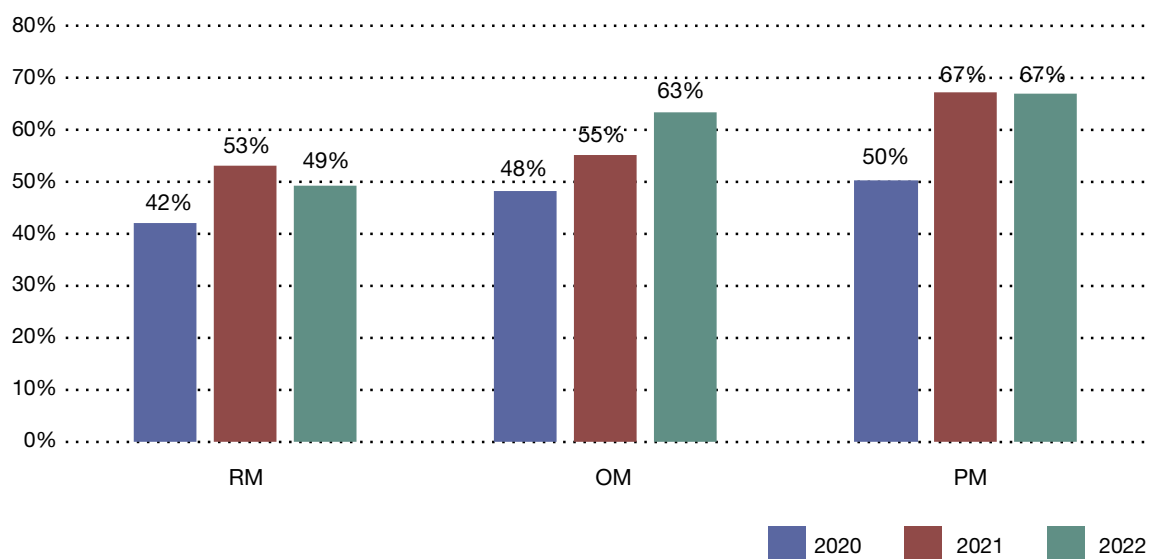
Source: Governance practices questionnaire 2020, 2021 and 2022

In 2022, 7 conflicts of interest were reported by 4 issuers whose shares are admitted to the Official Market, a 50% decrease compared to 2020 and 2021, when 14 conflicts of interest were reported by 4 issuers. No conflicts of interest were reported by issuers whose shares are admitted to trading on the Prime Market and Regular Market.

These data show that the number of conflicts of interest reported between 2021 and 2022 declined, while the number of reporting issuers held steady.

Provision 7 of the Code stipulates that the supervisory board should give its prior approval for the conflicts of interest management policy. The following chart shows the share of issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2020, 2021 and 2022 by segments of the regulated market.

Chart 10 Share of issuers whose supervisory board gave its prior approval for the conflicts of interest management policy in 2020, 2021 and 2022, by segments of the regulated market



Source: Compliance questionnaire 2020, 2021 and 2022

The chart shows a significant rise in compliance as regards the granting of the supervisory board's prior approval for the conflicts of interest management policy on the Official Market relative to 2020 and 2021, while a rise in compliance compared to 2020 and a decline compared to 2021 was recorded on the Regular Market.

Table 2 Comparative overview of reported conflicts of interest during the year and prior approvals given by supervisory boards for the conflicts of interest management policy in 2020, 2021 and 2022 by segments of the regulated market

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

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

In 2022, the supervisory board of the majority of issuers on the regulated market granted its prior approval for the conflicts of interest management policy, while in 2021 the supervisory board of the majority of issuers on the Official Market and Prime Market did not grant its prior approval for the conflicts of interest management policy (a total of 10 reported conflicts of interest).

Out of 7 cases of conflicts of interest reported in 2022, 5 were reported by the senior management, 1 by the management board and 1 by the supervisory board (in 2021, out of 14 reported cases of conflicts of interest, 7 were reported by the senior management, 7 by the management board, while the supervisory board did not report any conflicts of interest). All the cases of conflicts of interest reported in 2022 (as well as in 2021) involved persons who abstained from voting on entering related party transactions.

The governance practices questionnaire showed that 39 supervisory board members of 23 issuers were related to management board members in 2022 (54 supervisory board members of 25 issuers in 2020). The number of issuers having reported transactions with management and supervisory board members was by 3% higher than in 2020 and 2021. Furthermore, the year 2022 saw the highest average gross amount of related party transactions (EUR 19.4m) relative to the 2018-2021 period. Despite the above-mentioned data on the relationship between management and supervisory board members and data on related party transactions, in 2022 only 1 conflict of interest was reported by the management and supervisory board respectively.

According to data on governance practices, 60% of the issuers failed to adopt internal rules of procedure in cases of related party transactions in 2021, while this share stood at 59% in 2022.

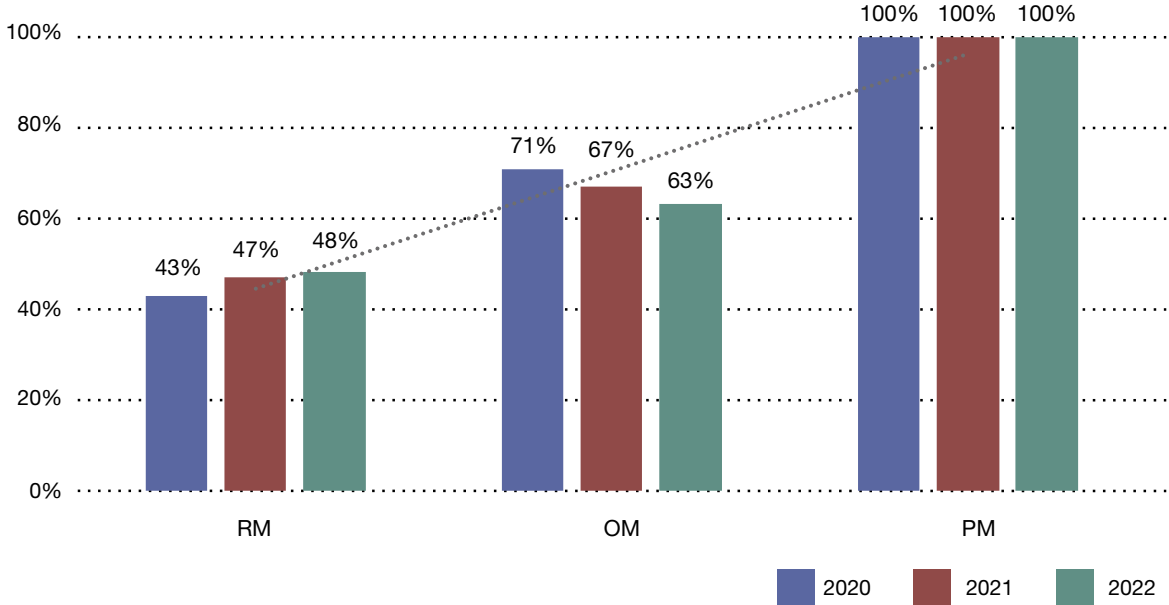
Taking into account information on the relation between management and supervisory board members, as well as data on related-party transactions and the absence of internal rules of procedure in cases of related party transactions in more than 50% of the issuers, the number of reported conflicts of interest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

INTERNAL CONTROL SYSTEM

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

In 2022, 55% of the issuers had an internal control system in place, as in the previous period. The following chart shows the proportion of the share issuers that had in place an internal control system in 2022 by segments of the regulated market.

Chart 11 Proportion of the share issuers that had in place an internal control system in 2020, 2021 and 2022 by segments of the regulated market



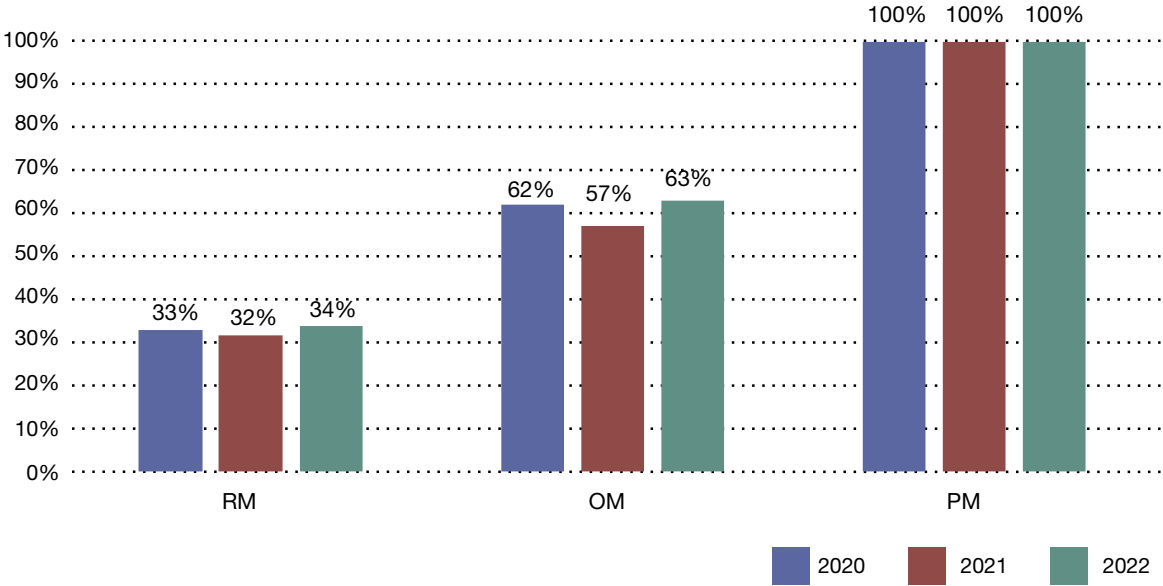
Source: Governance practices questionnaire 2020, 2021 and 2022

The data provided show a slight increase in the number of issuers on the Regular Market with an internal control system in place, which points to the fact that, even though issuers have recognised the importance of establishing an effective internal control system as a factor which ensures reliable information used by the management board in its management activities, the share of such issuers on the Regular Market is still low. The Official Market saw a drop in the number of issuers with an internal control system in place.

In 2022, there were 16 employees in the internal control system on average (15 in 2021).

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

Chart 12 Proportion of the share issuers that had in place an internal control system and whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once a year in 2020, 2021 and 2022 by segments of the regulated market



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

2022 saw an increase in the share of issuers on the Regular Market and Official Market whose audit committee evaluated the effectiveness of the risk management and internal control system as a whole at least once a year.

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

However, the existence of an internal control system and its evaluation by the audit committee do not in themselves ensure the effectiveness and efficiency of the system. Given that the management of conflicts of interest has indicated weaknesses in the internal control system, issuers should make further efforts in the coming period to establish an effective and efficient internal control system. This was also noted in the 2021 Annual Report on Corporate Governance; however, the market has seen only a slight increase in this respect so far.

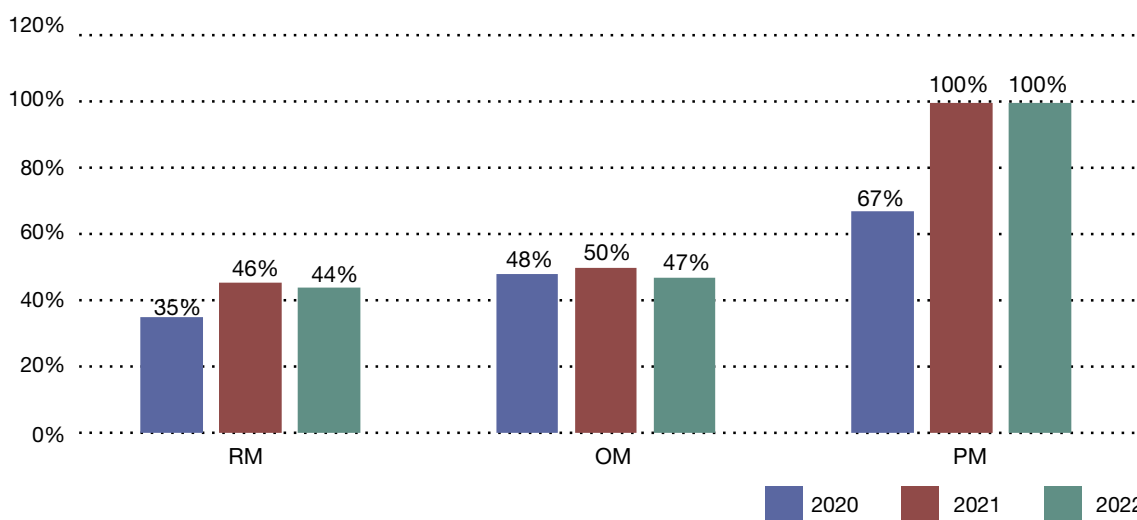
REMUNERATION POLICY

The Companies Act⁷ prescribes the obligation to decide on the system of remuneration of members of the management board and supervisory board through the adoption of a remuneration policy.

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

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

Chart 13 Share of the issuers whose supervisory board sets annual remuneration of each member of the management board, based on the recommendations of the remuneration committee and in accordance with the approved remuneration policy in 2020, 2021 and 2022, by segments of the regulated market



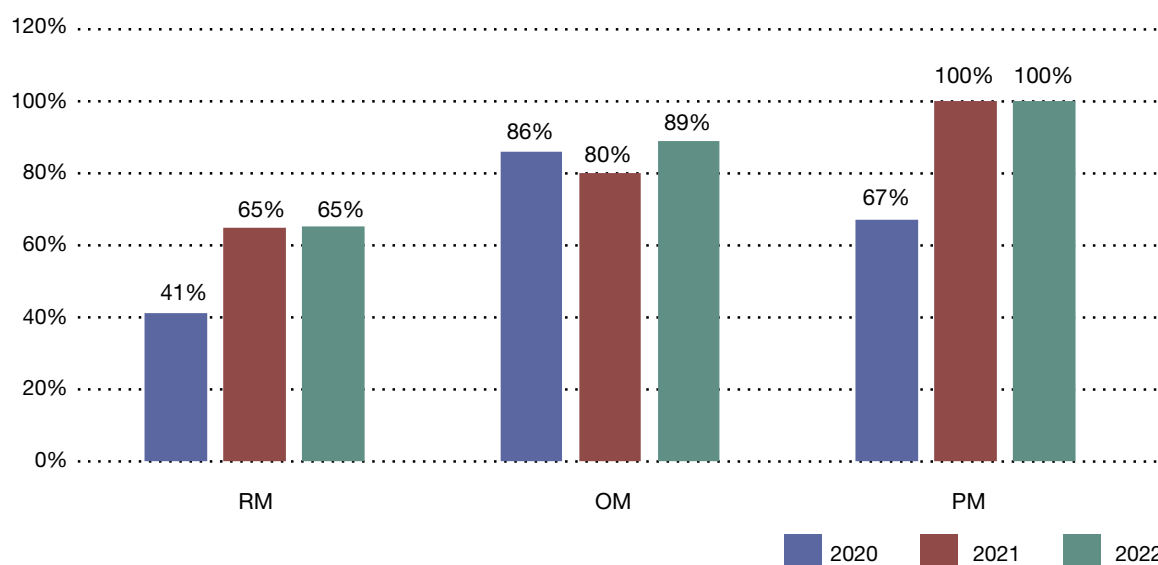
Source: Compliance questionnaire 2020, 2021 and 2022

The largest increase in the share of issuers that complied with this provision in 2022 relative to 2020 was recorded with respect to share issuers on the Prime Market (an increase from 67% to 100% in 2021 and 2022), while this increase was significantly smaller relative to 2020 and recorded a slight decline compared to 2021 on the Official Market and Regular Market.

⁷ Official Gazette, 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107/2007, 146/2008, 137/2009, 125/2011, 111/2012, 68/2013, 110/2015, 40/2019, 34/2022, 114/22 and 18/23

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

Chart 14 The company's approved remuneration policy is available on the website of the company free of charge (Article 56 of the Code)



Source: Compliance questionnaire 2020, 2021 and 2022

The chart shows a significant increase in the compliance of issuers with regard to the availability of the issuer's remuneration policy free of charge on the issuer's website on the Prime Market (an increase from 67% to 100%) and Regular Market (an increase from 41% to 65%). This increase is particularly sharp on the Prime Market, where none of the issuers complied with this provision of the Code in 2019, while compliance by all the issuers was recorded in 2020 and 2021. The share of the issuers on the Official Market that complied with this provision of the Code in 2022 showed an upward trend.

NON-FINANCIAL (ESG) REPORTING

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

In order to realise the European Green Deal and fulfil the international commitments under the Paris Agreement relating to meeting the environmental, social and governance sustainability goals, the European Commission is in the process of establishing a sustainable financing framework. Therefore, a legislative framework has been adopted governing business operations of financial sector participants with the aim of redirecting financial flows to sustainable economic activities and transparent presentation of business operations related to sustainable financing. The obligations to disclose sustainability-related data are primarily stipulated in Regulation (EU) 2019/2088 of the European Parliament and of the Council (hereinafter: SFDR)⁸ and the Taxonomy Regulation⁹ and its amendments¹⁰.

The SFDR prescribes an obligation to disclose sustainability-related information for all financial market participants and financial advisers, regulating the process for including ESG factors in analyses made when deciding on investments in certain companies. The Regulation also indirectly refers to issuers, as only those issuers that disclose the ESG-relevant information will be considered for potential investments.

Article 8 of the Taxonomy Regulation imposes an obligation on issuers to disclose information on the proportion of the turnover, capital expenditure or operating expenditure that is associated with environmentally sustainable economic activities with respect to six environmental objectives. This Article has been in effect since 1 January 2022 in relation to two environmental objectives, namely climate change mitigation and climate change adaptation, given that a delegated act has been adopted specifying the technical screening criteria for economic criteria with respect to the two objectives. Another delegating act supplementing the Taxonomy Regulation was adopted in June 2023, setting out the technical screening criteria for economic activities with respect to the four remaining objectives. The Taxonomy Regulation supplements also specify in more detail key performance indicators, as well as all necessary disclosures in this area.

The Corporate Sustainability Reporting Directive (CSRD)¹¹ was published in the Official Journal of the European Union in December 2022 and entered into force on 5 January 2023. This Directive lays down changes as regards entities subject to sustainability reporting requirements and place of publication of sustainability reports, the obligation to draw

⁸ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019

⁹ Regulation (EU) No 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) No 2019/ 2088, SL L 198, 22.6.2020

¹⁰ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, OJ L 442, 9.12.2019

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

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

¹¹ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ L 322, 16.12.2022

up management reports in the single electronic reporting format and the requirement to mark up sustainability reporting, assurance of sustainability reporting, etc. The deadline for the transposition of the Directive into national laws, regulations and administrative provisions is 6 July 2024.

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

- as of 1 January 2024, for entities already subject to the Non-Financial Reporting Directive,
- as of 1 January 2025, for large entities currently not subject to the Non-Financial Reporting Directive, and
- as of 1 January 2026, for small and medium-sized companies (except micro undertakings) listed on the regulated market.

The European Financial Reporting Advisory Group (EFRAG) is tasked with the drawing up of the European Sustainability Reporting Standards (ESRS).

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

Prior to its amendment by the CSRD, the provisions of the Non-Financial Reporting Directive had been transposed into the legal system of the Republic of Croatia through the Accounting Act¹².

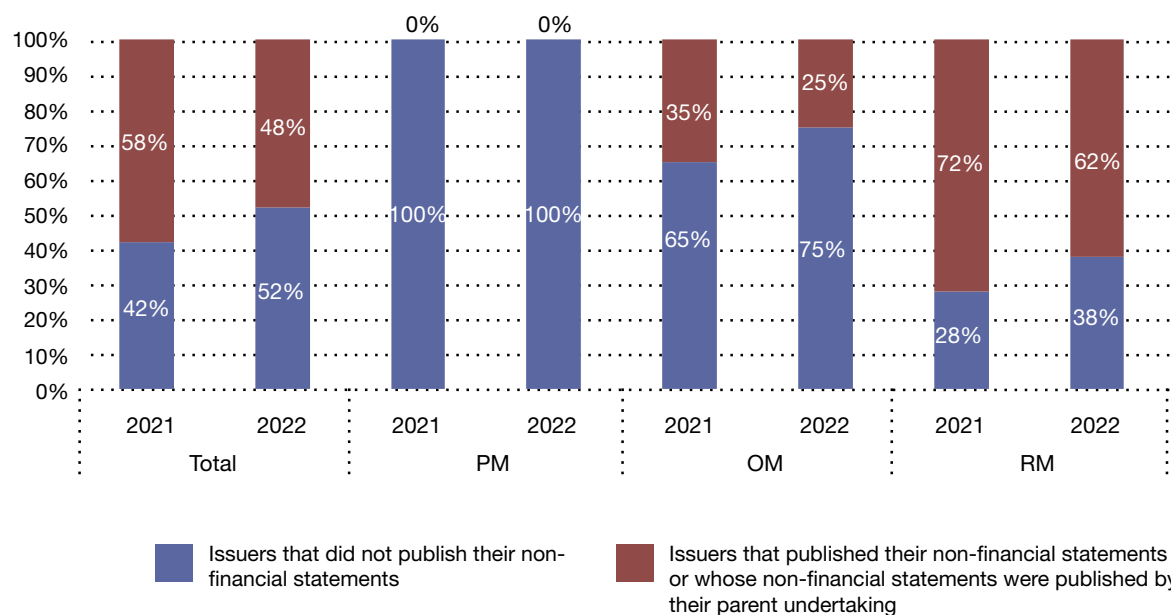
The Accounting Act obliges all issuers that, at the date of the statement of financial position, exceed the average number of 500 workers during the previous financial year to include in their management report a non-financial statement containing information on the development, business results and position of the issuer and on the impact of activities relating to environmental, social and employee-related matters, respect for human rights, anti-corruption and bribery issues. Therefore, the statement of financial position as at 31 December 2022 takes account of the average number of employees in 2021.

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

A review of the disclosures of all the issuers whose securities were listed on the regulated market of the ZSE as at 31 December 2022 showed that non-financial statements for 2022 were published by 49 issuers (52%) or by their parent undertaking. This number rose compared to the previous year, when 42% of the issuers (or their parent undertakings) published their non-financial statements.

¹² Official Gazette, No 78/15, 134/15, 120/16, 116/18, 42/20, 47/20 and 114/22

Chart 15 Overview of disclosed non-financial statements for 2021 and 2022 by segments of the regulated market



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

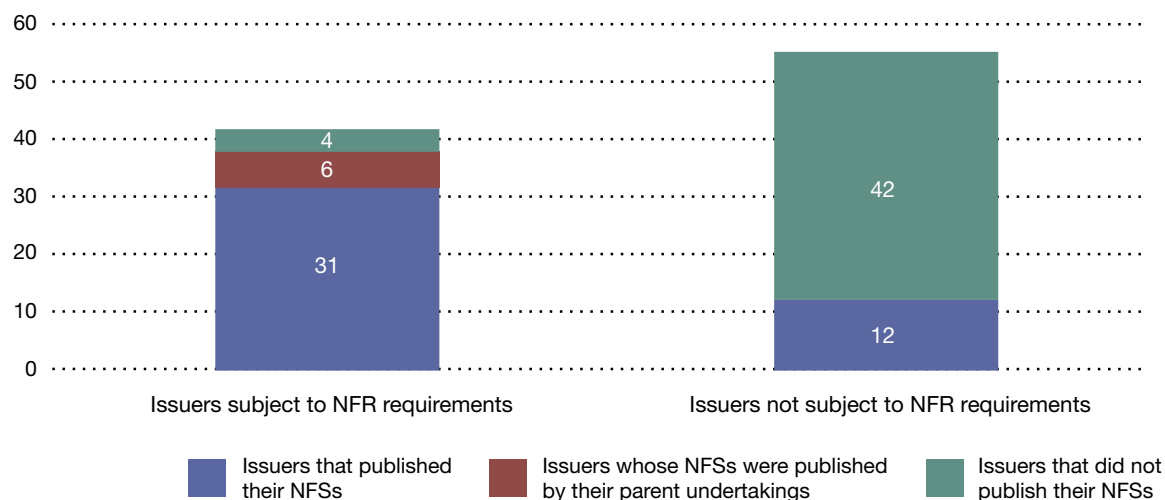
All issuers on the Prime Market published their non-financial statement for 2021 and 2022.

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

According to data on the average number of issuers' employees during 2021, received by Hanfa through the governance practices questionnaire and annual reports for 2021, and pursuant to Article 21a of the Accounting Act, 41 issuers were obliged to publish their non-financial statements, which represents 43% of the total number of issuers. Of the 41 issuers concerned, 4 issuers (10%) did not comply with the obligation to produce their non-financial statement for 2022, while non-financial statements of 6 issuers were published by their parent undertakings. Of the 54 issuers not subject to non-financial reporting requirements, 12 issuers (22%) published their non-financial statements.

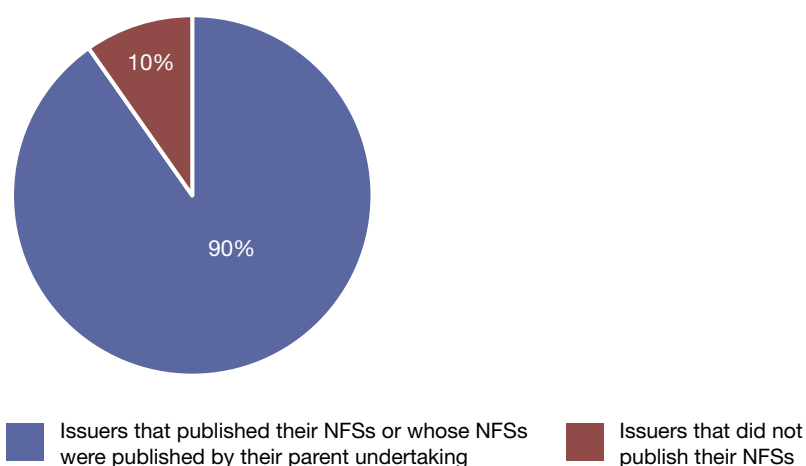
There were 49 issuers that published their non-financial statements or whose non-financial statements were published by their parent undertaking; however, this overview covers non-financial statements published by 43 issuers, as the issuers whose non-financial statements were published by their parent undertakings have been exempt from it.

Chart 16 Number of the issuers that published their 2022 non-financial statement according to the disclosure obligation criterion



Source: Issuers' non-financial statements for 2022

Chart 17 Publication of non-financial statements by entities subject to non-financial reporting requirements for 2022



Source: Non-financial statements of issuers for 2022

Table 3 Overview of issuers subject to non-financial reporting requirements by segments of the regulated market and by published non-financial statements for 2022

	Issuers subject to NFR requirements	Issuers that published their NFSs or whose NFSs were published by their parent undertakings	% of disclosures
PM	6	6	100%
OM	17	15	88%
RM	18	16	89%
Total	41	37	90%

Source: Issuers' non-financial statements for 2022

The review found that 2 issuers whose shares are listed on the Official Market and 2 issuers whose shares are listed on the Regular Market failed to publish their 2022 non-financial statements, although they were required to do so under the Accounting Act. All issuers on the Prime Market are subject to non-financial reporting requirements and all of them complied with this obligation.

Table 4 Overview of the issuers that published their non-financial statements for 2022, without being subject to non-financial reporting requirements, by segments of the regulated market

	Issuers subject to NFR requirements	Issuers that published their NFSs voluntarily	% of voluntary disclosures
OM	7	3	43%
RM	47	9	19%
Total	54	12	22%

Source: Issuers' non-financial statements for 2022

All issuers on the Prime Market are subject to non-financial reporting requirements and are therefore not included in the table above. Of the 7 issuers on the Official Market that are not subject to non-financial reporting requirements, 3 (43%) published their non-financial statements. Furthermore, of the 47 issuers on the Regular Market not subject to non-financial reporting requirements, 9 issuers (19%) published their non-financial statements. The total number of the issuers that voluntarily published non-financial statements amounts to 12.

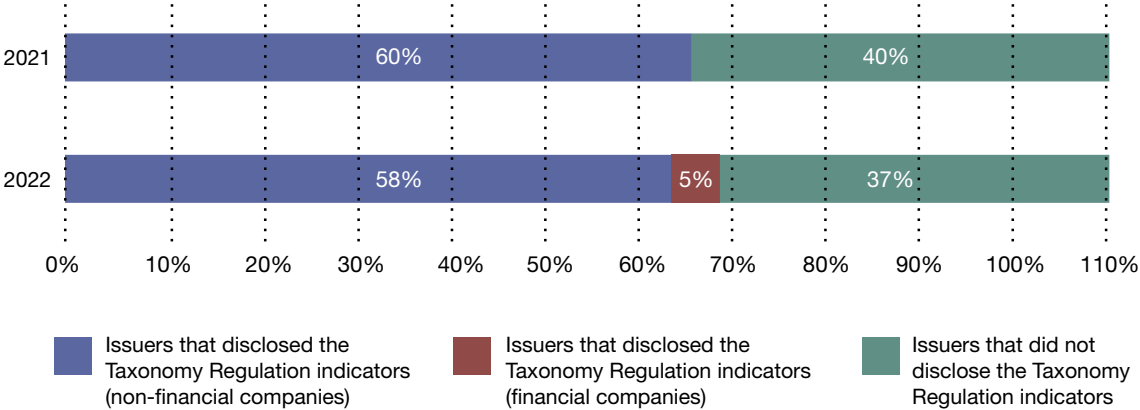
- Out of a total of 43 non-financial statements, 28 were published within 2022 annual reports, while 15 issuers published a separate non-financial statement or a sustainability statement.
- Out of a total of 43 non-financial statements, 22 (51%) were prepared (according to issuers) pursuant to the GRI (Global Reporting Initiative) standards. The GRI standards are the most widely represented non-financial reporting standards in Europe, which promote the practice of public reporting on ESG factors, provide guidance in identifying significant positive or negative contributions to the sustainable development objective and ensure global comparability and quality of non-financial information.
- Of the 22 issuers that used the GRI standards, 16 (73%) also published the GRI Standards Content Index, which provides a reference for each GRI standard regarding the page of the non-financial statement which explains it, thus ensuring the integrity and transparency of reporting on ESG factors.
- Most of the issuers that published their non-financial statements also referred to the United Nations Sustainable Development Goals (SDGs). Of 17 such goals, the issuers mainly emphasised 6 goals to which their business activities contribute most.
- The Expert Committee on Sustainability Reporting at the Croatian Business Council for Sustainable Development (HR PSOR) gave its opinion on non-financial statements of 5 issuers. The opinion on all the 5 non-financial statements confirmed that these issuers reported on sustainability in a detailed and comprehensive manner.
- 3 issuers reported being members of the HR PSOR.

- Audit firms drew up independent limited assurance reports with respect to non-financial statements of 2 issuers.

Reporting pursuant to the Taxonomy Regulation

Of the 43 issuers that published their non-financial statements, 25 (58%) disclosed non-financial companies indicators under the Taxonomy Regulation, while 2 of them disclosed financial companies indicators. In 2021, the Taxonomy Regulation indicators were disclosed by 60% of the issuers that drew up their non-financial statements for 2021.

Chart 18 Overview of issuers by the Taxonomy Regulation indicators disclosure in 2021 and 2022



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

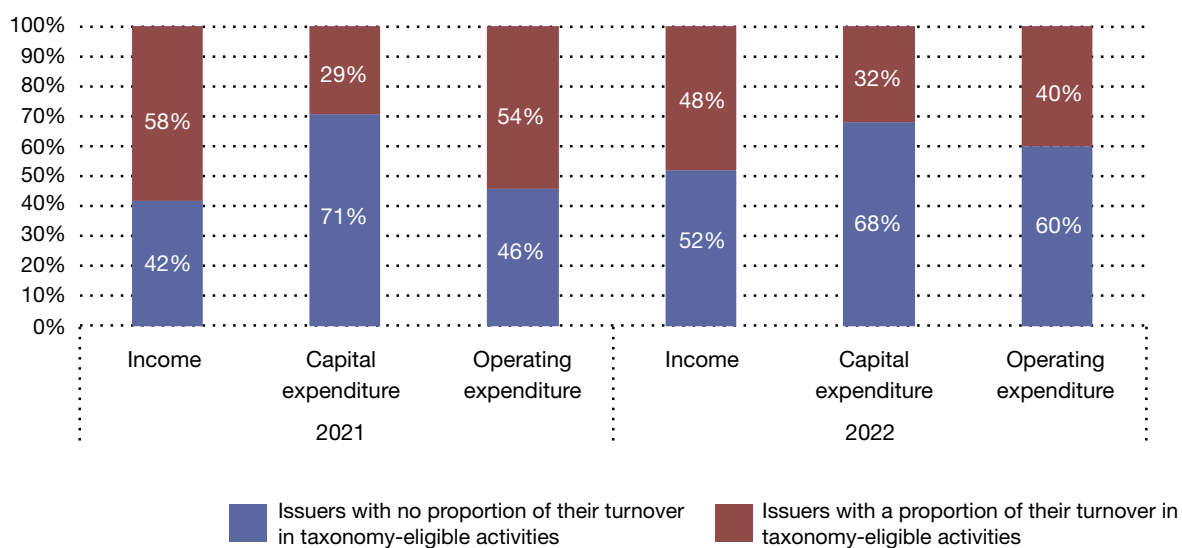
Of the 25 issuers that disclosed non-financial companies indicators, 23 were subject to the disclosure obligation, while 2 issuers disclosed the indicators on a voluntary basis.

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

Of the 25 issuers that disclosed the Taxonomy Regulation indicators, 6 reported having no turnover, capital expenditure or operating expenditure related to economic activities qualifying as environmentally sustainable.

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

Chart 19 Overview of the number of issuers according to whether they have a proportion of their turnover, capital expenditure and operating expenditure in taxonomy-eligible activities



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

Turnover

- 12 issuers do not have a proportion in turnover arising from products or services related to taxonomy-eligible activities.
- Of the 13 issuers with a proportion of turnover in taxonomy-eligible activities, 6 reported that this proportion reached 10% or more, while the remaining 7 issuers reported a proportion of the turnover lower than 7.70%.
- The average proportion of the turnover in taxonomy-eligible activities reported by the 10 issuers concerned amounted to 17%.
- Examples of taxonomy-eligible activities in which issuers generated their turnover are the manufacture of low carbon technologies for transport, transmission and distribution of electricity, electricity generation from renewable sources, collection and transport of non-hazardous waste in source segregated fractions, sale of non-hazardous waste, computer programming, consultancy and related activities, manufacture of energy efficiency equipment for buildings, income from the sale of by-products, etc.

Capital expenditure

- 8 issuers do not have any capital expenditure linked to taxonomy-eligible activities.
- Of the 17 issuers with capital expenditure linked to taxonomy-eligible activities, 11 reported that this proportion was higher than 10%.
- The average proportion of capital expenditure in taxonomy-eligible activities amounted to 28.79%.
- Examples of taxonomy-eligible activities in which issuers had capital expenditure are the renovation of existing buildings, construction of new buildings, installation, maintenance and repair of energy efficiency equipment, close to market research, devel-

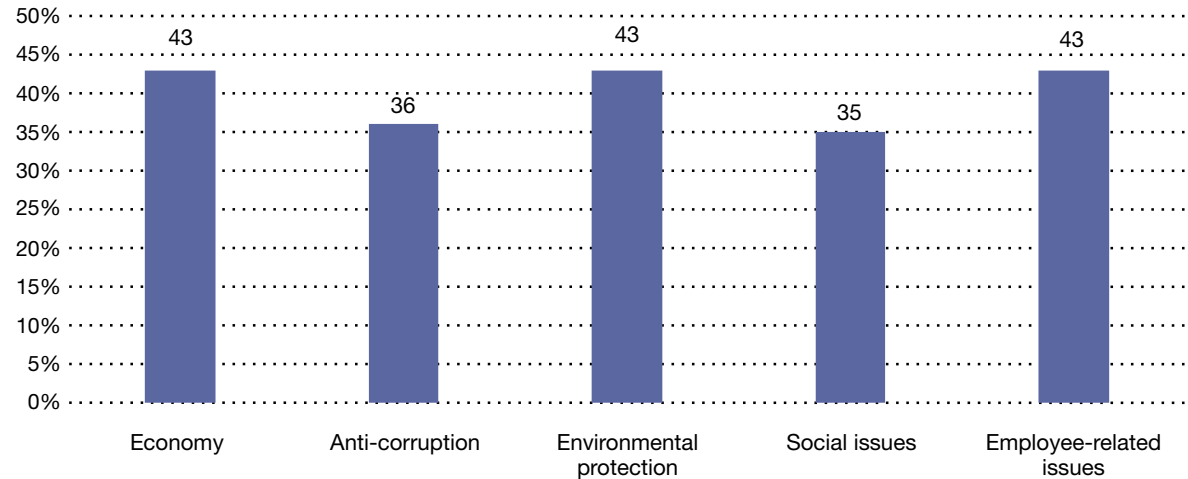
opment and innovation (contributing to climate mitigation), collection and transport of non-hazardous waste, electricity generation using solar photovoltaic technology, installation, maintenance and repair of charging stations for electric vehicles, installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings, etc.

Operating expenditure

- 10 issuers did not have any operating expenditure linked to taxonomy-eligible activities.
- Of the 15 issuers with operating expenditure linked to taxonomy-eligible activities, 7 reported that this proportion was higher than 20%.
- The average proportion of operating expenditure in taxonomy-eligible activities amounted to 23.42%.
- Taxonomy-eligible activities relate to the renovation of existing buildings, engineering activities and related technical consultancy dedicated to adaptation to climate change, installation, maintenance and repair of energy efficiency equipment, electricity generation from renewable sources, manufacture of batteries, collection and transport of non-hazardous waste in source segregated fractions, installation and operation of electric heat pumps, current maintenance linked to capital expenditure associated with eligible activities, etc.

The following chart contains information on the content of non-financial statements for 2022.

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



Source: Issuers' non-financial statements for 2022

In their non-financial statements for 2022, all issuers disclosed information on their performance and financial position, planned development and investments, and environmental protection and employee-related matters.

Environmental factors

- All the issuers that published their non-financial statements referred to environmental protection and described the activities they undertook in this regard.
- Most issuers reported holding certificates related to environmental protection (e.g. ISO 14001 – Environmental management systems, ISO 50001 – Energy management systems, ISO 90001 – Quality management systems).
- A number of issuers also reported holding certificates in sustainability related to their operating area.
- Most issuers disclosed information on the annual consumption of energy, such as electricity, fuel, fuel oil, gas, etc.
- Some issuers disclosed information on annual water consumption.
- Most issuers disclosed carbon dioxide (CO₂) emission data, which showed either a decreasing or an increasing trend in direct and indirect greenhouse gas emissions, depending on the issuer.
- Most issuers disclosed information on waste management and disposal.

Governance factors

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

Social factors

- All the issuers that published their non-financial statements disclosed information on their staff.

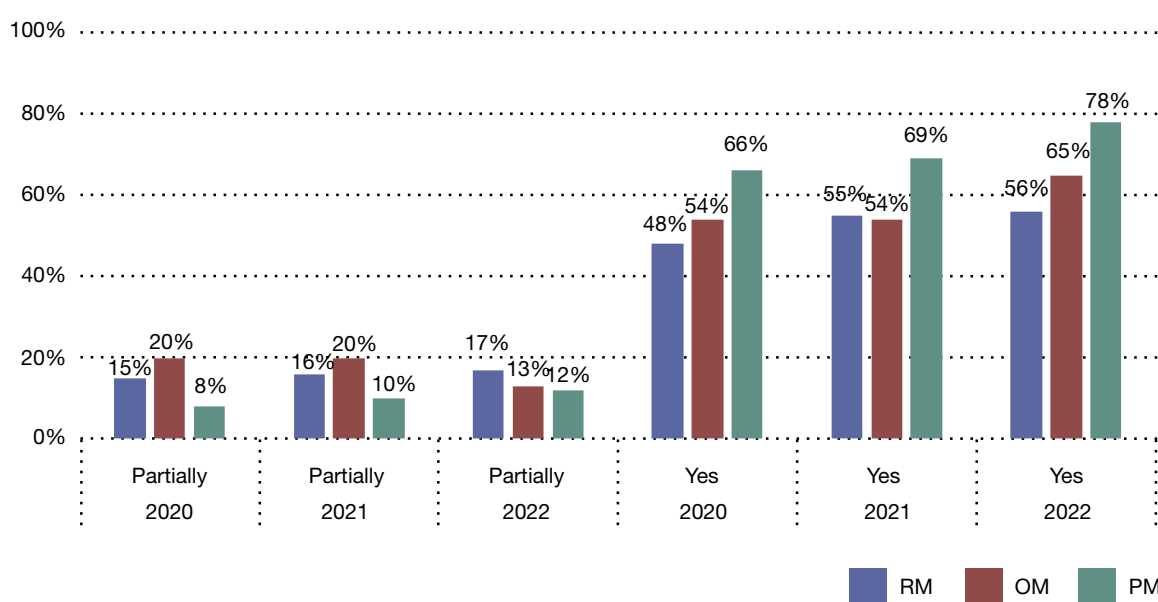
- The disclosures mainly referred to the number of employees, age structure, qualifications, gender, training and education, and remuneration of employees.
- Some issuers mentioned employee turnover and retention rate.
- The disclosures often emphasised the importance of workplace health and safety.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

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

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

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

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

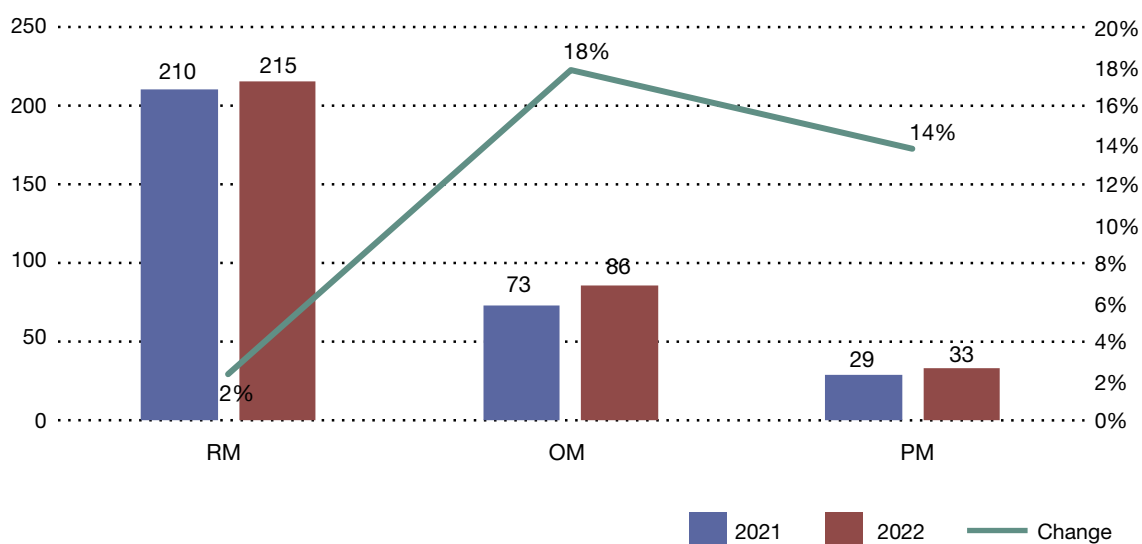


Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

The comparison of the responses received for 2022 with those received for 2020 and 2021 shows an increase in share issuers' compliance with the section "Stakeholders and corporate social responsibility" in all segments of the regulated market. The issuers that failed to comply or complied partially justified this on the grounds of internal procedures, i.e. the fact that the policies had been adopted by the management board but still not by the supervisory board. They also explained that the policies were covered by the Ordinance on conduct and ethics, the Accounting Act and other applicable laws, that they were available upon request, prescribed by the statute, etc. Moreover, a significant number of issuers explained that they planned to adopt these policies in the following reporting period.

In 2022, the compliance of issuers with the section "Stakeholders and corporate social responsibility" on the Prime Market, Official Market and Regular Market stood at 78%, 65% and 56% respectively.

Chart 22 Share issuers' progress in compliance with the section "Stakeholders and corporate social responsibility" in 2022 and 2021 by segments of the regulated market



Source: Compliance questionnaire 2021 and 2022, internal calculation

The comparison between data for 2022 and 2021 points to increased progress in share issuers' compliance with the section "Stakeholders and corporate social responsibility" on all the segments of the regulated market. The share issuers that were included in the database for processing data on the progress in compliance with the Code provided more "YES" answers in 2022 than in 2021. (in 2022, the total number of "YES" answers reached 334, while in 2021 it stood at 312, a 7% increase).

In 2022, the progress in issuers' compliance with the section "Stakeholders and corporate social responsibility" on the Prime Market, Official Market and Regular Market stood at 14%, 18% and 2% respectively.

SHARE ISSUERS' COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE



SHARE ISSUERS' COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Issuers' compliance with the Code has been calculated on the basis of data from compliance questionnaires, whose accuracy, completeness and quality fall within the responsibility of management boards and supervisory boards of issuers. The Code is applicable to all companies whose shares are admitted to trading on the regulated market of the ZSE, except for issuers of closed-ended investment fund shares; they are therefore not obliged to submit the compliance questionnaire. As at 31 December 2022, there were 88 issuers whose shares were admitted to trading on the regulated market of the ZSE, of which two were closed-ended investment funds. A total of 86 share issuers were therefore obliged to submit their compliance questionnaire for 2022 (91 share issuers in 2021).

The compliance questionnaire was submitted to Hanfa by all of the companies (86 issuers, or 100%) subject to the submission obligation. For the purpose of presenting the actual state of play regarding the compliance with the Code and its individual sections, the total number of share issuers that had submitted their compliance questionnaires did not cover share issuers whose answers provided in the compliance questionnaire were not correct, consistent or consistent with publicly available data (4 share issuers) and a share issuer that had failed to submit its compliance questionnaire within the deadline and in the prescribed manner. The sample serving as the basis for calculating overall compliance covered therefore 81 share issuers.

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

The compliance questionnaire follows the structure of the Code:

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

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

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

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

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

The sum of compliance scores by individual sections determined the overall compliance of the issuers with the Code for the year 2022.

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

The total number of issuers comprising the sample for the calculation of overall compliance in 2022 (81 issuers) did not include 2 issuers whose shares were admitted to the regulated market and the issuers that withdrew their shares from the regulated market during 2022. Therefore, the number of issuers used for the assessment of compliance progress reached 79.

The model for assessing progress in issuers' compliance in 2022 relative to 2021 involved two criteria against which individual issuers were observed, namely:

I. Progress in comparison with the market

The absolute change in the score assigned to each issuer per section was calculated first. The changes in absolute scores were the basis for the calculation of the standard deviation of the change in the score per section. In order to determine issuers that are at least by 50% better or worse than the market, the standard deviation obtained was multiplied by 1.5 and observed along with the average change recorded by all issuers.

The following scores were used to determine the progress:

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

II. Progress made by individual issuers in 2022 compared with 2021 by individual sections

Progress made by individual issuers was observed through a relative change in the number of questions responded to with "YES" in comparison with 2021 for each section. As the number of questions differs from section to section, weights were defined with respect to the importance of each section by the number of questions, as follows:

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

The following scores were used to determine the progress:

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

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

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

Tables 5, 6 and 7 show share issuers' compliance with individual sections of the Code by segments of the regulated market in 2022. The list of issuers according to their compliance with individual sections was determined on the basis of the sum of scores relating to each section.

- In 2019, none of the issuers on the Official Market and Prime Market complied fully with the Code, while only 2 issuers on the Regular Market showed full compliance.
- Pursuant to answers provided in questionnaires related to corporate governance, in 2020, as many as 8 issuers complied fully with the Code (2 issuers whose shares are admitted on the Prime Market, 2 issuers whose shares are admitted on the Official Market and 4 issuers whose shares are admitted on the Regular Market).
- Pursuant to answers provided in questionnaires related to compliance with the Code, in 2021, 9 issuers complied fully with the Code (3 issuers whose shares are admitted on the Prime Market and 6 issuers whose shares are admitted on the Regular Market). In the year observed, there were no issuers on the Official Market that complied fully with the Code.
- Pursuant to answers provided in questionnaires related to compliance with the Code, in 2022, 10 issuers complied fully with the Code (2 issuers whose shares are admitted on the Prime Market, 2 issuers whose shares are admitted on the Official Market and 6 issuers whose shares are admitted on the Regular Market).
- This points to a slight improvement as regards the compliance of share issuers with the Code in 2022.

Table 5 Prime Market issuers' compliance scores by individual sections of the Code for the year 2022

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

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

PREGLED IZDAVATELJA PO USKLAĐENOSTI S KODEKSEM KORPORATIVNOG UPRAVLJANJA

Table 6 Official Market Issuers' compliance scores by individual sections of the Code for the year 2022

U tablicama 5., 6. i 7. prikazana je ocjena usklađenosti izdavatelja dionica u 2022. s poglavljima

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

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

zvor: interni izračun Hanfe na temelju upitnika o usklađenosti za 2022. godinu

Table 7 Regular Market issuers' compliance scores by individual sections of the Code for the year 2022

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
Ericsson Nikola Tesla d.d.	2	2	2	2	2	2	2	2	2	2
MODRA ŠPILJA d.d.	2	2	2	2	2	2	2	2	2	2
Vis d.d.	2	2	2	2	2	2	2	2	2	2

Croatia Airlines d.d.	2	2	2	2	2	2	2	2	2	2
Podravska banka d.d.	2	2	2	2	2	2	2	2	2	2
Terra Firma d.d.	2	2	2	2	2	2	2	2	2	2
HELIOS FAROS d.d.	2	2	2	2	2	1	2	2	2	2
Končar - Distributivni i specijalni transformatori d.d.	2	2	2	2	2	2	2	1	2	2
Slatinska banka d.d.	2	2	2	2	1	2	2	2	2	2
Tehnika d.d.	2	2	2	2	2	2	2	2	1	2
ADRIATIC OSIGURANJE d.d.	1	2	2	2	2	2	2	1	2	2
Adris Grupa d.d.	2	2	2	2	2	2	2	0	2	2
Ingra d.d.	2	2	2	2	2	2	2	1	1	2
Jadroagent d.d.	2	2	2	2	1	2	2	2	1	2
Istarska kreditna banka Umag d.d.	1	1	2	2	2	2	2	2	2	0
Atlantska plovidba d.d.	2	1	2	-1	2	1	2	2	2	2
Solaris d.d.	1	2	0	2	2	2	2	0	2	2
Adriatic Croatia International Club d.d.	2	2	-1	2	1	2	2	2	2	0
Koestlin d.d.	1	1	2	2	2	-1	2	1	2	2
Kutjevo d.d.	2	2	0	2	2	2	2	0	0	2
Maistra d.d.	2	2	0	2	1	2	2	0	1	2
Imperial Riviera d.d.	1	1	2	2	2	2	2	0	1	0
Kraš d.d.	1	2	-1	2	2	-1	2	2	2	2
Stanovi Jadran d.d. za poslovanje nekretninama	1	-1	2	1	1	2	1	2	2	2
Primo Real Estate d.d.	2	2	2	2	2	1	1	1	0	-1
3 MAJ BRODOGRADILIŠTE d.d.	2	2	2	2	1	0	0	0	0	2
AGRAM BANKA d.d.	1	2	0	1	2	1	2	1	1	0
Čateks d.d.	1	2	2	1	-1	-1	2	2	1	2
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	1	1	0	1	1	2	2	2	1	0
HTP Korčula d.d.	1	2	0	1	2	1	1	0	2	0
HTP Orebić d.d.	1	2	0	1	2	1	1	0	2	0
Tekstilpromet d.d.	1	1	-1	1	2	1	2	0	1	2
THE GARDEN BREWERY d.d.	2	2	-1	2	2	-1	2	0	1	1
Plava laguna d.d.	1	1	-1	1	2	2	1	1	1	0
Brodomerkur d.d.	1	2	-1	0	1	0	1	1	1	2
Jadroplov d.d.	1	1	-1	1	0	-1	2	1	2	2

ALPHA ADRIATIC pomorski promet dioničko društvo	1	1	-1	2	0	0	1	0	1	2
MEDORA HOTELI I LJETOVALIŠTA d.d.	1	2	0	1	-1	0	1	1	2	0
Turisthotel d.d.	2	1	0	1	0	2	0	0	1	0
Quattro logistika d.d.	1	0	0	1	1	2	1	1	0	-1
Saponia d.d.	1	2	0	-1	-1	-1	1	2	2	1
Bilokalnik - IPA d.d.	1	0	0	1	2	-1	0	1	1	0
Jadranski naftovod d.d.	1	2	-1	1	0	-1	1	1	1	0
VILLA DUBROVNIK HOTELSKO - TURISTIČKO DIONIČKO DRUŠTVO	1	1	-1	1	1	-1	1	0	1	1
Čakovečki mlinovi d.d.	0	0	0	1	0	2	0	0	1	0
AUTO HRVATSKA d.d.	1	2	-1	-1	2	0	0	0	1	-1
ĐURO ĐAKOVIĆ GRUPA d.d.	1	0	-1	0	0	-1	1	2	1	-1
PROFESSIO ENERGIA d.d.	-1	-1	-1	2	1	-1	0	1	1	0
FTB TURIZAM d.d.	0	1	-1	-1	1	-1	-1	2	1	-1
Lošinjaska plovidba - Holding d.d.	1	-1	-1	1	1	-1	-1	1	1	-1
Vodoprivreda Zagreb d.d.	1	1	-1	1	-1	-1	0	0	0	-1
Maraska d.d.	1	-1	-1	-1	-1	-1	1	0	2	-1
Viro tvornica šećera d.d.	-1	1	-1	-1	-1	2	-1	0	0	-1
Liburnia Riviera hoteli d.d.	1	-1	-1	1	-1	-1	-1	0	0	-1
Zagrebačke pekarne Klara d.d.	0	0	-1	-1	-1	-1	-1	2	0	-1
Zvečevo d.d.	-1	1	-1	-1	-1	-1	-1	0	0	-1

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

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

Table 8 List of issuers according to their compliance scores for 2022

Issuer	Regulated market segment	Total	Number of provisions the issuer fully complies with	Number of employees
Atlantic Grupa d.d.	PM	20	138	182
Končar - Elektroindustrija d.d.	OM	20	129	61
Ericsson Nikola Tesla d.d.	RM	20	132	3,538

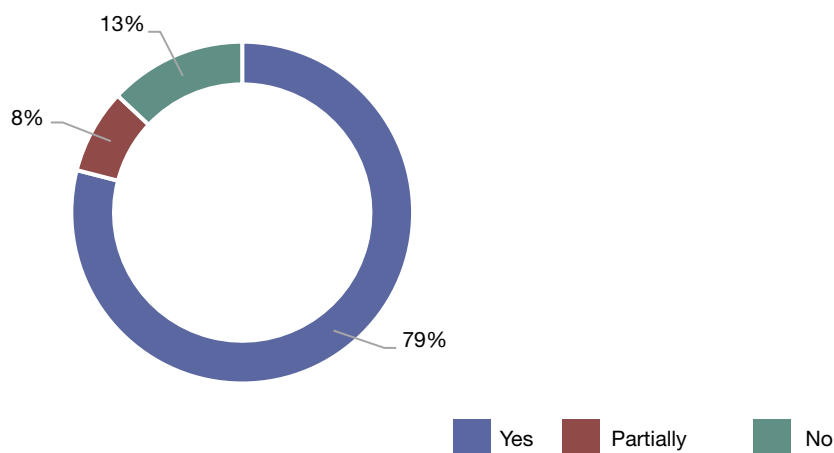
Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

The highest level of compliance with the Code in 2022 was reached by Atlantic Grupa d.d on the Prime Market, by Končar – Elektroindustrija d.d. on the Official Market and by Ericsson Nikola Tesla d.d. on the Regular Market.

Charts 23 - 42 show the percentage of share issuers' compliance by individual sections and the overall compliance of issuers with the Code for the year 2022.

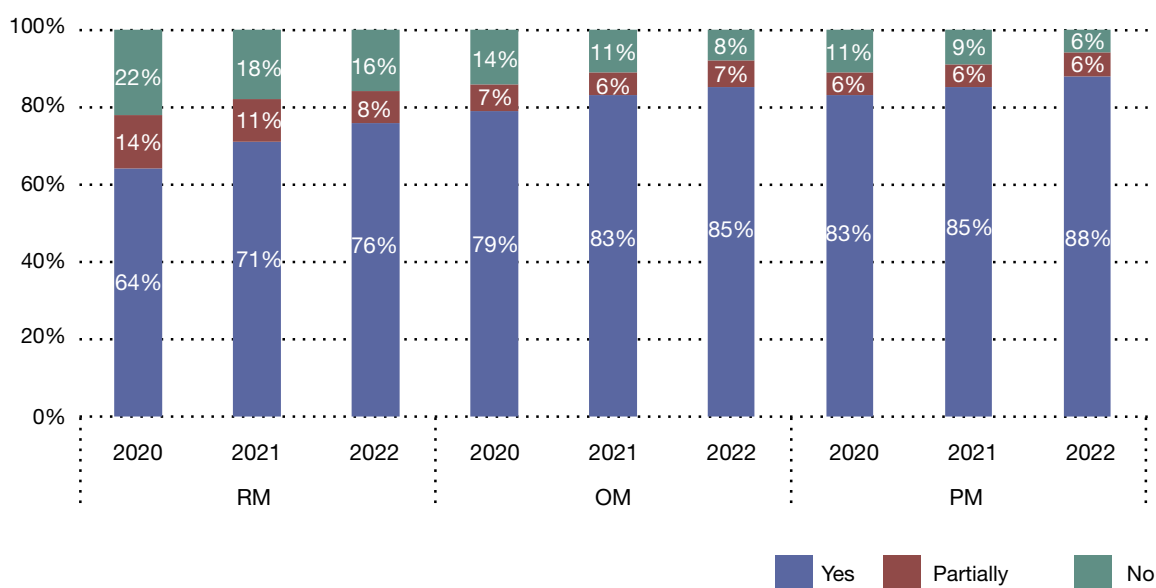
Issuers' compliance by sections of the Code

Chart 23 Share issuers' compliance with the section "Leadership" for the year 2022



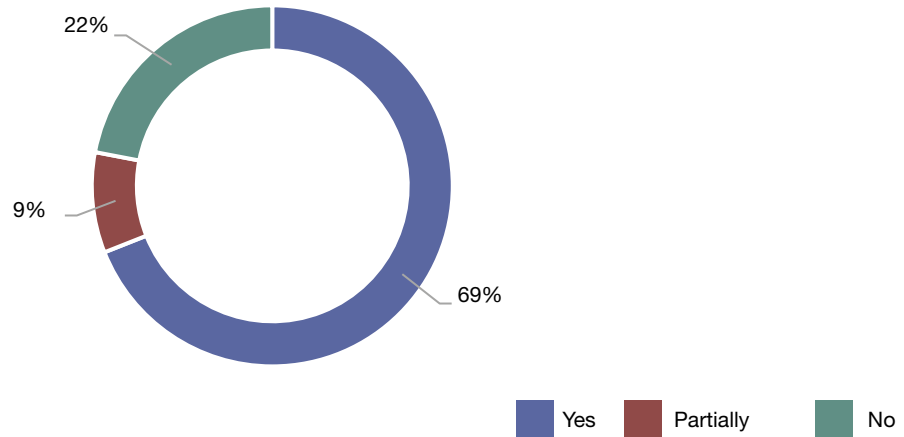
Source: Compliance questionnaire, 2022 internal calculation

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



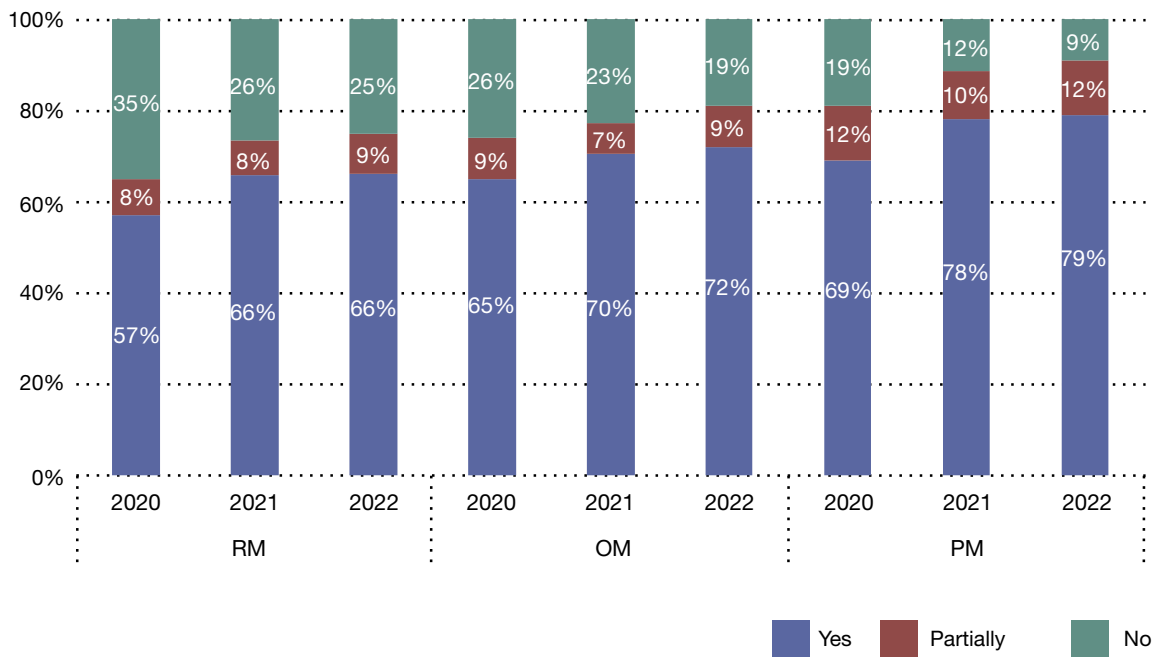
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 25 Share issuers' compliance with the section "Duties of board members" for the year 2022



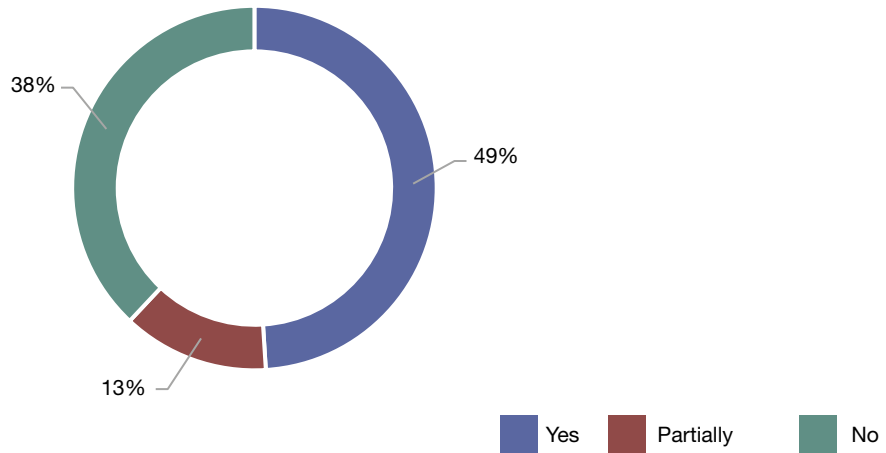
Source: Compliance questionnaire 2022, internal calculation

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



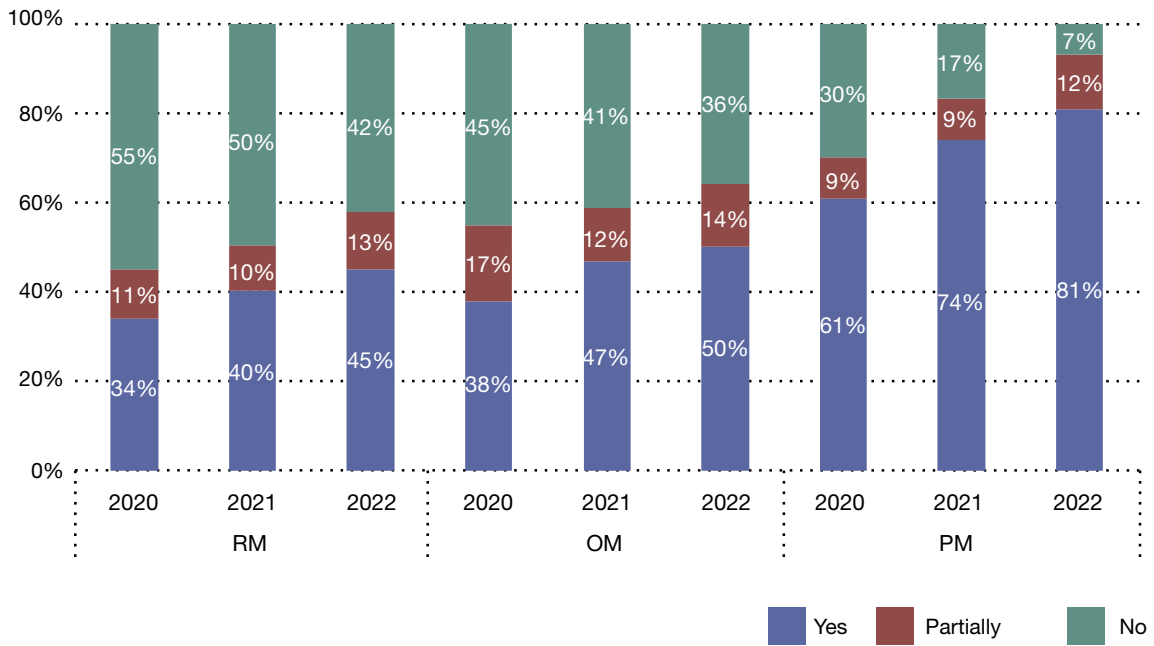
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 27 Share issuers' compliance with the section "Appointment of board members" for the year 2022



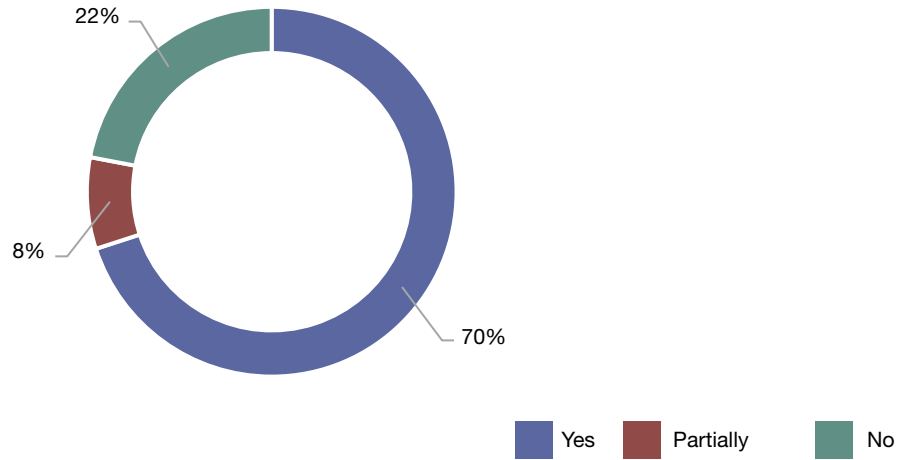
Source: Compliance questionnaire 2022, internal calculation

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



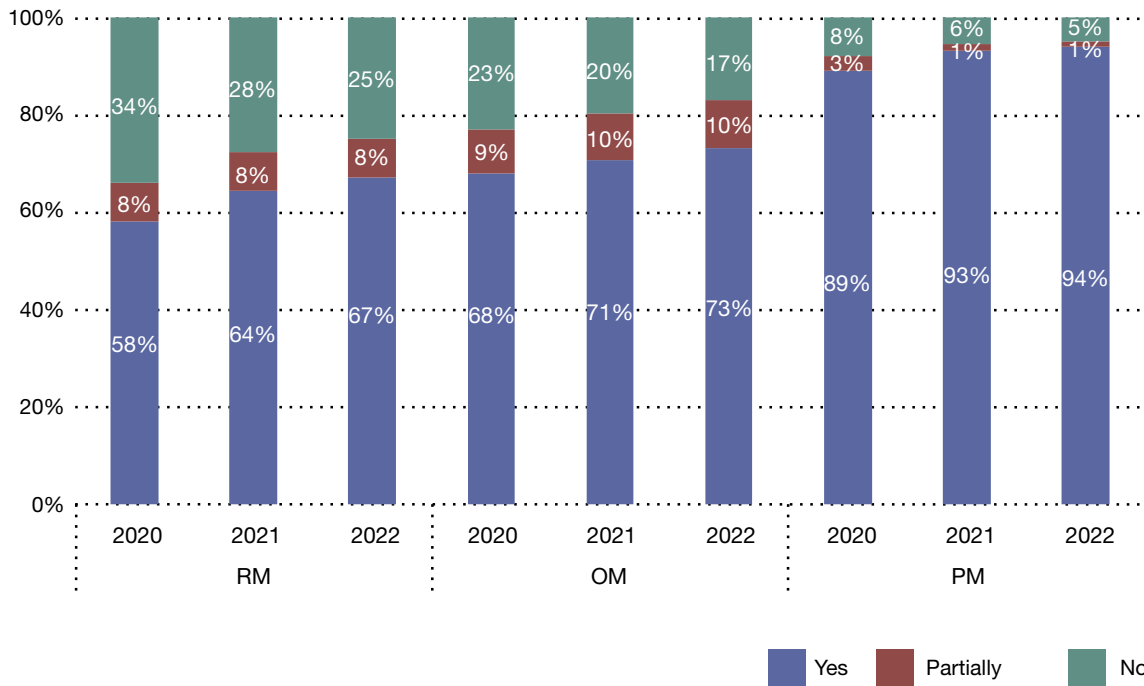
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 29 Share issuers' compliance with the section "Supervisory board and its committees" for the year 2022



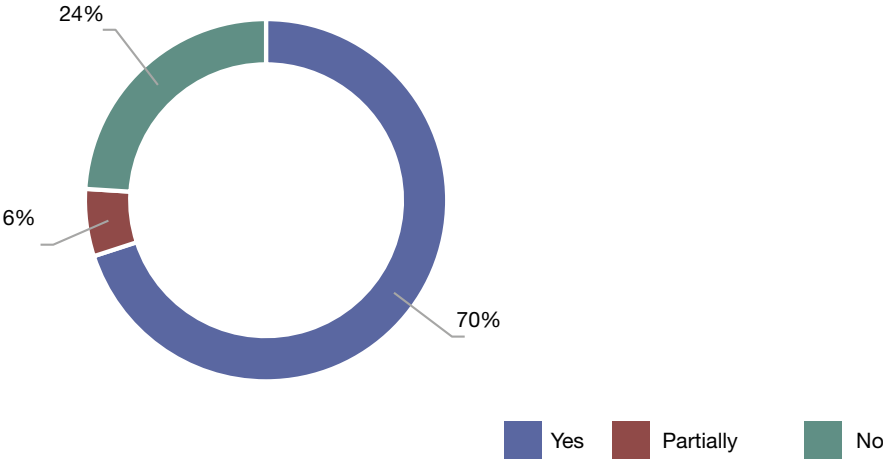
Source: Compliance questionnaire 2022, internal calculation

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



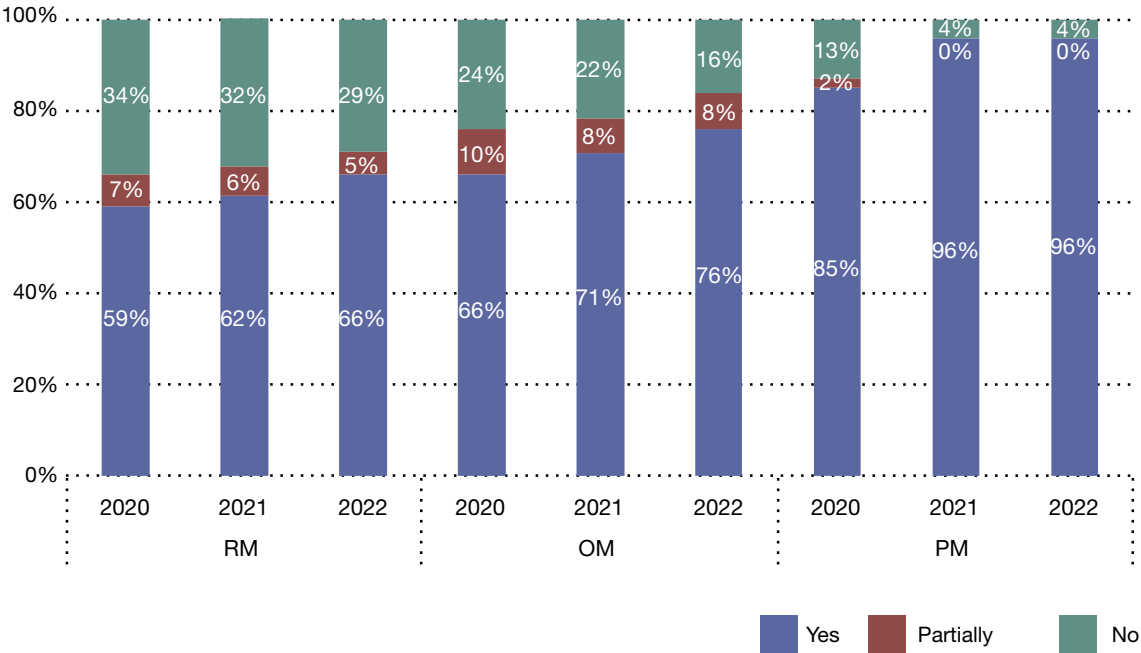
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 31 Share issuers' compliance with the section "Management board" for the year 2022



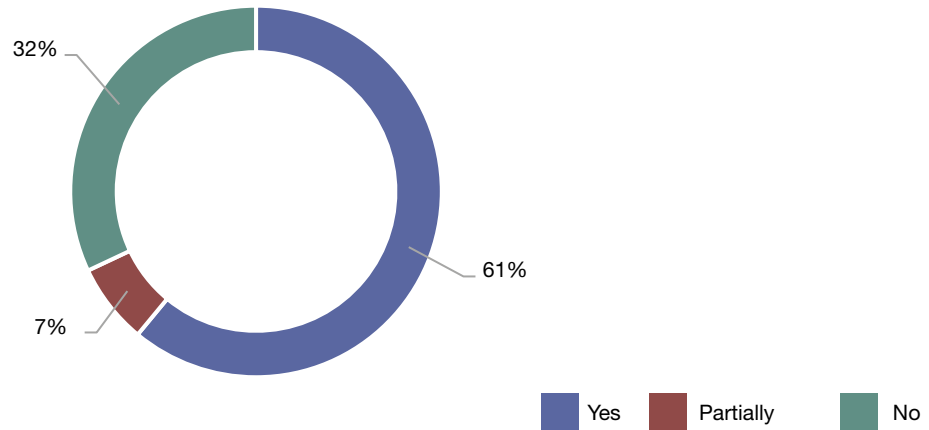
Source: Compliance questionnaire 2022, internal calculation

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



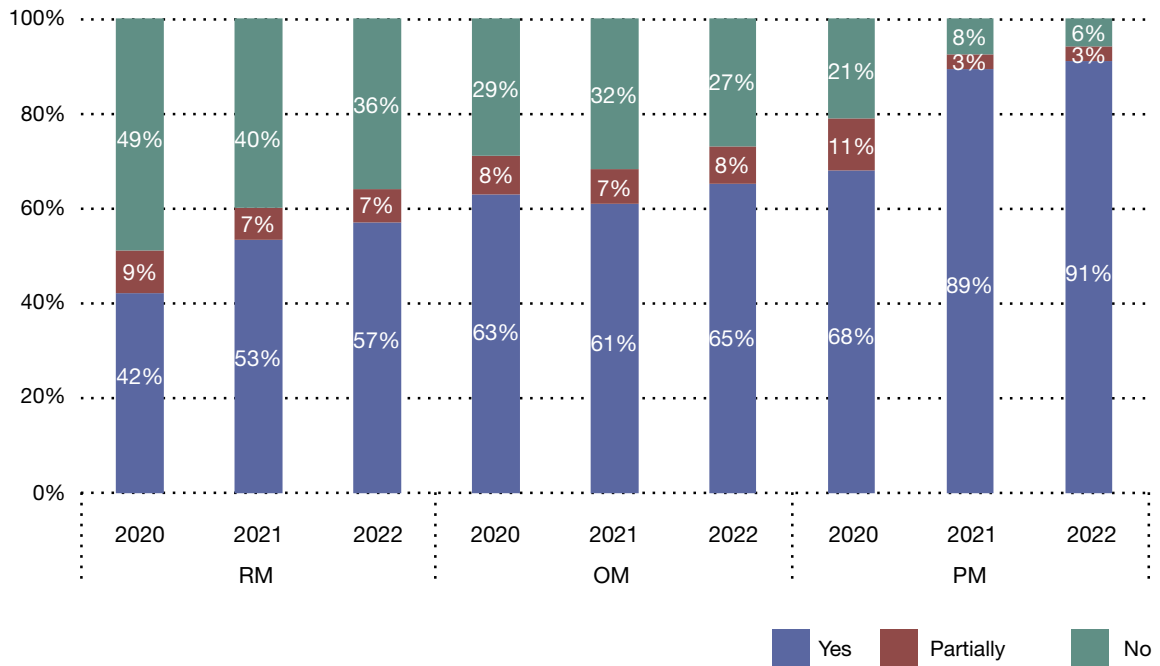
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 33 Share issuers' compliance with the section "Remuneration of board members" for the year 2022



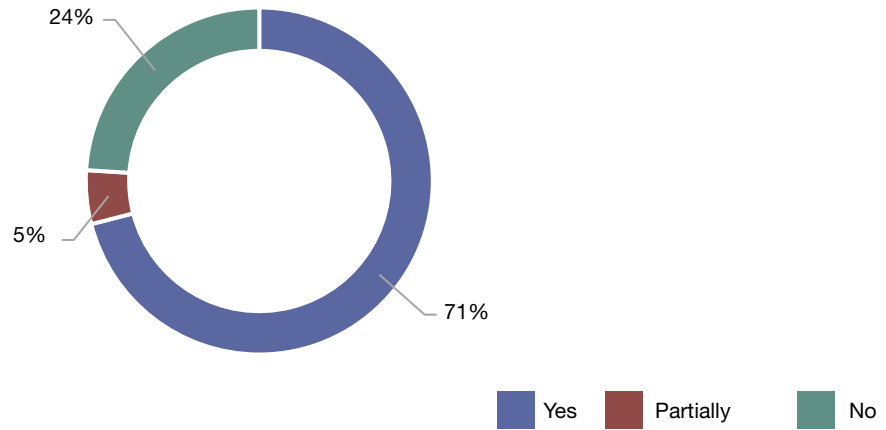
Source: Compliance questionnaire 2022, internal calculation

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



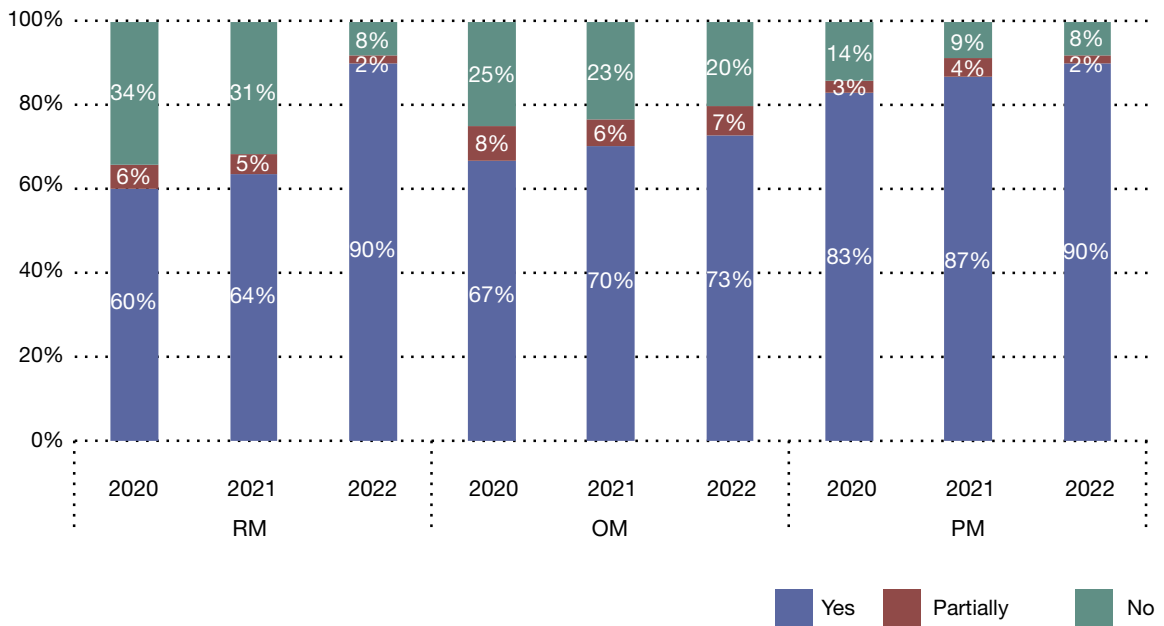
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 35 Share issuers' compliance with the section "Risks, internal control and audit" for the year 2022



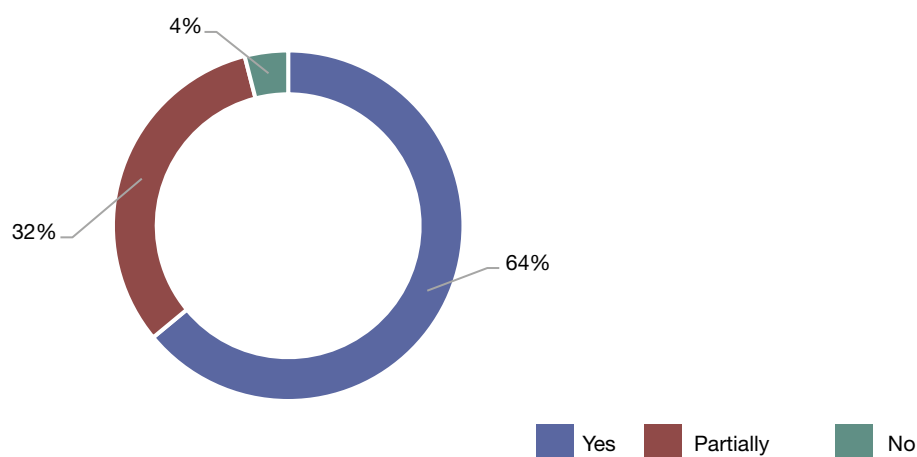
Source: Compliance questionnaire 2022, internal calculation

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



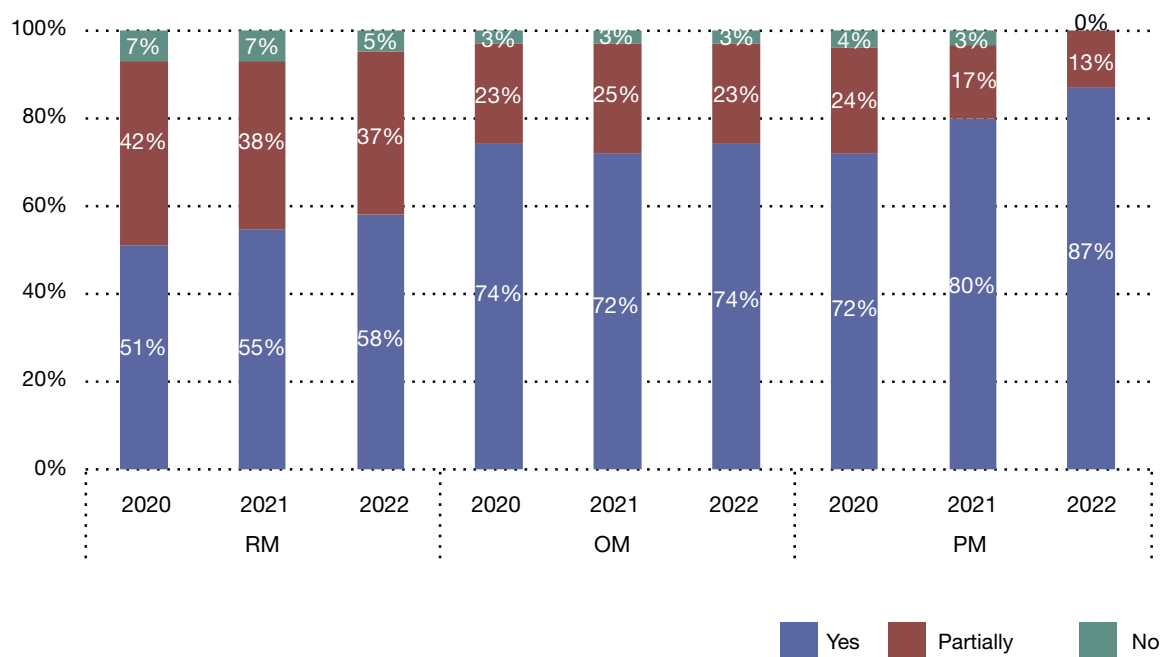
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 37 Share issuers' compliance with the section "Disclosure and transparency" for the year 2022



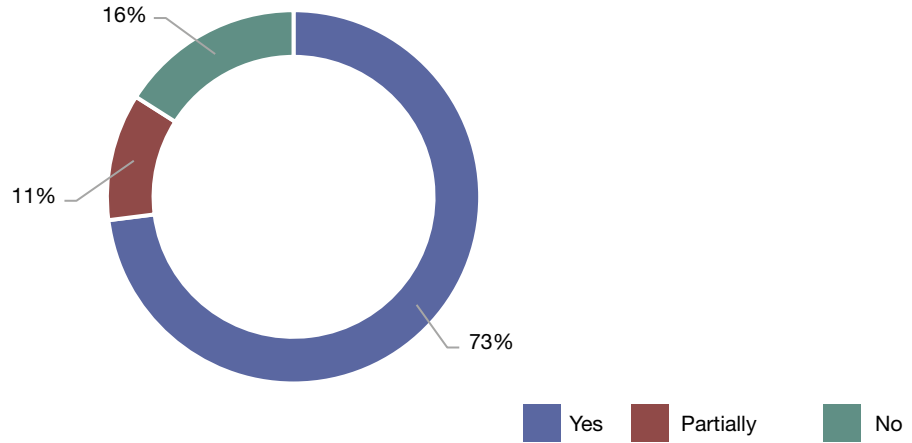
Source: Compliance questionnaire 2022, internal calculation

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



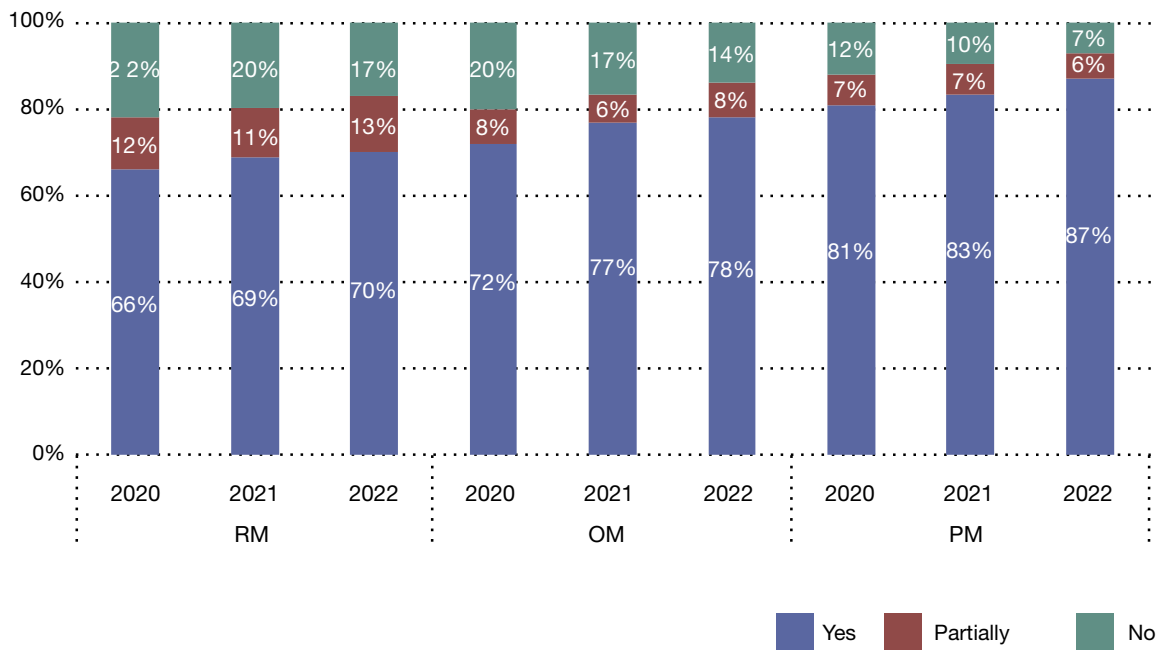
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 39 Share issuers' compliance with the section "Shareholders and the general meeting" for the year 2022



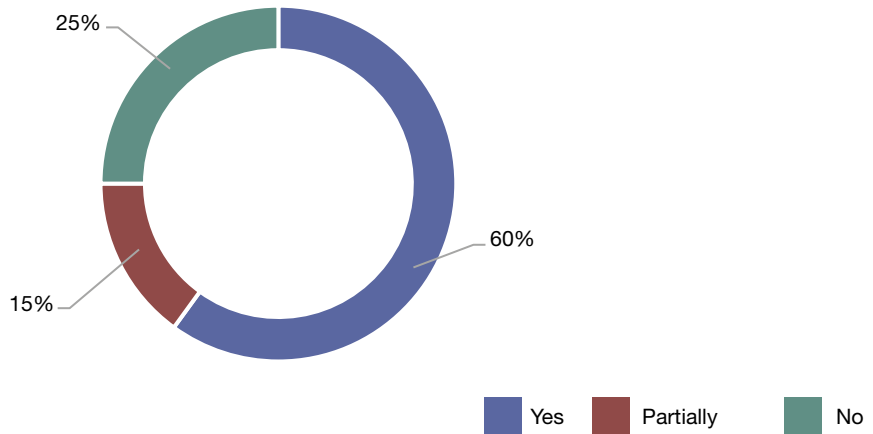
Source: Compliance questionnaire 2022, internal calculation

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



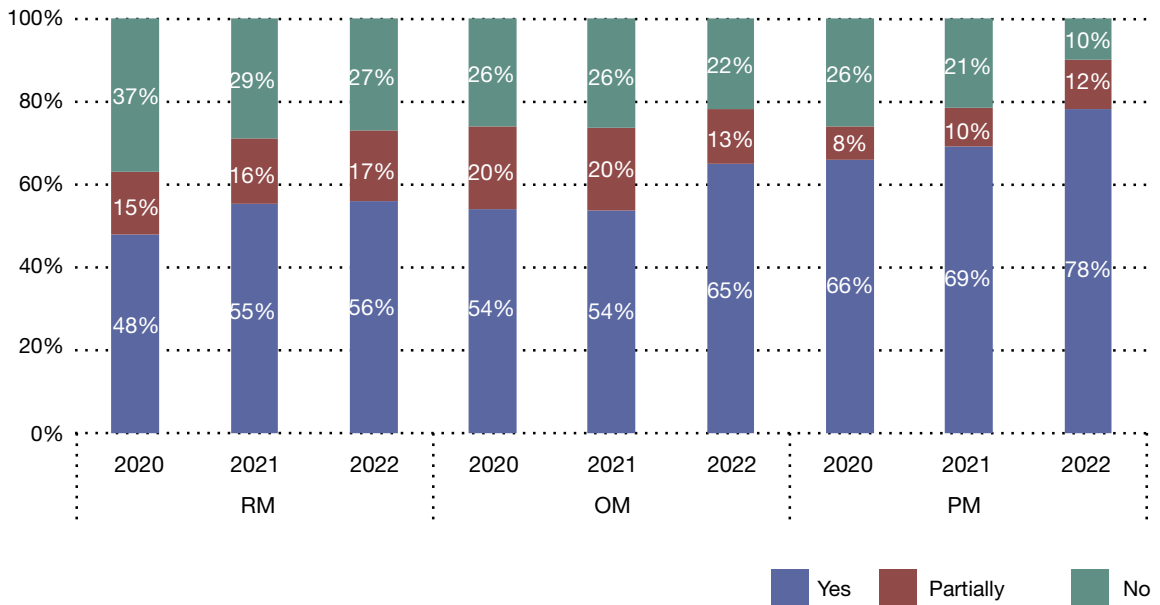
Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Chart 41 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" for the year 2022



Source: Compliance questionnaire 2022, internal calculation

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

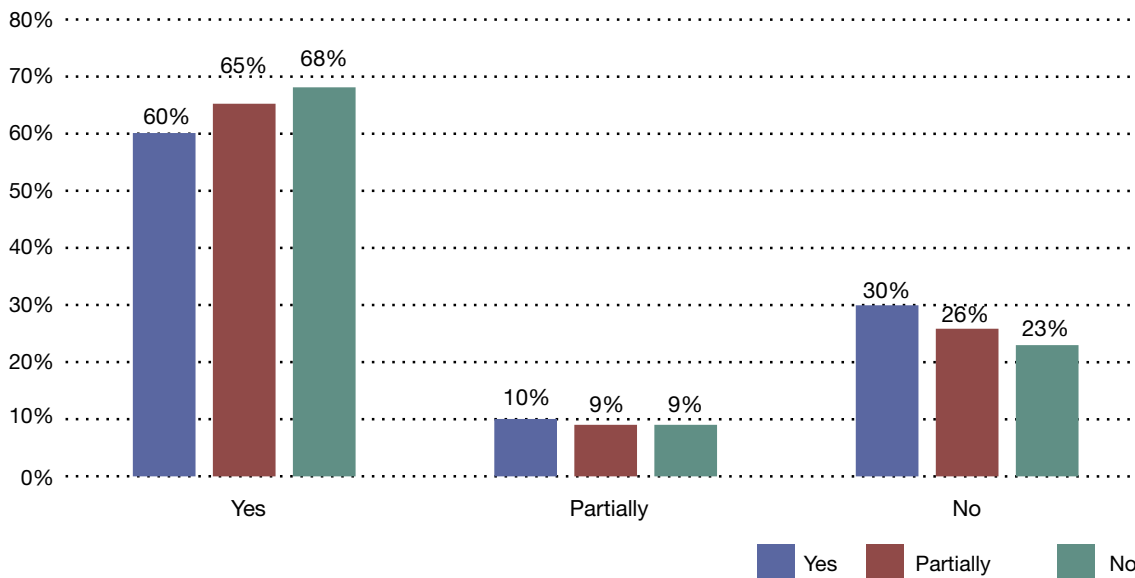


Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

Share issuers' overall compliance with the Code for the year 2022

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

Chart 43 Share issuers' overall compliance with the Code for the year 2022



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

A total of 68% of all the questions in the 2022 compliance questionnaire were answered "YES" and 23% of the questions were answered "NO" (in 2021, 65% of all the questions in the compliance questionnaire were answered "YES" and 26% of the questions were answered "NO").

- According to data submitted in the compliance questionnaire for the year 2022, issuers comply most with the sections "Leadership" and "Shareholders and the general meeting".
- According to data submitted in the compliance questionnaire for the year 2022, issuers comply least with the sections "Appointment of board members" and "Stakeholders and corporate social responsibility".
- The compliance analysis showed improvement as regards all the sections of the Code. The most significant increase in issuers' compliance compared with the previous year was recorded with respect to the section "Appointment of board members" (the section "Remuneration of board members" in 2021). A significant rise in the level of issuers' compliance in 2022 relative to 2021 was also recorded with respect to the sections "Leadership", "Management Board" "Risks, internal control and audit" and "Stakeholders and corporate social responsibility" (a 4% rise compared to the previous year with respect to each section).
- Taking account of the sharpest increase in the level of share issuers' compliance in 2022 relating to Section 3 "Appointment of board members", the following articles of the

Code relating to the appointment of supervisory board members and the role of the supervisory board that received “YES” answers by more than 50% issuers have been highlighted:

- When suggesting candidates for the supervisory board to the general meeting, the company should include all the information referred to in Article 16 of the Code in the materials prepared for the general meeting.
 - The materials prepared for the general meeting should include all the information referred to in Article 17 of the Code.
 - The supervisory board should be in charge of appointing and dismissing management board members and of recommending candidates for supervisory board members to the general meeting.
 - The supervisory board has ensured that formal and transparent procedures are in place for appointments to the management and supervisory boards.
- As regards the section “Supervisory board and its committees”, an increase in compliance with the following provisions was recorded:
 - The annual report includes a report on the evaluation of the supervisory board and its committees, which evaluates all the circumstances referred to in Article 41 of the Code.
 - The supervisory board has evaluated the performance of its individual members in the last 12 months.
 - The majority of members of each supervisory board committee is independent in accordance with the definition from Appendix A to the Code.
 - The statute and/or internal acts of the company stipulate the obligation for supervisory board members to inform the secretary of the company of their membership in the supervisory board or management board of other companies.
 - The evaluation of the supervisory board’s effectiveness was led by the chair or deputy chair of the supervisory board.
 - The company should include a report on the work of each committee in its annual report. This should include information on the number of meetings held and members of the committees.
 - The terms of reference of each of the supervisory board’s committees should be made freely available on the company’s website.
 - The largest share of issuers (81 issuers or 100%) complied with the provisions of the Code relating to:
 - the holding of supervisory board meetings (supervisory board meetings may be held without the presence of management board members when the supervisory board finds it appropriate; persons other than members of supervisory board committees may attend committee meetings only at the invitation of the committees),
 - relations with shareholders (the company has ensured that all shareholders, irrespective of the number or class of shares they hold, have equal access to information on the company and on how they can exercise and protect their rights),
 - voting at the general meeting (the statute and/or other internal acts provide shareholders with the opportunity to exercise their voting rights by proxy without any restrictions).
 - The smallest share of issuers (13 issuers or 16%) complied with the provision of the Code relating to the following:

- The supervisory board has set a target percentage of female members on the supervisory and management board to be achieved within the next five years, it has adopted a plan for achieving that goal and has published it on its website.
- A progress report was published in the annual report.

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

Tables 9, 10 and 11 show share issuers' progress in compliance with individual sections of the Code by segments of the regulated market in 2022 compared to 2021. The list of issuers according to their progress in compliance with individual sections of the Code was determined on the basis of the sum of progress scores relating to each section.

The analysis carried out showed that the largest share of issuers made progress in compliance with Section 3 "Appointment of board members" (18 issuers or 23%) and Section 4 "Supervisory board and its committees" (12 issuers or 15%).

Table 9 Prime Market issuers' compliance progress scores by individual sections of the Code for the year 2022

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

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

Table 10 Official Market issuers' compliance progress scores by individual sections of the Code for the year 2022

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
CIAK Grupa d.d.	0	0	0	0	0	0	0	0	0	0
CROATIA osiguranje d.d.	0	0	0	0	0	0	0	1	0	0
Dalekovod d.d.	0	0	0	1	2	2	0	1	0	0
Granolio d.d.	-1	0	0	0	0	0	0	-1	0	0
Hrvatska poštanska banka d.d.	-1	0	0	0	0	0	0	0	0	2
Ilirija d.d.	-1	0	0	-1	0	0	0	0	0	0
INA - Industrija nafte d.d.	0	0	0	-1	0	0	0	0	0	0

Institut IGH d.d.	0	1	0	0	0	0	0	0	0	0
JADRAN d.d.	0	0	0	1	0	0	0	0	1	0
Končar - Elektroindustrija d.d.	0	0	1	0	0	0	0	0	1	0
Luka Ploče d.d.	0	0	0	0	0	0	0	2	0	0
Luka Rijeka d.d.	0	0	0	-1	0	0	0	0	0	0
Medika d.d.	0	0	0	0	0	0	0	-1	0	0
Meritus ulaganja d.d.	0	0	1	0	0	0	0	1	0	0
SPAN d.d.	0	0	0	0	0	2	0	1	0	2
SUNCE HOTELI d.d. za turizam i ugostiteljstvo	2	0	0	1	0	1	0	0	0	1
Varteks d.d.	0	1	0	0	0	0	0	0	0	0
Zagrebačka burza d.d.	0	0	0	0	0	0	0	0	0	0

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

Table 11 Regular Market issuers' compliance progress scores by individual sections of the Code for the year 2022

Issuer	Section 1	Section 2	Section 3	Section 4	Section 5	Section 6	Section 7	Section 8	Section 9	Section 10
3 MAJ BRODOGRADILIŠTE d.d.	0	0	0	0	0	0	1	0	0	0
Adriatic Croatia International Club d.d.	0	0	0	2	2	0	2	2	0	0
ADRIATIC OSIGURANJE d.d.	-1	0	0	1	1	0	0	0	0	0
Adris Grupa d.d.	0	0	2	0	0	0	0	0	0	0
AGRAM BANKA d.d.	-1	0	0	0	0	0	0	0	0	0
ALPHA ADRIATIC pomorski promet dioničko društvo	2	1	1	2	1	1	0	0	0	2
Atlantska plovidba d.d.	0	0	0	0	0	0	0	0	0	0
AUTO HRVATSKA d.d.	0	0	0	0	0	1	0	0	0	0
Bilokalnik - IPA d.d.	0	0	1	0	0	0	0	0	0	0
Brodomerkur d.d.	-1	0	0	0	0	0	0	0	0	0
Croatia Airlines d.d.	0	2	1	0	0	1	0	0	0	0
Čakovečki mlinovi d.d.	0	0	0	0	0	0	0	0	0	0
Čateks d.d.	-1	0	0	0	0	0	0	0	0	0
ĐURO ĐAKOVIĆ GRUPA d.d.	1	0	0	-1	0	0	0	0	0	0
Ericsson Nikola Tesla d.d.	0	0	0	0	0	0	0	0	0	0
FTB TURIZAM d.d.	-1	0	0	-2	0	-1	-2	1	0	-1
HELIOS FAROS d.d.	0	0	0	0	0	0	0	0	0	0
HTP Korčula d.d.	0	0	0	0	0	0	-1	0	0	0
HTP Orebić d.d.	0	0	0	0	0	0	-1	0	0	0
Imperial Riviera d.d.	0	0	2	0	0	0	1	0	0	0
Ingra d.d.	0	0	0	0	0	0	0	0	0	0

Istarska kreditna banka Umag d.d.	-1	1	0	0	0	0	0	0	0	0
Jadranski naftovod d.d.	-1	0	0	0	0	0	0	0	0	0
Jadroagent d.d.	0	0	0	1	2	0	0	0	-1	2
Jadroplov d.d.	0	0	0	0	0	0	2	0	1	0
Koestlin d.d.	0	0	0	0	0	0	0	0	0	0
Končar - Distributivni i specijalni transformatori d.d.	0	0	0	0	0	0	0	0	0	0
Kraš d.d.	-1	0	0	0	0	0	0	0	0	0
Kutjevo d.d.	0	0	1	2	0	0	2	-1	0	0
Liburnia Riviera hoteli d.d.	0	0	0	0	1	0	0	0	-1	0
Lošinjska plovidba - Holding d.d.	-1	0	1	0	0	0	0	0	0	0
Maistra d.d.	2	0	1	1	1	0	0	0	0	0
Maraska d.d.	0	0	0	0	1	0	0	0	0	0
MEDORA HOTELI I LJETOVALIŠTA d.d.	0	0	0	0	0	0	-1	0	0	0
MODRA ŠPILJA d.d.	0	0	0	0	0	0	0	0	0	0
Plava laguna d.d.	2	2	0	0	0	0	0	0	0	0
Podravska banka d.d.	0	0	0	0	0	0	0	0	0	0
Primo Real Estate d.d.	0	0	1	1	2	0	2	0	0	0
PROFESSIO ENERGIA d.d.	1	0	1	2	2	0	1	0	0	0
Saponia d.d.	0	0	1	0	0	0	0	0	0	0
Slatinska banka d.d.	0	0	1	0	0	0	0	1	0	0
Solaris d.d.	-1	0	0	0	0	1	0	0	0	0
Stanovi Jadran d.d. za poslovanje nekretninama	0	0	0	0	0	0	0	0	0	0
Tehnika d.d.	0	0	0	0	0	0	0	0	-1	0
Tekstilpromet d.d.	0	0	1	0	0	0	0	0	0	0
Terra Firma d.d.	0	0	0	0	0	0	0	0	0	0
THE GARDEN BREWERY d.d.	0	0	0	0	0	0	0	0	0	0
Turisthotel d.d.	0	1	1	0	-1	0	0	0	0	0
VILLA DUBROVNIK HOTELSKO - TURISTIČKO DIONIČKO DRUŠTVO	-1	0	0	1	2	0	2	0	1	0
Viro tvornica šećera d.d.	0	0	0	0	0	0	0	0	0	0
Vis d.d.	0	0	0	0	0	0	0	0	0	0
Vodoprivreda Zagreb d.d.	0	0	0	0	0	0	0	0	0	0
ZAGREBAČKA BANKA DIONIČKO DRUŠTVO	-1	0	-1	0	0	0	0	0	0	0
Zagrebačke pekarnice Klara d.d.	0	0	0	0	0	1	0	0	-1	0
Zvečevo d.d.	0	0	0	0	0	0	0	0	0	0

Source: Hanfa's internal calculation based on the compliance questionnaire for 2022

RECOMMENDATIONS FOR IMPROVING THE QUALITY OF CORPORATE GOVERNANCE REPORTING

Hanfa received compliance questionnaires from issuers for the first time for the year 2019. Questions from the compliance questionnaire were answered “YES”, “NO” or “Partially”, which was the case in 2022 as well.

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

- provide details on the part of the provision of the Code they fail to comply with and the reasons for non-compliance,
- describe actions they have taken or intend to take instead of complying with the provision, of the Code to make sure they meet the objective set out in the relevant Code principle
- if they intend to comply with the Code provision in the future, specify when they will start doing so.

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

Table 12 Examples of explanations from the compliance questionnaire for share issuers for the year 2022

Provision of the Code	Examples of adequate explanations	Examples of inadequate explanations
The company's statute and/or internal acts provide shareholders with the opportunity to exercise their voting rights electronically without any restrictions.	<p>The company is planning to change the Statute so as to enable electronic voting within the period of two years.</p> <p>This is not stipulated by the Statute or another internal act of the company. The company plans to consider this in the next reporting period.</p>	<p>There was no need for this or there were no special requests.</p> <p>The Company will consider the adoption of this regulation.</p>
The external auditor attended the general meeting at which financial statements were presented.	<p>During the audit, the Management Board met and organised meetings with external auditors on a regular basis, and informed the Supervisory Board thereof.</p> <p>The presentation of financial statements by external auditors was made before the Supervisory Board.</p>	<p>There was no possibility.</p> <p>There were no such obligations pursuant to the Companies Act.</p> <p>Not applicable.</p>

The supervisory board and management board agreed and adopted the policies referred to in Article 83 of the Code.	The provision will be complied with within a short period of time.	Not our practice. There is no internal regulation laying down such obligation.
The annual report includes a report on the evaluation of the supervisory board and its committees, which evaluates all the circumstances referred to in Article 41 of the Code.	The Company intends to lay down this obligation within a reasonable time period.	Not laid down. The evaluation of the Supervisory Board members' performance arises from the decision on discharge.
The supervisory board has evaluated the performance of its individual members in the last 12 months.	The provision will be complied with within a short period of time.	The evaluation of the Supervisory Board members' performance arises from the decision on discharge. Not laid down.
The management board has adopted, and the supervisory board has approved the rules of procedure of the management board, that defines all the issues referred to in Article 43 of the Code.	The Management Board of the company consists of a single member. The Statute of the Company stipulates that rules of procedure of the Management Board shall be adopted in the case where the Management Board consists of two members. The Management Board intends to adopt rules of procedure of the Management Board within a reasonable period of time, and the Supervisory Board intends to approve the rules of procedure of the Management Board as referred to in Article 43 of the Code.	Not our practice. No, as there is no legal obligation in relation thereto.
The company has appointed a person to act as a contact person in investor relations; contact information of that person is available on the web site of the company free of charge.	The Company intends to appoint a person to act as contact person in investor relations.	No, as there is no legal obligation in relation thereto. The information is not available on the web site.
The audit committee has evaluated the effectiveness of the procedure and its application in the last 12 months.	The effectiveness of the procedure will be evaluated during 2023. The Management Board intends to adopt such a procedure subject to the approval of the Supervisory Board.	The regulation in force does not lay down such an obligation. There is no internal act laying down such procedures.

The management board has adopted the procedure for reporting breaches of law or internal rules of the company, either actual or potential ones, following the prior approval of the supervisory board.	Appropriate acts that will meet the requirement laid down by this provision are currently being drawn up. Such procedures are in place; the Management Board is in charge of their approval.	This has not been formalised, but is implied. There have been no such cases.
The supervisory board has given its prior approval for the conflicts of interest management policy.	The Company is currently drawing up and intends to adopt the Corporate Governance Code, business conduct rules and rules for the prevention of conflicts of interest. The document will define all the issues relating to this question from the questionnaire. The adoption of this document by the Supervisory Board and its publication on the web site of the Company is expected during 2023.	No, as there is no legal obligation in relation thereto. The provision is being considered.
The fair value of each material transaction shall be approved by an independent expert prior to each transaction and their report shall be available free of charge on the website of the company.	The company has no such internal act and intends to adopt it as soon as possible.	There were no such transactions. The regulation in force does not lay down such an obligation. Not laid down.

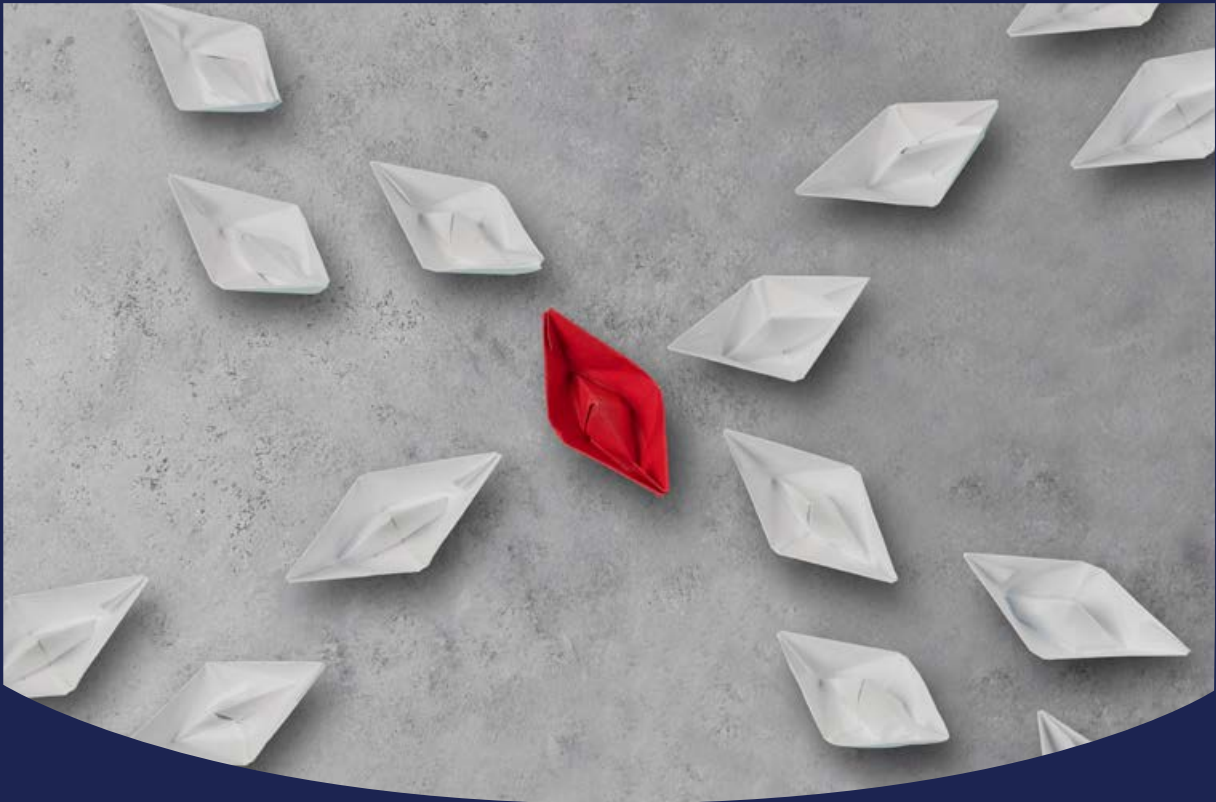
Source: 2022 Compliance questionnaire

The explanation provided for “NO” or “Partially” answers is extremely important as issuers have an opportunity to provide their own reasons that led to non-compliance or partial compliance. The 2022 compliance questionnaire, just as the compliance questionnaires for 2020 and 2021, shows that issuers are not willing to provide detailed explanations for their non-compliance or partial compliance, stating very often that a certain requirement is not prescribed by the law, their statute or another internal act.

It is therefore important to provide reasons for non-compliance in the explanation given for “NO” or “Partially” answers and to specify when and how the issuer intends to comply with the relevant provision in future, in order for compliance progress to be shown in future reporting periods. Issuers need to make sure they obey the deadlines for and manner of compliance they specified as regards the compliance with a certain provision of the Code. Actions taken in accordance with the manner and deadlines defined and specified by issuers in the questionnaire may be subject to verification by Hanfa.

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

ANNUAL REPORT ON CORPORATE GOVERNANCE FOR SHARE ISSUERS



INTRODUCTION

Data shown in this Annual Report on Corporate Governance for the issuers whose shares are admitted to trading on the regulated market of the ZSE are presented in line with the sections of the Corporate Governance Code, the compliance questionnaire and governance practices questionnaire, namely the Supervisory board and its committees (Sections 3 and 4 of the Code), Management board (Section 5 of the Code), Duties of board members (Sections 1 and 2 of the Code), Remuneration of board members (Section 6 of the Code), Risk, internal control and audit (Section 7 of the Code), General meeting (Section 9 of the Code) and Transparency and corporate social responsibility (Sections 8 and 10 of the Code).

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

Out of 88 issuers whose shares were admitted to trading on the regulated market on 31 December 2022, 86 were obliged to submit to Hanfa their governance practices questionnaire and compliance questionnaire for 2022, while 2 share issuers were obliged to submit only their governance practices questionnaire.

Out of 86 issuers obliged to submit their governance practices questionnaire and compliance questionnaire, 85 issuers (99% of the submitters) met the obligation to submit their governance practices questionnaire within the prescribed deadline. Both share issuers obliged to submit to Hanfa only their governance practices questionnaire fulfilled this requirement (100% of the submitters). Therefore, governance practices questionnaire was submitted by 87 issuers (99% of the submitters) within the prescribed deadline.

Data shown in this Chapter cover the data from the 2022 governance practices questionnaire and compliance questionnaire for all the share issuers that submitted their questionnaires to Hanfa within the given deadline (data from the governance practices questionnaire for 87 issuers and data from the compliance questionnaire for 85 issuers that submitted their 2022 compliance questionnaire). One issuer failed to submit both questionnaires in the prescribed manner and within the prescribed deadline, due to which data contained in those questionnaires were not processed for the purpose of this chapter.

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

In 2022, the ZSE turnover amounted to EUR 393m, rising by 16% compared with the previous year. The share turnover reached EUR 227m, 1.5 % less in comparison with 2021. At end-2022, there were 88 share issuers admitted to trading on the regulated market of the ZSE (6 share issuers fewer compared with 31 December 2021), and the number of issuers has been decreasing continuously since 2015. In 2022, shares of 8 issuers were removed

from the regulated market (3 from the Official Market, 5 from the Regular Market), while shares of 2 issuers were admitted to trading (1 on the Official Market, 1 on the Regular Market).

In 2022, more than half of the total securities turnover in the amount of EUR 393m was accounted for by trading in shares (EUR 227m, or 58%). The largest share turnover was recorded on the Regular Market (40.68% of the total share turnover); however, it decreased relative to the previous year, when it stood at 40.35%. Trading in shares admitted to the Prime Market accounted for 40.52% of the total share turnover in 2022, while trading in shares admitted to the Official Market accounted for 19%. In 2022, the share turnover on the Regular Market amounted to EUR 92.5m, decreasing by 12% relative to the previous year, when it reached EUR 93.2m.

Market capitalisation of shares fell by 3% compared to the end of 2021, amounting to EUR 18bn at the end of 2022. The market value measured by market capitalisation was higher than in the previous year on the Regular Market (by 1.4%), but decreased on the Prime Market (by 9.2%) and Official Market (by 3%). This decrease was due to the delisting of shares of three issuers from the Official Market (Petrokemija d.d., OT – Optima Telekom d.d. and Tankerska Next Generation d.d.) and the transfer of an issuer from the Official Market to the Regular Market (Stanovi Jadran d.d.), but also to a decline in prices. However, both the Official Market and Regular Market saw the admission to trading of shares (of the issuers MON PERIN d.d. and QUATTRO LOGISTIKA d.d.).

The CROBEX stock index concluded the year 2022 at the level of 1,979.88 points, decreasing by 5% relative to the previous year. All stock indices fell in 2022 relative to 2021, except for CROBEXplus (an 11% rise), CROBEXkonstrukt (a 16% rise) and CROBEXtransport (a 53% rise).

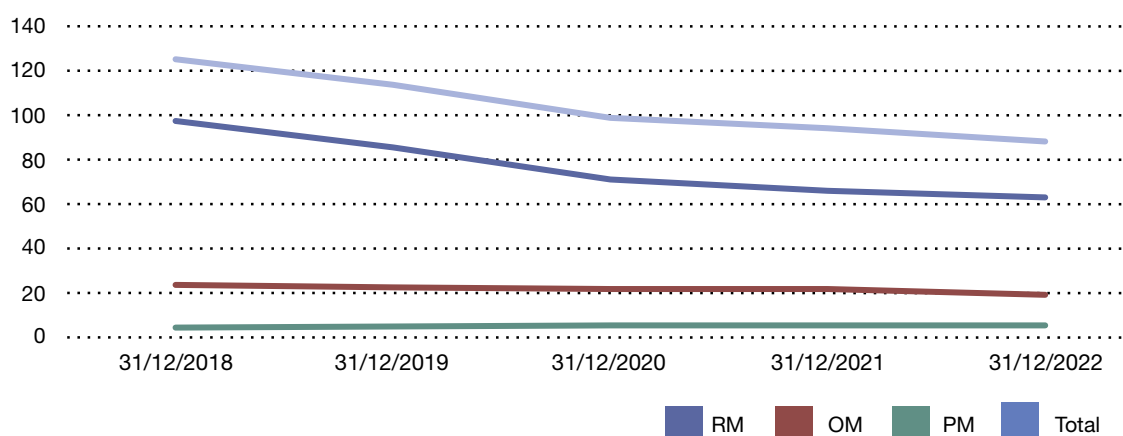
Most traded shares were those of Podravka d.d., Hrvatski telekom d.d., Valamar Riviera d.d., Atlantska plovidba d.d. and Adris Grupa d.d.; their total turnover reached EUR 98,712,106, accounting for 43% of the total share turnover in 2022.

SHORT OVERVIEW ON SHARE ISSUERS

Number of share issuers

The 2018 - 2022 period was marked by a **decreasing trend in the number of issuers** on the regulated market of the ZSE. A total of 8 companies removed their shares from trading on the regulated market in 2022 (3 of them from the Official Market, 5 from the Regular Market). The following chart provides an illustrative overview of changes in the number of issuers by segments on the regulated market of the ZSE.

Chart 44 Number of issuers per segments of the regulated market, 2018 – 2022



Source: ZSE, internal calculation

There was a significant decrease in the total number of the issuers whose shares are admitted to the regulated market of the ZSE, mostly due to a continued decline in the number of the issuers whose shares are admitted to the Regular Market of the ZSE. In addition, there is a slight decrease in the number of the issuers whose shares are admitted to the Official Market of the ZSE, and a modest rise in the number of the issuers whose shares are admitted to the Prime Market of the ZSE. The Prime Market has existed since 2018 and has seen the admission of an issuer in each of the four years of its existence (transfer of the shares of the issuers Valamar Riviera d.d. and HT d.d. from the Official Market to the Prime Market of the ZSE).

The table below gives a detailed overview of the number of issuers and percentage changes in the number of issuers relative to the preceding year.

Table 13 Number of share issuers on the regulated market of the ZSE from 2018 to 2022, as at 31 December

Regulated market	2018		2019		2020		2021		2022	
	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)	Number	Change (%)
PM	4	-	5	25	6	20	6	-	6	-
OM	24	-7.7	23	-4.2	22	-4.3	22	-	19	-13.6
RM	98	-6.7	86	-12.2	71	-17.4	66	-7	63	-4.5
Total	126	-3.8	114	-9.5	99	-13.2	94	-5.1	88	-6.4

Source: ZSE, internal calculation

At the end of 2022, there were 88 share issuers, 6.4% fewer compared to 31 December 2021, when there were 6 issuers more with their shares admitted to the regulated market. Broken down by regulated market segments, the same decrease in the number of issuers was recorded on the Regular Market (5 issuers fewer than at the end of 2021). There were 3 issuers fewer on the Official Market compared to end-2021 (no issuers delisted their shares from the Official Market in 2021). In 2022, one issuer transferred from the Official Market to the Regular Market.

Shares not traded at all

The following shares were not traded at all in the period from their admission to trading on the regulated market of the ZSE to 31 December 2022:

- ordinary share of the issuer Professio Energia d.d., bearing the symbol DLPR-R-A,
- preferential share of the issuer Plava laguna d.d., bearing the symbol PLAG-P-A,
- ordinary share of the issuer Stanovi Jadran d.d., bearing the symbol STJD-R-A,
- ordinary share of the issuer The Garden Brewery d.d., bearing the symbol GARB-R-A.

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

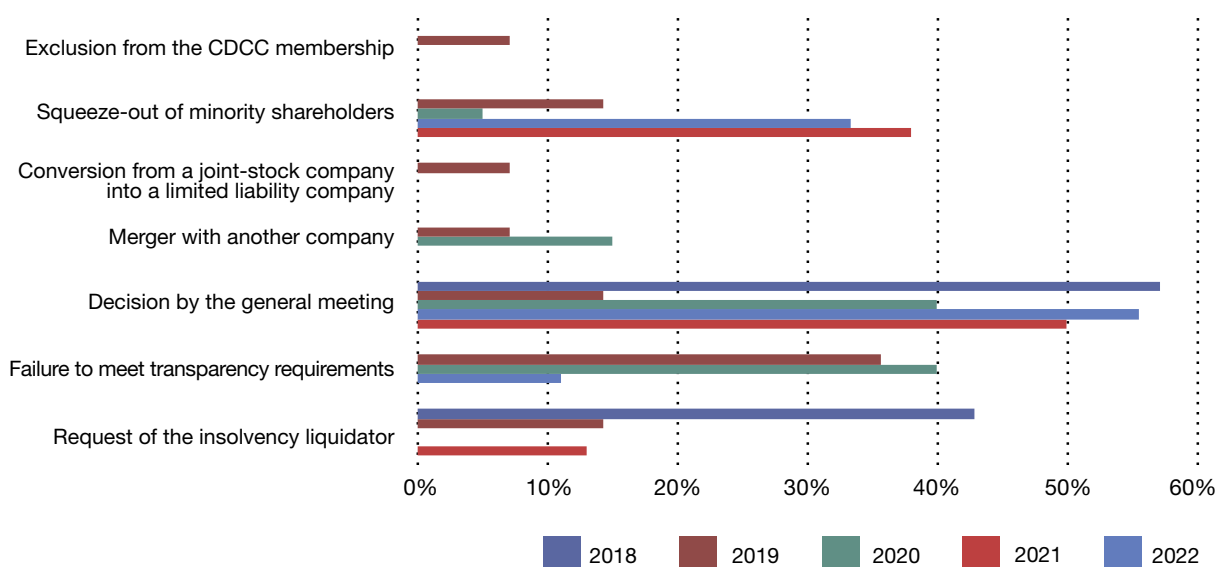
- In 2022, shares of 2 issuers were admitted to trading on the regulated market of the ZSE:
 - ordinary shares of the company Mon Perin d.d. were admitted to trading on the Official Market on 28 March 2022,
 - ordinary shares of the company Quattro logistika d.d. were admitted to trading on the Regular Market on 9 June 2022.
- In 2021, shares of 3 issuers were admitted to trading on the regulated market of the ZSE:
 - ordinary shares of the company Villa Dubrovnik d.d. were admitted to trading on the Regular Market on 21 June 2021,
 - ordinary shares of the company Primo Real Estate d.d. were admitted to trading on the Regular Market on 20 July 2021,
 - ordinary shares of the company SPAN d.d. were admitted to trading on the Official Market on 21 September 2021.
- In 2020, shares of 5 issuers were admitted to trading on the regulated market of the ZSE:
 - ordinary shares of the company Helios Faros d.d. were admitted to trading on the Regular Market on 30 April 2020,
 - ordinary shares of the company The Garden Brewery d.d. were admitted to trading on the Regular Market on 9 June 2020,
 - ordinary shares of the company Modra Šplja d.d. were admitted to trading on the Regular Market on 1 October 2020,
 - ordinary shares of the company Vis d.d. were admitted to trading on the Regular Market on 1 October 2020,
 - ordinary shares of the company Ciak Grupa d.d. were admitted to trading on the Official Market on 29 December 2020.

In 2022, 5 issuers removed their shares from trading on the Regular Market, 3 issuers removed their shares from trading on the Official Market, while no issuers removed their shares from trading on the Prime Market (in 2021, 8 issuers removed their shares from trading on the Regular Market (20 issuers in 2020), while no issuers did so on the Official Market (no issuers in 2020 either).

The most common reasons for removing shares from trading on the Regular Market in 2022 were the decision of the general meeting (3 issuers) and winding-up (1 issuer). One issuer underwent the procedure of the squeeze-out of minority shareholders. The most common reasons for removing shares from trading on the Official Market in 2022 were the squeeze-out of minority shareholders (2 issuers) and the decision of the general meeting (1 issuer).

The above-mentioned reasons for removing shares from trading on the regulated market from 2018 to 2022 are shown in the chart below.

Chart 45 Reasons for removing shares from trading on the regulated market in the period from 2018 to 2022



Source: ZSE

In the period between 2018 and 2022, the largest number of shares (21) were removed from trading on the regulated market on the basis of the decision by the general meeting. Three shares were removed from trading on the regulated market in 2022 (1 share in 2021) due to the squeeze-out of minority shareholders. No shares were removed from trading on the regulated market in 2022 (1 share in 2021) due to failure to meet transparency requirements, just as in the period from 2015 to 2019.

In the period observed, out of 84 shares that were removed from trading on the regulated market, 4 were removed from the Official Market, and the remaining 80 from the Regular Market. Since 2018, when the Prime Market was established, no shares have been removed from trading on this segment of the regulated market.

Classification of issuers by sectors

Issuers are classified into the financial and non-financial sector with respect to activities they carry out. The financial sector is comprised of financial institutions and closed-ended alternative investment funds, while the non-financial sector covers other activities. The classification of issuers by sectors in the period from 2018 to 2022 is shown in the following table.

Table 14 Classification of issuers by sectors in the period from 2018 to 2022, as at 31 December

Sectors	2018		2019		2020		2021		2022	
	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)
Financial sector	12	9.5	12	10.5	12	12.1	11	11.7	11	12.5
Non-financial sector	114	90.5	102	89.5	87	87.9	83	88.3	77	87.5
Total	126	100	114	100	99	100	94	100	88	100

Source: ZSE

According to the publicly available data provided by the ZSE, as at 31 December 2022, the largest number of share issuers came from the tourism industry (21 issuers; 22 issuers at the end of 2021). They were followed by share issuers engaged in financial and insurance activities (13 issuers; 15 issuers in 2021), share issuers from the food industry and beverages and tobacco product manufacturing industry (9 issuers; 10 issuers in 2021), and share issuers from the transportation and storage sector (9 issuers; 10 issuers in 2021). Other industries/activities counted less than 9 share issuers per industry/activity as at 31 December 2022.

Market capitalisation

At the end of 2022, market capitalisation of shares admitted to trading on the Prime Market amounted to EUR 3,776,765,393 decreasing by 9.2% compared to 31 December 2021 (when it reached EUR 4,159,909,105), as a result of a decline in share prices.

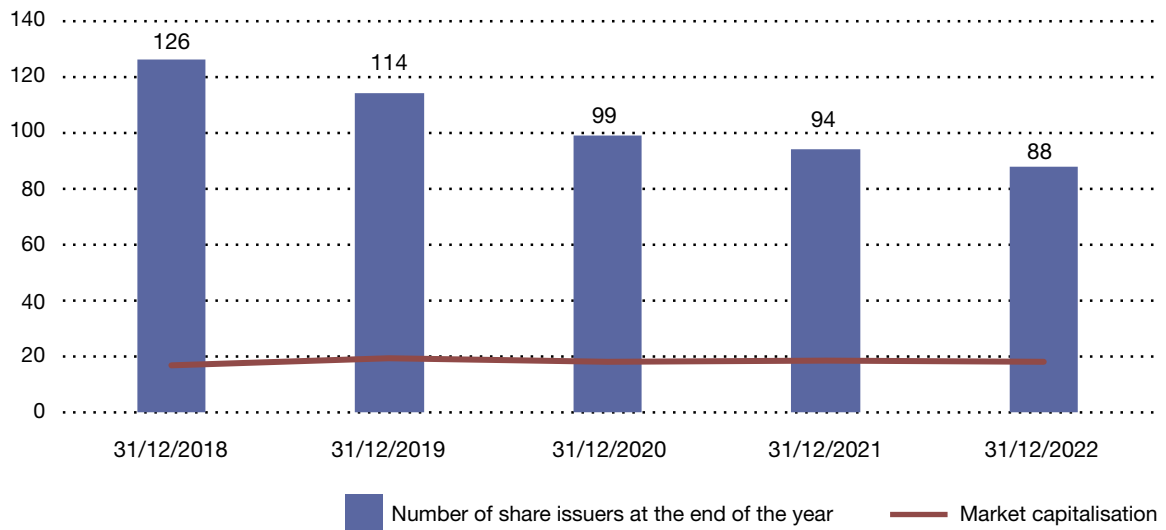
Market capitalisation of shares admitted to trading on the Official Market reached EUR 6,480,465,545 at the end of 2022, falling by 3% relative to 31 December 2021, when it stood at EUR 6,679,391,975. This decrease was due to the delisting of shares of three issuers from the Official Market (Petrokemija d.d., OT – Optima Telekom d.d. and Tankerska Next Generation d.d.) and the transfer of an issuer from the Official Market to the Regular Market (Stanovi Jadran d.d.), but also to a decline in prices.

As at 31 December 2022, the total market capitalisation of shares admitted to the Regular Market (excluding closed-ended alternative investment funds) amounted to EUR 7,748,661,959, rising by around 1.4% compared to the end of the previous year, when it reached EUR 7,640,440,827, partly due to the admission to trading of an issuer to the Regular Market and to a change of the market segment (an issuer transferred from the Official Market to the Regular Market).

Market capitalisation of shares of the 87 issuers that submitted their 2022 governance practices questionnaire amounted to EUR 18,013,700,387 (99% of total market capitalisation of all the shares admitted to trading as at 31 December 2022).

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

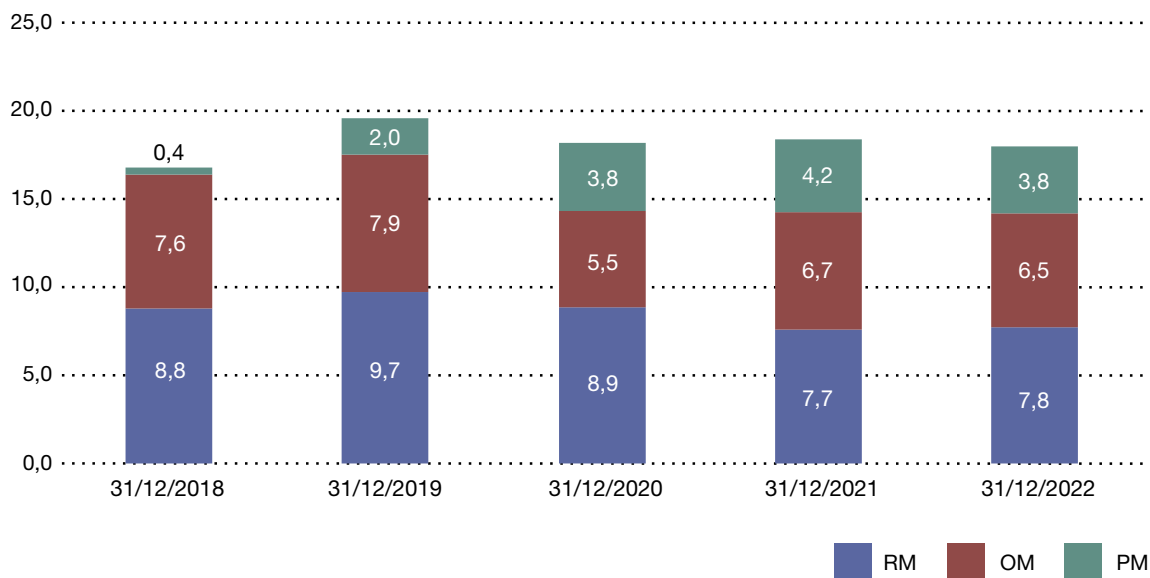
Chart 46 Market capitalisation of shares (in EUR bn) admitted to trading on the regulated market and the number of issuers at the end of each year, from 2018 to 2022



Source: ZSE

Market capitalisation of shares in the period from 31 December 2018 to 31 December 2022 by segments of the regulated market to which they are admitted is shown in the chart below.

Chart 47 Market capitalisation of shares (in EUR bn) by segments of the regulated market from 2018 to 2022

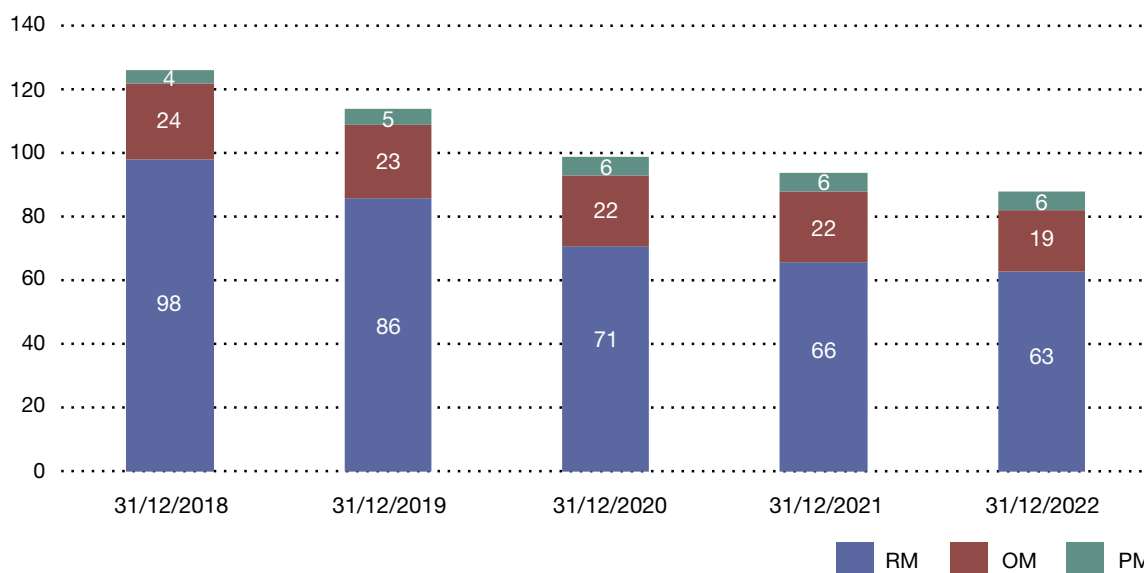


Source: ZSE

Market capitalisation of shares admitted to the Regular Market rose slightly compared to 2021, mainly due to the fact that one issuer was admitted to this segment of the regulated market, while another one transferred from the Official Market to the Regular Market.

The decrease in market capitalisation of shares admitted to the Official Market was primarily driven by the withdrawal of shares of three issuers from the regulated market and by a fall in share prices.

Chart 48 Number of share issuers by segments of the regulated market from 2018 to 2022



Source: ZSE

The number of share issuers on the regulated market of the ZSE, primarily those whose shares are admitted to the Regular Market, has been declining continuously for the last five years. The number of issuers whose shares are admitted to the Official Market dropped by 3 compared to 2021, but it also fell compared to other years. The Prime Market, that has existed since 2018, shows a slight increase in the number of issuers, but at the end of 2022 the number was the same as in the previous year. At the end of 2022, there were 63 issuers on the Regular Market, 19 issuers on the Official Market and 6 issuers on the Prime Market.

CAPITAL AND ITS ORIGIN

The following text provides an overview of the initial capital of share issuers, ownership structure of share issuers and the origin of share issuers' capital from 2018 to 2022.

Initial capital

At end-2022, the initial capital of 88 share issuers reached EUR 7,075,182,988, ranging between EUR 478m and EUR 1.36bn (the initial capital of 94 share issuers at end-2021 amounted to EUR 7.21bn, ranging from EUR 332m to EUR 1.36bn).

According to data from the court register, 9 issuers increased their initial capital during 2022 (11 issuers did so in 2021), while 2 issuers reduced their initial capital (2 issuers did so in 2021).

Net change in the capital of share issuers amounted to EUR 153,377,583.

Table 15 Number of issuers whose shares are admitted to trading on the regulated market of the ZSE, initial capital and market capitalisation (in EUR bn) from 2018 to 2022

Number of issuers					Initial capital and market capitalisation	2018	2019	2020	2021	2022
2018	2019	2020	2021	2022						
126	114	99	94	88	Initial capital (EUR bn)	8.1	8.6	7.4	7.2	7.1
					Market capitalisation (EUR bn)	18.2	19.6	18.2	18.5	18.0

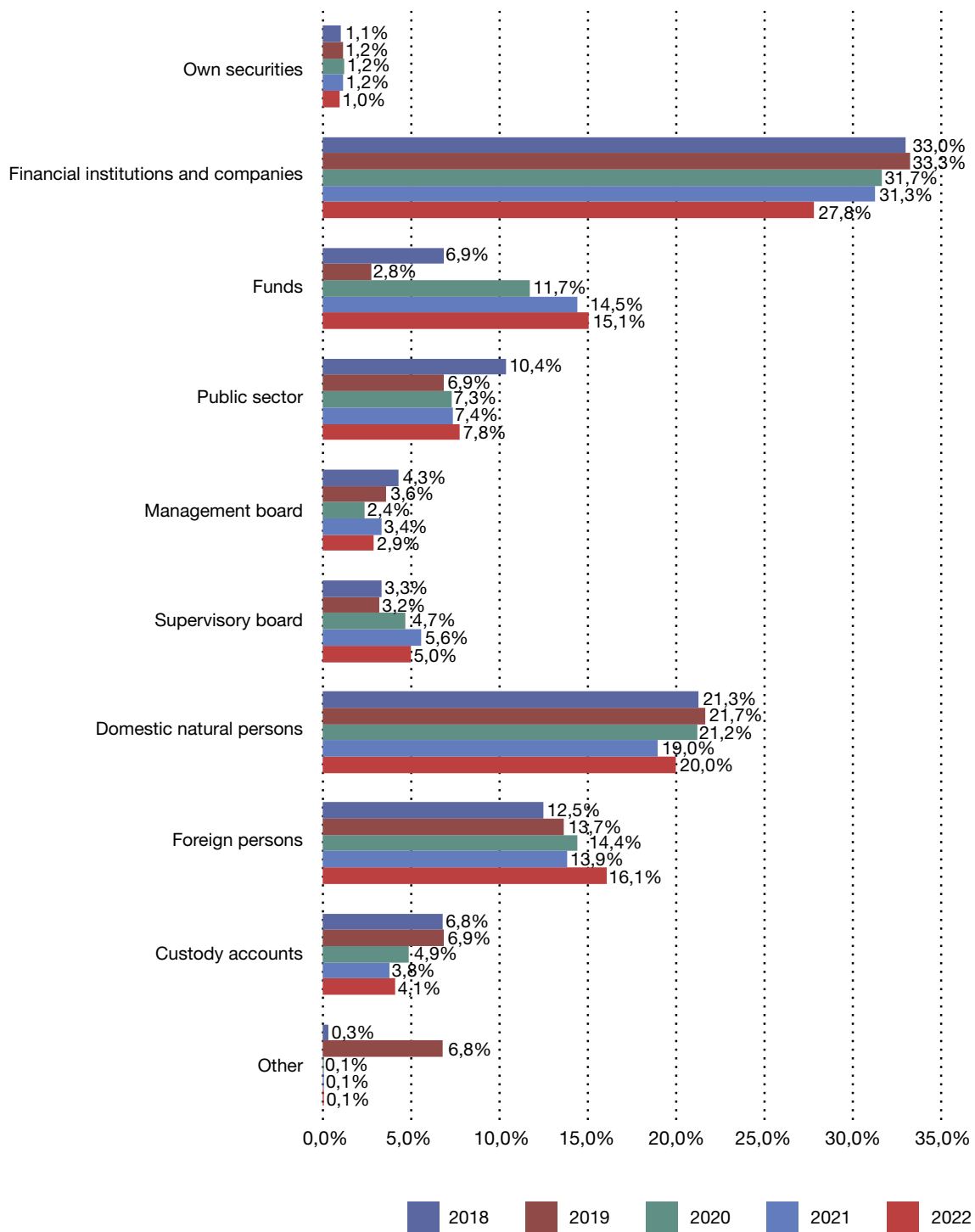
Source: court register, ZSE

Ownership structure

The ownership structure of share issuers has been developed on the basis of information received from the Central Depository and Clearing Company (hereinafter: CDCC). It has been analysed by groups of shareholders, with the sum of all groups making up 100% of the issuers' ownership structure (one shareholder may be allocated to only one group). The issuers' ownership structure is divided into the following categories: own securities, financial institutions and companies, funds (investment and pension funds with their registered offices in the Republic of Croatia), public sector (Republic of Croatia), management board members, supervisory board members, domestic natural persons (except for members of the management and supervisory board), foreign persons (except for members of the management and supervisory board), custody accounts and other.

The following chart shows the ownership structure of share issuers in the period from 2018 to 2022 by the above-mentioned categories.

Chart 49 Share issuers' ownership structure from 2018 to 2022



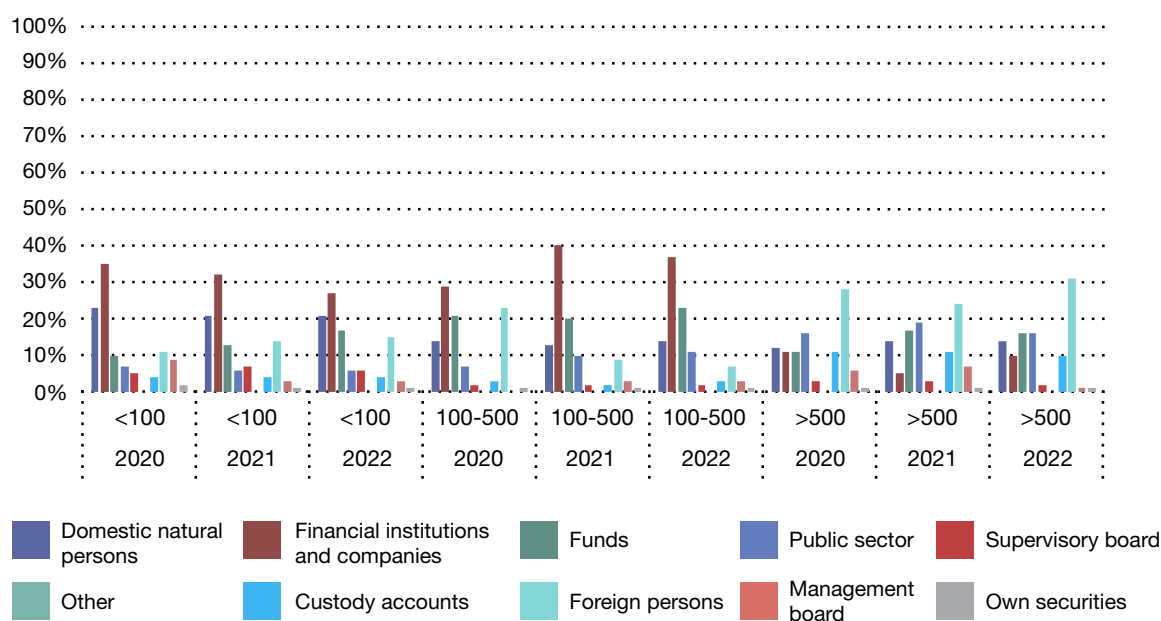
Source: CDCC

As at 31 December 2022, the share issuers' ownership structure was dominated (as in the previous years) by financial institutions and companies with a 27.8% share, followed by domestic natural persons with a 20% share and foreign persons with a 16.1% share, while own securities, management board members and custody accounts made up the smallest shares in this structure (1%, 2.9% and 4.1% respectively).

Compared to the previous years, the share of financial institutions and companies in the ownership structure dropped by 5.5% (from 33.3% to 27.8%), while the shares of funds and foreign persons increased by 8.2% and 3.6% respectively (i.e. from 6.9% to 15.1% and from 12.5 to 16%).

The following chart shows the share issuers' ownership structure at the end of 2020, 2021 and 2022, with respect to market capitalisation.

Chart 50 Share issuers' ownership structure in relation to market capitalisation (in EUR m) as at 31/12/2020, 31/12/2021 and 31/12/2022



Source: CDCC

Table 16 Share issuers' ownership structure in relation to market capitalisation (in EUR m) as at 31/12/2020, 31/12/2021 and 31/12/2022

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

Source: CDCC

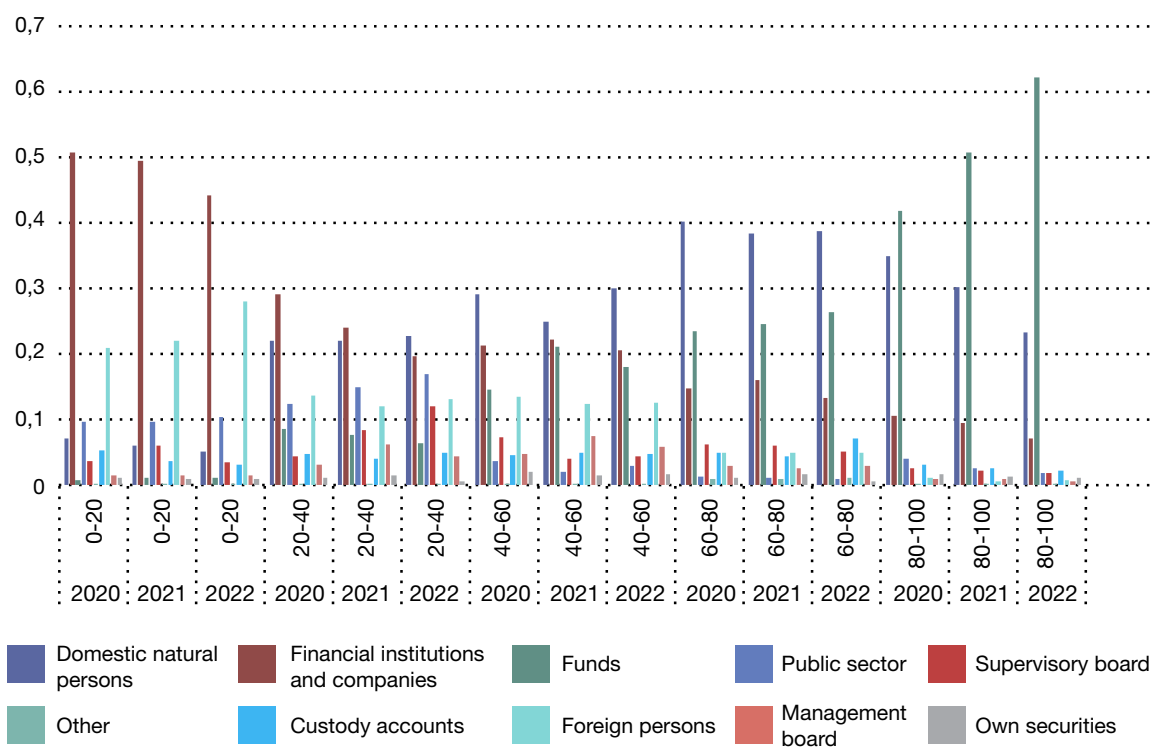
- As at 31 December 2022, the ownership structure of share issuers with a market capitalisation larger than EUR 500m did not change significantly compared to 31 December 2020 and 31 December 2021. Foreign persons still dominated, with a 31% share, followed by funds, the public sector, domestic natural persons and financial institutions and companies (from 10% to 16%), whereas the supervisory board, the management board, own securities and other still made up the smallest share (from 0% to 2%). Compared to the previous years, the share of funds and foreign persons rose slightly (by 5 - 6%), whereas the share of the management board recorded a modest decline (by 5 - 6%).

As at 31 December 2022, the ownership structure of share issuers with a market capitalisation reaching between EUR 100m and 500m was dominated (just as in the previous years, though with a slight share increase) by financial institutions and companies and funds (from 23% to 37%), followed by domestic natural persons and the public sector (from 11% to 14%), whereas a smaller share was accounted for by own securities, the supervisory board, the management board, custody accounts, foreign persons and other (from 0% to 7%).

As in the previous years, the largest share in the ownership structure of issuers with a market capitalisation of up to EUR 100m was accounted for by financial institutions and companies and domestic natural persons (from 21% to 27%; with the share recording a slight decrease, from 2% to 8%), followed by funds and foreign persons (from 15% to 17%, with the share recording a modest rise, from 4% to 7%). The smallest share was made up by own securities, the management board, custody accounts, the public sector, the supervisory board and other (from 0% to 6%); this share did not change significantly compared to 31 December 2020 and 31 December 2021.

The chart and table below show the share issuers' ownership structure as at 31 December 2020, 2021 and 2022 in relation to their free float.

Chart 51 Share issuers' ownership structure in relation to their free float as at 31/12/2020, 31/12/2021 and 31/12/2022



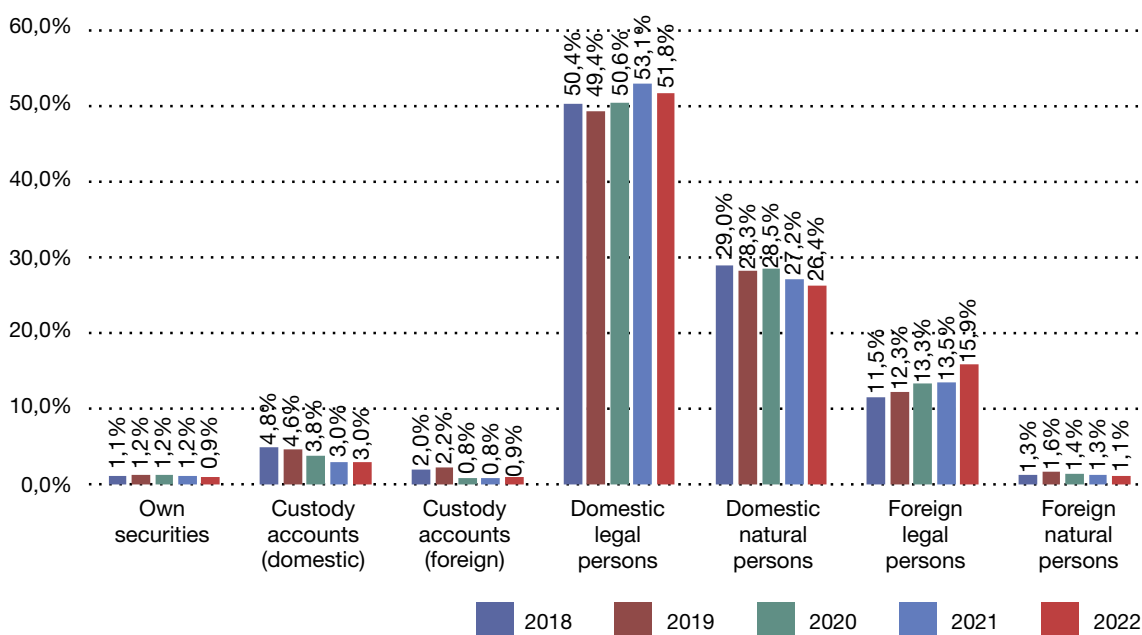
Source: CDCC

- The ownership structure of share issuers in relation to their free float was dominated by domestic natural persons and financial institutions and companies, followed by funds and foreign persons.
- As at 31 December 2022, the ownership structure of share issuers with a free float of up to 20% was dominated by financial institutions and companies (a 44% share, followed by foreign persons with a 28% share). Domestic natural persons dominated the ownership structure of share issuers with a free float ranging from 20% to 40% (a 22% share), from 40% to 60% (a 30% share) and from 60% to 80% (a 39% share), whereas funds dominated the ownership structure of share issuers with a free float ranging between 80% and 100% (a 62% share). The smallest share was accounted for by own securities, management board members and other (a share ranging from 0% to 7%).
- Compared to the previous years, the share of financial institutions and companies in the ownership structure of share issuers with a free float of up to 20% dropped (from 51% to 44%); the share of funds in the ownership structure of share issuers with a free float ranging between 80% and 100% rose (from 42% to 62%), as did the share of foreign persons in the ownership structure of share issuers with a free float of up to 20% (from 21% to 28%). The share of domestic natural persons in the ownership structure of share issuers with a free float ranging between 20% and 40%, between 40% and 60%, and between 60% and 80% did not change significantly (it reached around 22%, 29% and 39% respectively).

Origin of share issuers' capital

The following chart shows the ownership of shares in the period from 2018 to 2022 by capital origin according to the following categories: own securities, custody accounts (domestic), custody accounts (foreign), domestic legal persons, domestic natural persons, foreign legal persons and foreign natural persons.

Chart 52 Origin of share issuers' capital at the end of 2018, 2019, 2020, 2021 and 2022



Source: CDCC

In the period from 2018 to 2022, the origin of capital and shares of individual capital categories in share ownership did not change significantly. As in the previous years, as at 31 December 2022, the largest proportion in the share ownership was accounted for by domestic legal persons (49.4% to 53.8%), while the smallest proportion was made up by own securities (0.9% to 1.2%).

The 2018-2022 period saw a slight decline in the proportion of domestic capital, namely domestic custody accounts (a 1.8% fall, from 4.8% to 3%) and domestic natural persons (a 2.6% fall, from 29% to 26.4%), and a rise in the proportion of foreign capital, namely foreign legal persons (a 4.4% increase).

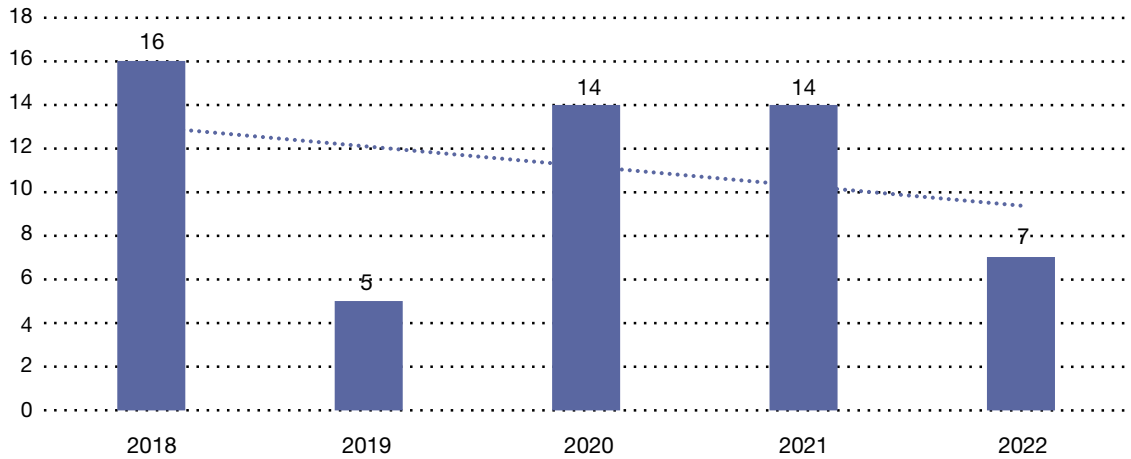
DUTIES AND RESPONSIBILITIES OF BOARD MEMBERS

Conflicts of interest

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

- In 2022, 7 conflicts of interest were reported by 4 issuers whose shares are admitted on the Official Market, and the persons involved abstained from voting on entering related party transactions.
- In 2021, there were 14 reported conflicts of interest: 8 of them were reported by 2 issuers admitted on the Official Market, 2 of them were reported by an issuer admitted on the Prime Market and 4 of them were reported by an issuer admitted on the Regular Market. All the persons involved abstained from voting on entering related party transactions.
- In 2020, 14 conflicts of interest were reported by 2 issuers whose shares are admitted on the Official Market, and the persons involved abstained from voting on entering related party transactions.
- Out of the 7 conflicts of interest reported in 2022, 5 were reported by the senior management, while the management board and supervisory board reported 1 conflict of interest each (out of the 14 conflicts of interest reported in 2021, 7 were reported by the senior management, 7 by the management board, while the supervisory board reported no conflicts of interest).

Chart 53 Number of conflicts of interest reported during the year in the period from 2018 to 2022



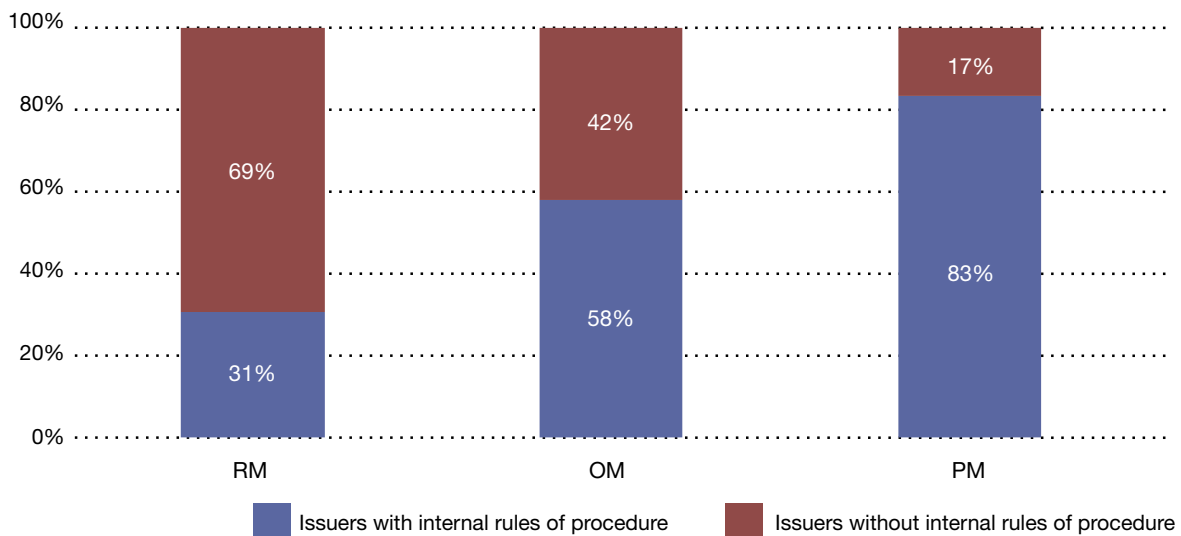
Source: Governance practices questionnaire 2019, 2020, 2021 and 2022, Annual Report on Corporate Governance for 2018

Related party transactions

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

- Compared to 2021, there was a slight deterioration as regards related party transactions (according to the data from the governance practices questionnaire), given that in 2022, 40% of issuers had internal rules of procedure in cases of related party transactions (41% of them in 2021), meaning that the majority of issuers (60%; 59% in 2021) still did not have internal rules of procedure in cases of related party transactions.

Chart 54 Share issuers that reported having/not having internal rules of procedure in cases of related party transactions in 2022 by regulated market segments



Source: Governance practices questionnaire 2022

The following table sets out the average value of reported transactions concluded by the issuer in the period from 2018 to 2022 with shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, the senior management of the issuer and within the group the issuer belongs to or is its parent.

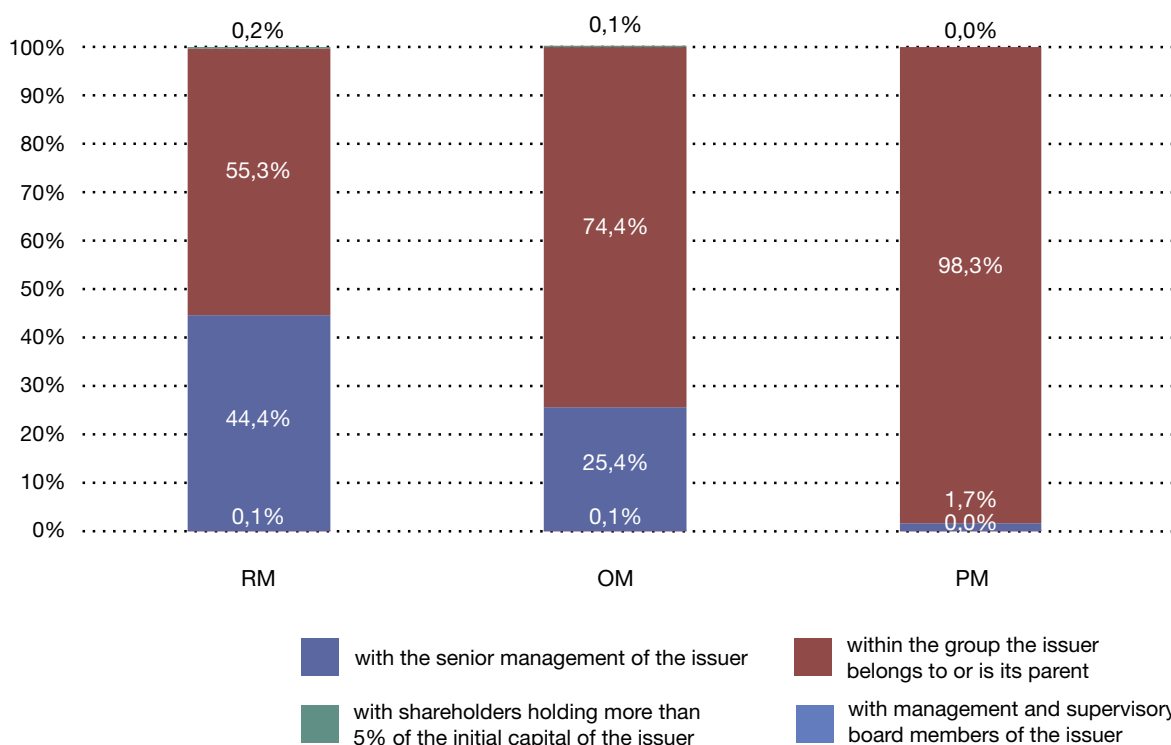
Table 17 Average value of reported related party transactions from 2018 to 2022

		with shareholders holding more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with the senior management of the issuer	within the group the issuer belongs to or is its parent
2022	Number of issuers having reported the transaction	34	18	10	46
	Average transaction value per issuer	47,840,196	300,184	668,130	62,387,482
2021	Number of issuers having reported the transaction	39	18	10	49
	Average transaction value per issuer	33,908,284	259,887	989,957	42,681,991
2020	Number of issuers having reported the transaction	38	22	13	46
	Average transaction value per issuer	26,133,415	371,151	1,244,512	36,809,514
2019	Number of issuers having reported the transaction	38	21	10	49
	Transaction value	30,703,956	431,451	906,840	42,459,888
2018	Number of issuers having reported the transaction	40	20	10	45
	Average transaction value per issuer	24,543,658	635,164	652,179	42,868,701

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

- The average gross value of transactions with shareholders holding more than 5% of the initial capital of the issuer, with management and supervisory board members of the issuer and within the group the issuer belongs to or is its parent was higher than in 2021, while the average gross value of transactions with related parties concluded by issuers with the senior management was lower compared to 2021.

Chart 55 Share of individual types of related party transactions in the total amount of related party transactions per regulated market segment in 2022



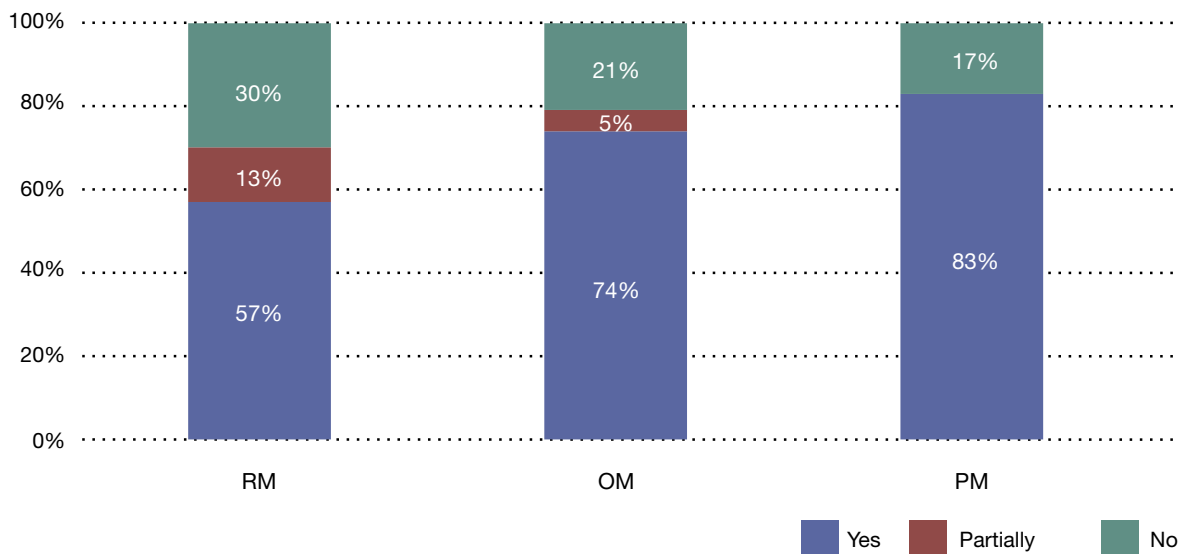
Source: Governance practices questionnaire 2022

- Issuers' transactions within the group the issuer belongs to or is its parent account for the largest share of related party transactions in each market segment (55.3% on the Regular Market, 74.4% on the Official Market and 98.3% on the Prime Market). They are followed by transactions with shareholders holding more than 5% of the initial capital of the issuer. Transactions with the senior management and transactions with management and supervisory board members of the issuer account for less than 0.4% of total transactions by market.

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

- Supervisory boards of 63% of the issuers gave their consent to the code of conduct or another internal regulation establishing rules of conduct to be followed by supervisory and management board members, employees and other persons acting on behalf of the company (55% in 2021).

Chart 56 Agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company in 2022



Source: 2022 Compliance questionnaire

A total of 56% of the issuers published their codes of conduct for management and supervisory board members on their websites (51% in 2021).

A total of 83% of the issuers whose shares are admitted to trading on the Prime Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge (83% of them in 2021 as well).

A total of 74% of the issuers whose shares are admitted to trading on the Official Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge (70% of them in 2021).

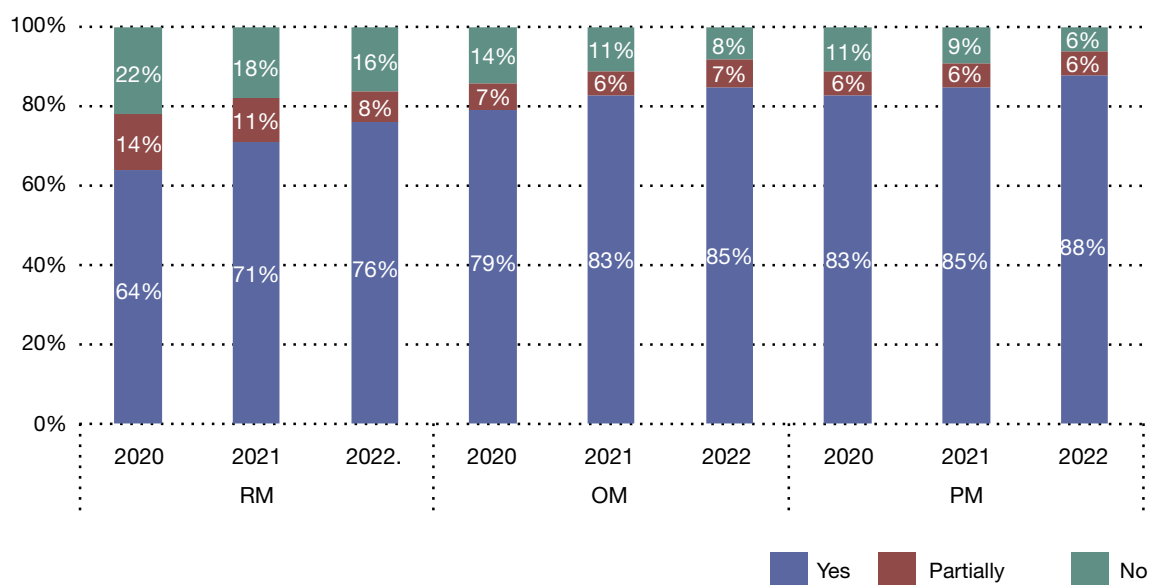
A total of 57% of the issuers whose shares are admitted to trading on the Regular Market reported having published their codes of conduct for management and supervisory board members on their websites, available free of charge. Compared to 2021, there is a visible improvement regarding the issuers whose shares are admitted to trading on the Regular Market, given that 47% of these issuers had the agreed codes of conduct for management and supervisory board members, employees and other persons acting on behalf of the company.

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

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

The chart below shows issuers' compliance with the section "Leadership" in 2022, compared to 2021 and 2020.

Chart 57 Share issuers' compliance with the section "Leadership" in 2020, 2021 and 2022 by segments of the regulated market



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

- The level of compliance with the section "Leadership" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 88%.
- The issuers whose shares are admitted to trading on the Official Market and Regular Market recorded average compliance reaching 85% and 76% respectively.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Leadership" compared to 2020 and 2021.

SUPERVISORY BOARD AND ITS COMMITTEES

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

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

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

the management board or supervisory board of the company or of the majority shareholder. The chair or deputy chair of the supervisory board should be independent. Independent supervisory board members ensure the adoption of objective decisions relating to management board members, the company and its shareholders, such as decisions on remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, and audit function.

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

- Out of 88 issuers whose shares were admitted to trading on the regulated market as at 31 December 2022, 87 issuers submitted their questionnaires on corporate governance practices, of which 2 issuers had a one-tier governance system, and the remaining 85 issuers reported having a two-tier governance system.
- Out of 94 issuers whose shares were admitted to trading on the regulated market as at 31 December 2021, 93 issuers submitted their questionnaires on corporate governance practices, of which 2 issuers had a one-tier governance system, and the remaining 91 issuers reported having a two-tier governance system.

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

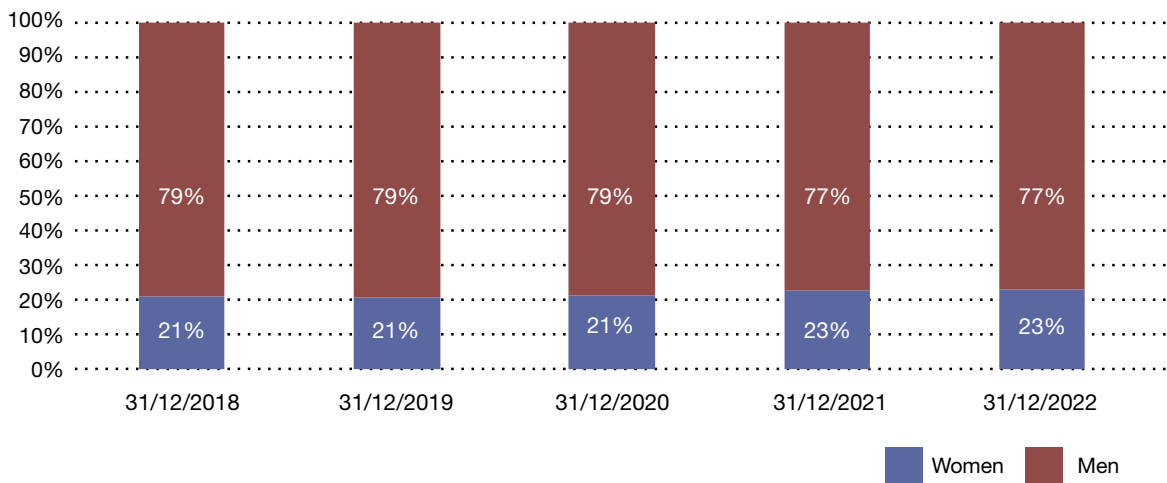
The following analysis covers all the issuers of shares admitted to the regulated market of the ZSE as at 31 December 2018, 2019, 2020, 2021 and 2022 according to the data from the court register.

Number of members and composition of the supervisory board

- At the end of 2022, supervisory boards of share issuers consisted of 5 members on average (as in 2021).
- At end-2022, the proportion of women on supervisory boards (107 women) was about 3 times larger than the proportion of women on management boards (34 women). At end-2021, the proportion of women on supervisory boards was also about 3 times larger than the proportion of women on management boards.

The following chart shows the proportion of women and men on supervisory boards of share issuers in the period from 2018 to 2022.

Chart 58 Share issuers' supervisory board gender structure in the period from 2018 to 2022

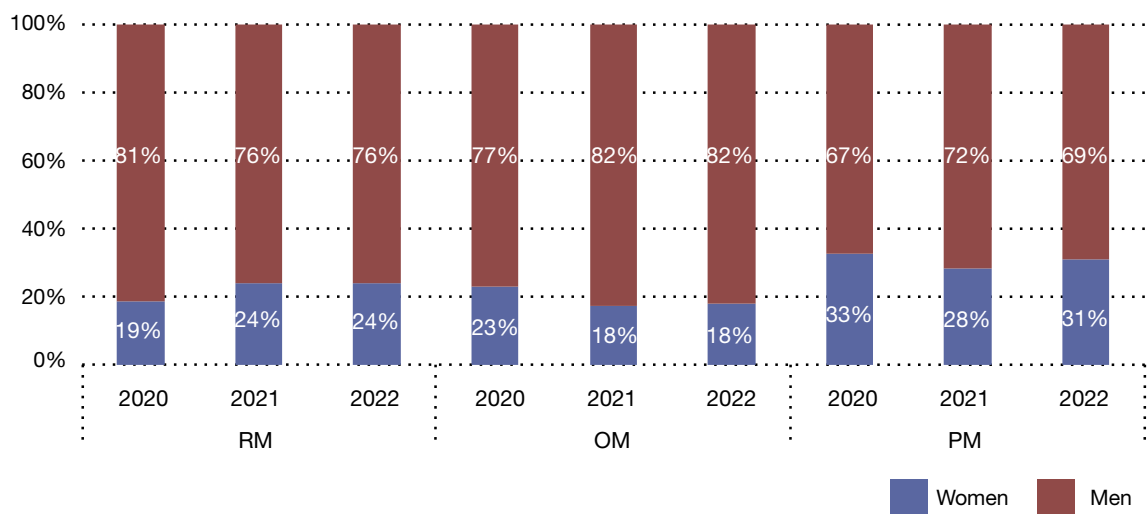


Source: court register¹³

- At the end of 2022, the share of women on share issuers' supervisory boards did not change compared to the previous year (23%), but there is a visible improvement compared to 2018, 2019 and 2020 (21%).
- Broken down by segments of the regulated market in 2022:
 - the share of women on supervisory boards of issuers on the Regular Market reached 24%,
 - the share of women on supervisory boards of issuers on the Official Market reached 18%,
 - the share of women on supervisory boards of issuers on the Prime Market reached 31%.

The following chart shows the proportion of female supervisory boards' members in relation to the total number of issuers' supervisory board members in 2022 by segments of the regulated market.

Chart 59 Share issuers' supervisory board gender structure by segments of the regulated market as at 31/12/2020, 31/12/2021 and 31/12/2022

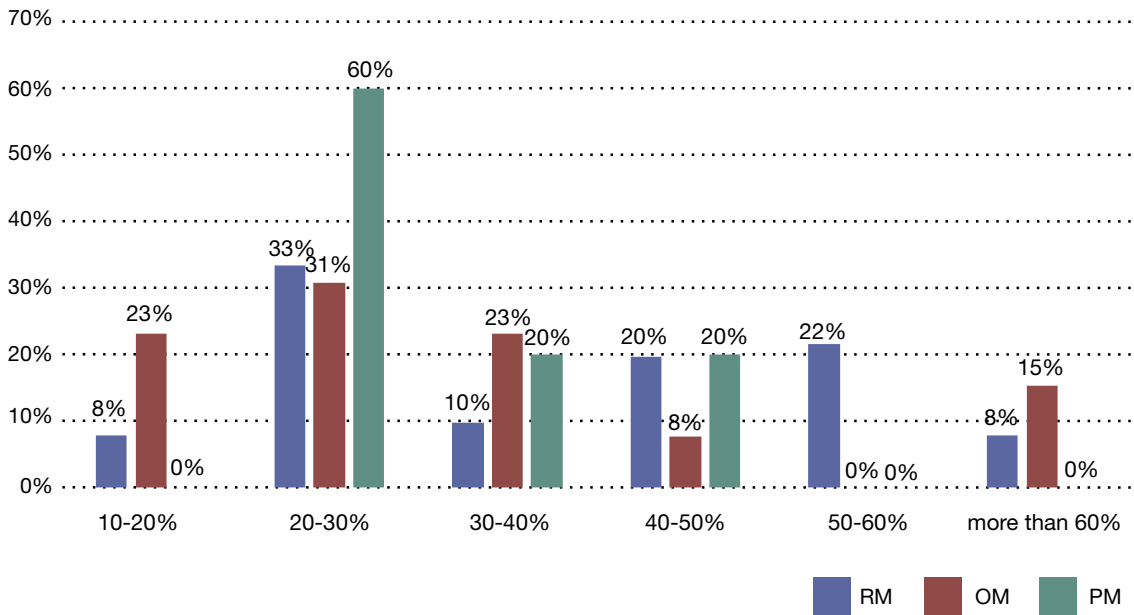


Source: court register

¹³ Data on the number and gender of supervisory board members have been analysed based on the data from the court register in order to encompass all of the supervisory board members. It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

- The chart shows a change in the shares relative to the previous year on the Prime Market, where the proportion of women rose from 28% to 31%, while the proportion of men declined from 72% to 69%. These proportions did not change on the Regular Market and Official Market.
- The average proportion of women on supervisory boards in the 2018-2022 period amounted to 21%.
- The governance practices questionnaire showed that 11.4% of female members had a PhD (9.1% in 2021).
- As at 31 December 2022, most supervisory board members (42%) were over 56 years old (41% in 2021); 34% of them were between 46 and 55 years old (36% in 2021); 19% of them were between 36 and 45 years old (18% in 2021); while only 5% of supervisory board members were younger than 35 years of age (5% in 2021).
- As at 31 December 2022, the majority of supervisory board members (71%) had a university degree (72% in 2021), while 12% of supervisory board members had a PhD (as in 2021).
- As at 31 December 2022, 18% of supervisory board members were foreign citizens (18% of them at the end of 2021 as well).
- Supervisory boards of 59% of the share issuers evaluated their effectiveness in the previous 12 months (61% of the issuers in 2021). In 92% of them the evaluation was led by the chair or deputy chair of the supervisory board (in 2021, this share reached 88%).
- At the end of 2022, the average duration of supervisory board membership was 6 years (as in 2021).
- A total of 49 issuers (56%) had employee/trade union representatives on supervisory boards in 2022 (54 issuers, or 58%, in 2021).
- Supervisory boards of 69 issuers (87%) set a target percentage of female supervisory board members (supervisory boards of 71 issuers (76%) in 2021).

Chart 60 Share issuers that set a target percentage of female supervisory board members in 2022



Source: Governance practices questionnaire 2022

Broken down by segments of the regulated market, the target percentage of female supervisory board members was set by 69 issuers (79%):

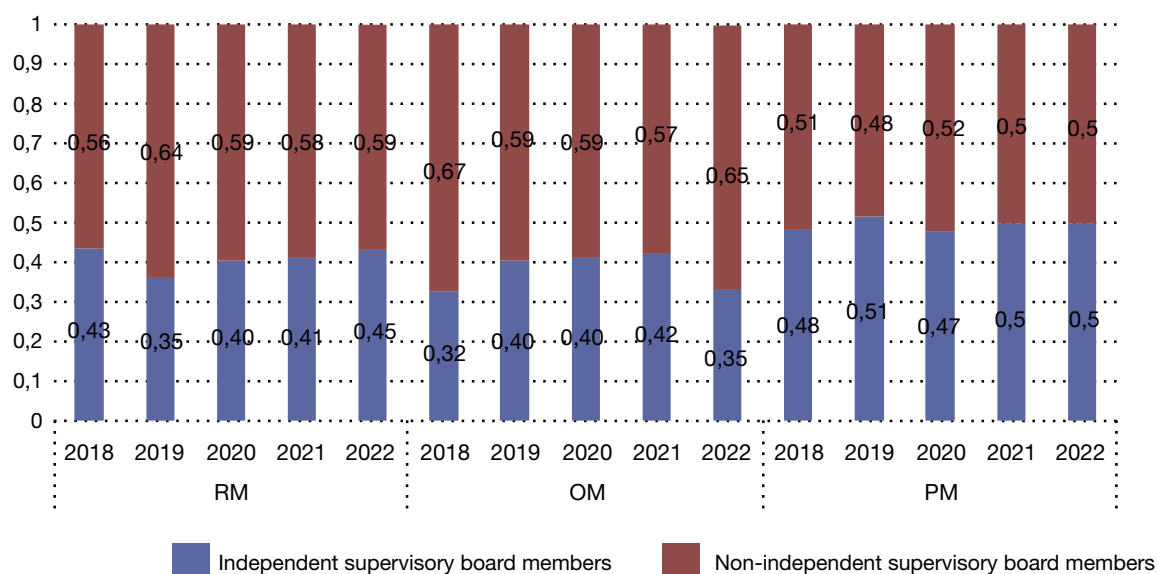
- 5 issuers on the Prime Market,
 - 13 issuers on the Official Market, and
 - 51 issuers on the Regular Market.
- Out of the total number of the issuers on the Prime Market that set a target percentage of female supervisory board members in 2022, 60% set a target percentage ranging between 20% and 30%, 20% set a target percentage ranging between 30% and 40%, and 20% set a target percentage ranging between 40% and 50%.
 - The largest percentage (31%) of the issuers on the Official Market that set a target percentage of female supervisory board members in 2022 had the target percentage ranging between 20% and 30%. A target percentage of female supervisory board members ranging between 10% and 20% and between 30% and 40% was set by 46% of issuers (23% of the issuers in each range).
 - A total of 15% of issuers on the Official Market set a target percentage of female supervisory board members reaching above 60%, while this percentage was set to between 40% and 50% by the smallest number of issuers (8%). A target percentage of female supervisory board members ranging from 50% to 60% was not set by any of the issuers.
 - A total of 33% of the issuers on the Regular Market that set a target percentage of female supervisory board members in 2022 set this percentage to range between 20% and 30%, 22% of them set this percentage to range between 50% and 60%, 20% of them set this percentage to range between 40% and 50%, and 10% of them set this percentage to range between 30% and 40%. Target percentages ranging between 10% and 20% and reaching above 60% were set by 8% of the issuers each.

Independence of supervisory board members

- According to the data from the governance practices questionnaire, at end-2022, 41% of supervisory board members were independent (42% supervisory board members were independent as at 31 December 2021).
- In 2022, 47% of the issuers had an independent chair or deputy chair of the supervisory board (in 2021, 56% of the issuers).
- At the end of 2022, supervisory boards of each of the issuers had 2 independent members on average (as in 2021).

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

Chart 61 Share of independent supervisory board members in the total number of supervisory board members by market segment, from 2018 to 2022



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

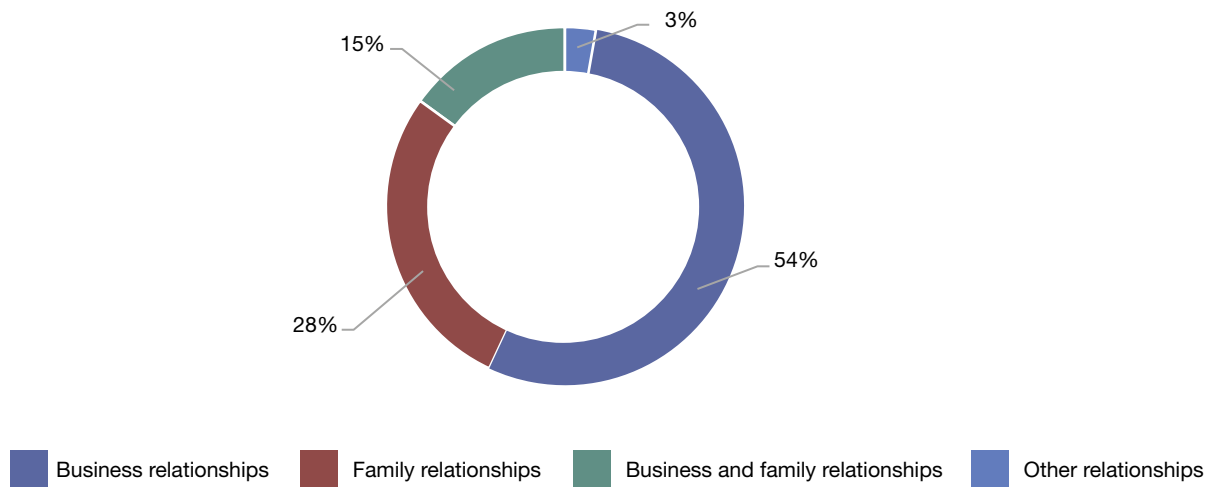
The average number of independent supervisory board members in all segments of the regulated market from 2018 to 2022 amounted to 43%, meaning that the average number of non-independent supervisory board members stood at 57%.

- All the issuers (6) whose shares are admitted to trading on the Prime Market had at least one independent supervisory board member, with a total of 50% of independent board members. Out of the total number of supervisory board members of the issuers whose shares are admitted to trading on the Official Market, 35% were independent. Out of the total number of supervisory board members of the issuers whose shares are admitted to trading on the Regular Market, 43% were independent.
- The analysis of individual segments of the regulated market of the ZSE shows that as at 31 December 2022, the Prime Market had the largest number of independent supervisory board members.

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

- The governance practices questionnaire showed that 39 supervisory board members of 23 issuers were related to management board members in 2022 (54 supervisory board members of 25 issuers in 2021).
- The most common type of relationship was business relationship (54%), followed by family relationship (28%), business and family relationship (15%) and other types of relationships (3%) (in 2021, business relationship (57%), family relationships (22%), business and family relationships (19%) and other types of relationships (2%).

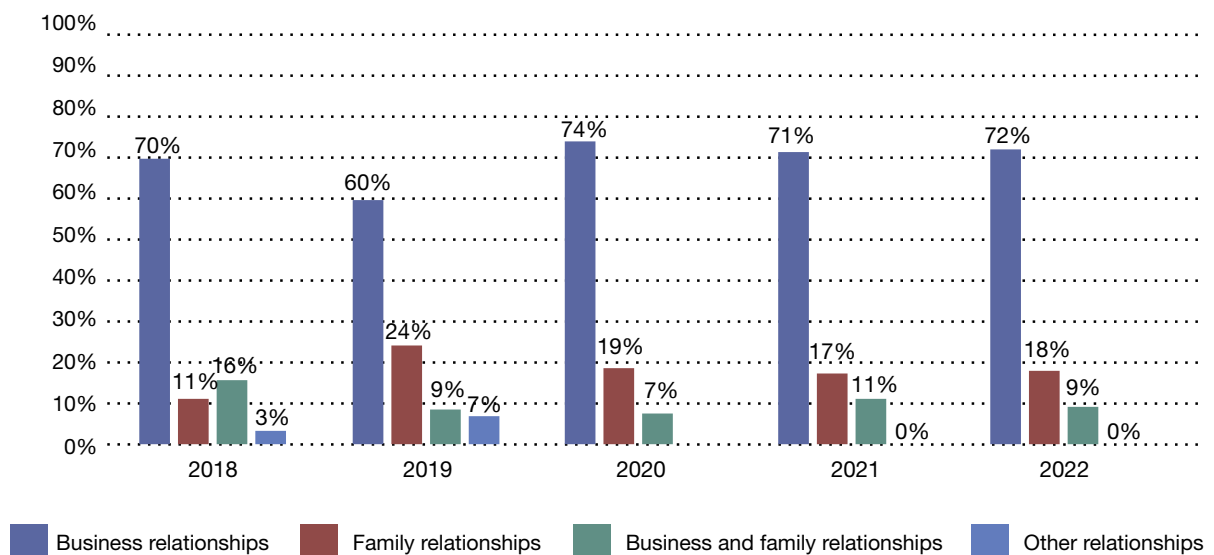
Chart 62 Relationship between issuers' supervisory board members and management board members in 2022



Source: Governance practices questionnaire 2022

- In 2022, 76 supervisory board members of 26 issuers were related to other supervisory board members (98 supervisory board members of 33 issuers in 2021).
- The majority of them were related by business relationships (72%), followed by family relationships (18%) and business and family relationships (9%) (in 2021, business relationships (71%), family relationships (17%), and business and family relationships (11%)).

Chart 63 Relationship between supervisory board members and other supervisory board members from 2018 to 2022



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

Supervisory board meetings

- In 2022, the number of supervisory board meetings ranged between 2 and 56, with the average number of issuers' supervisory board meetings held during the year amounting to 9 (9 meetings in 2021 as well). All share issuers' supervisory boards held at least 2 meetings in 2022 (during 2021, they held at least 1 meeting).
- Meetings of supervisory boards of 79 issuers (91%) were held at least once in three months (83 issuers (89%) in 2021).
- A total of 60 issuers (69%) reported having a schedule of meetings of the supervisory board for 2022 (59 issuers or 68% in 2021).
- A total of 76 issuers (87%) reported having an internal regulation on supervisory board activities (79 issuers, i.e. 85% in 2021); 12 issuers (16%) reported changes in the regulation during the year (11 issuers (14%) reported this in 2021).

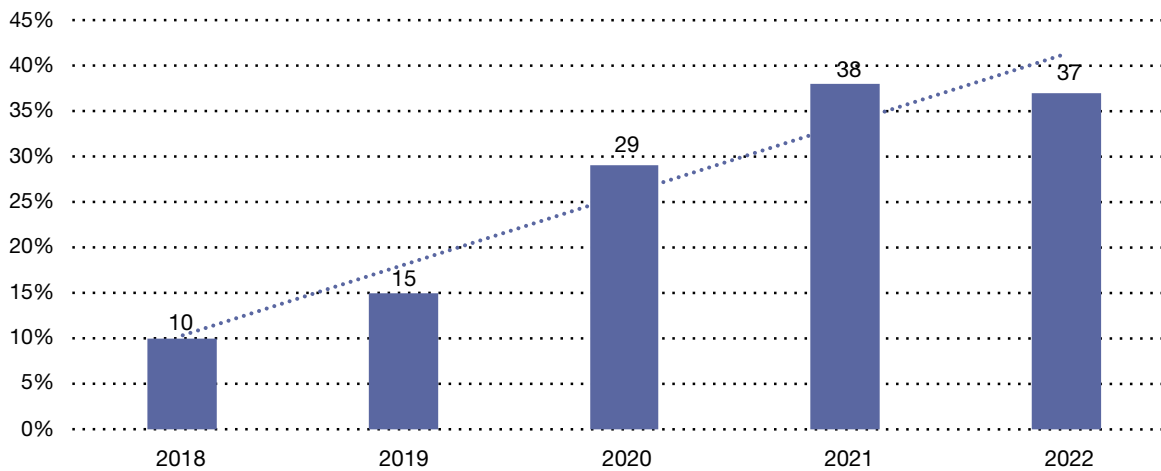
Supervisory board committees

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

- In 2022, a total of 37 issuers (43%) reported having established all the three supervisory board committees: a nomination committee, a remuneration committee and an audit committee (38 issuers or 41% in 2021).
- Broken down by segments of the regulated market, all the three supervisory board committees were established by:
 - 6 issuers (out of 6) on the Prime Market,
 - 9 issuers (out of 19) on the Official Market and,
 - 22 issuers (out of 62 issuers that submitted their questionnaire) on the Regular Market.

The chart below shows the number of share issuers with all the three supervisory board committees (nomination committee, remuneration committee and audit committee) in place from 2018 to 2022.

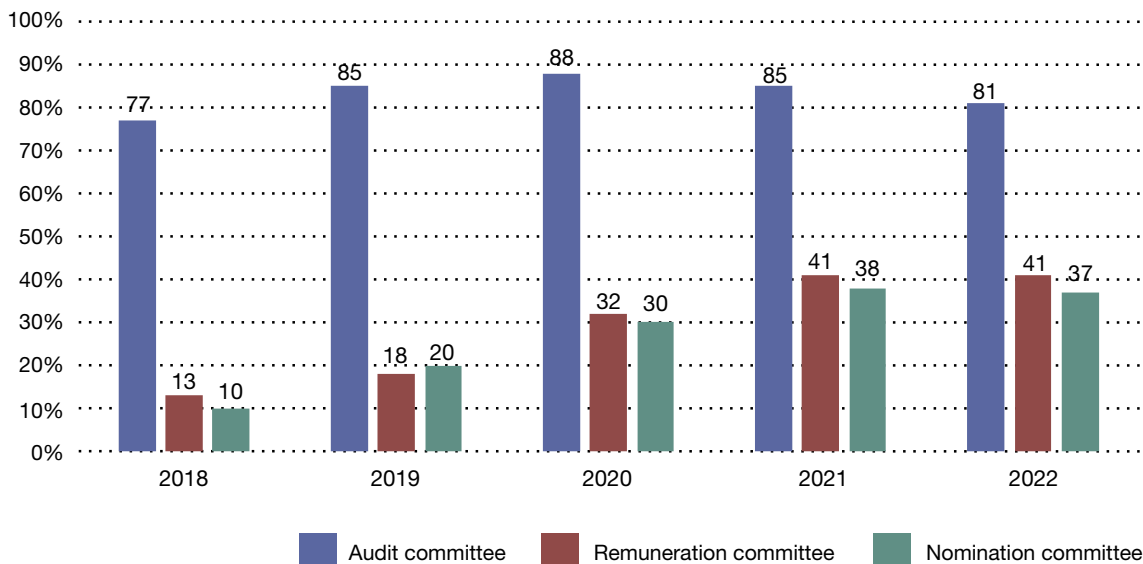
Chart 64 Number of share issuers with all the three supervisory board committees in place in the 2018-2022 period



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

Broken down by individual supervisory board committees, 81 issuers (93%) reported having established an audit committee, 41 issuers (47%) reported having established a remuneration committee, while 37 issuers (43%) reported having established a nomination committee (in 2021, 85 issuers (91%) had an audit committee, 41 issuers (44%) had a remuneration committee, while 38 issuers (41%) had a nomination committee).

Chart 65 Number of issuers with supervisory board committees in place in the 2018-2022 period



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

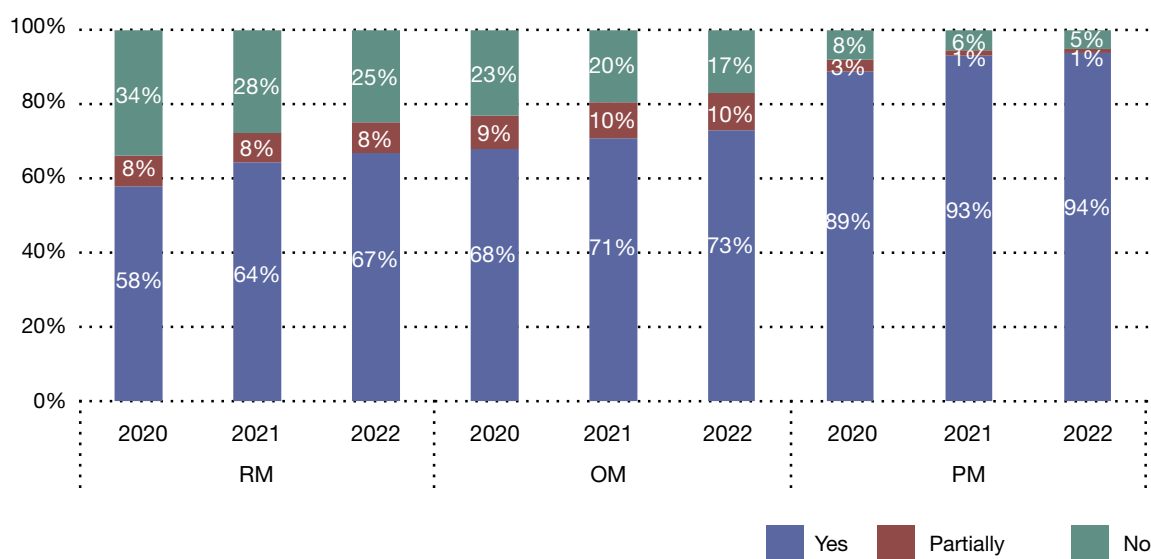
Broken down by individual supervisory board committees:

- 212 supervisory board members (46%) were audit committee members,
 - 105 supervisory board members (23%) were remuneration committee members,
 - 100 supervisory board members (22%) were nomination committee members,
 - 187 supervisory board members (40%) were not members of any of the committees pursuant to the Code.
- In 2022, 17% of the share issuers had an additional committee in place (17% of the share issuers in 2021 as well).
 - The three supervisory board committees had 3 members each on average (as in 2021). One member of each of the committees was independent on average (as in 2021).
 - A total of 59 issuers (out of 81, 73%) that had an audit committee in place also reported having established its internal working procedures; 57 of them (70%) reported the preparation of reports on the work of the audit committee, with 25 (44%) of the reports being available to the public (in 2021, out of 85 issuers with the audit committee in place 60 issuers reported having established its internal working procedures, while 57 issuers (67%) reported the preparation of reports on the work of the audit committee, with 37% of the reports being available to the public).
 - A total of 32 issuers (out of 41, 78%) that had a remuneration committee in place also reported having established its internal working procedures, while 24 of them (59%) reported the preparation of reports on the work of the remuneration committee, with 67% of the reports being available to the public (in 2021, out of 41 issuers with a remuneration committee in place 31 issuers reported having established its internal working procedures, while 22 issuers (54%) reported the preparation of reports on the work of the remuneration committee, with 55% of the reports being available to the public).
 - A total of 31 issuers (out of 37, 84%) with the nomination committee in place also reported having established its internal working procedures (in 2021, out of 38 issuers with the nomination committee in place 30 issuers (79%) reported having established its internal working procedures).
 - In 2022, audit committees held 4 meetings on average (as in 2021), remuneration committees held 3 meetings on average (as in 2021) and nomination committees held 2 meetings on average (3 meetings in 2020).
 - Supervisory boards of 91% of the share issuers ensured that members of each of their committees possessed an appropriate level of education, knowledge, skills, and professional and practical experience to perform the tasks of the committee effectively (59% of the issuers in 2021).
 - Supervisory board committees of 90% of the share issuers met as often as necessary to perform their tasks effectively and reported to the supervisory board regularly on their activities (87% of the issuers in 2021).

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

The chart below shows share issuers' compliance with the section "Supervisory board and its committees" in 2020, 2021 and 2022.

Chart 66 Share issuers' compliance with the section "Supervisory board and its committees" in 2020, 2021 and 2022 by segments of the regulated market



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

- In 2022, the issuers whose shares are admitted to the Prime Market reached the level of compliance with the section "Supervisory board and its committees" amounting to 94% on average.
- The issuers on the Official Market reached the level of compliance with the section "Supervisory board and its committees" reaching 73% on average.
- The issuers on the Regular Market reached the level of compliance with the section "Supervisory board and its committees" totalling 67% on average.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Supervisory board and its committees" in comparison to 2020 and 2021.

MANAGEMENT BOARD

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

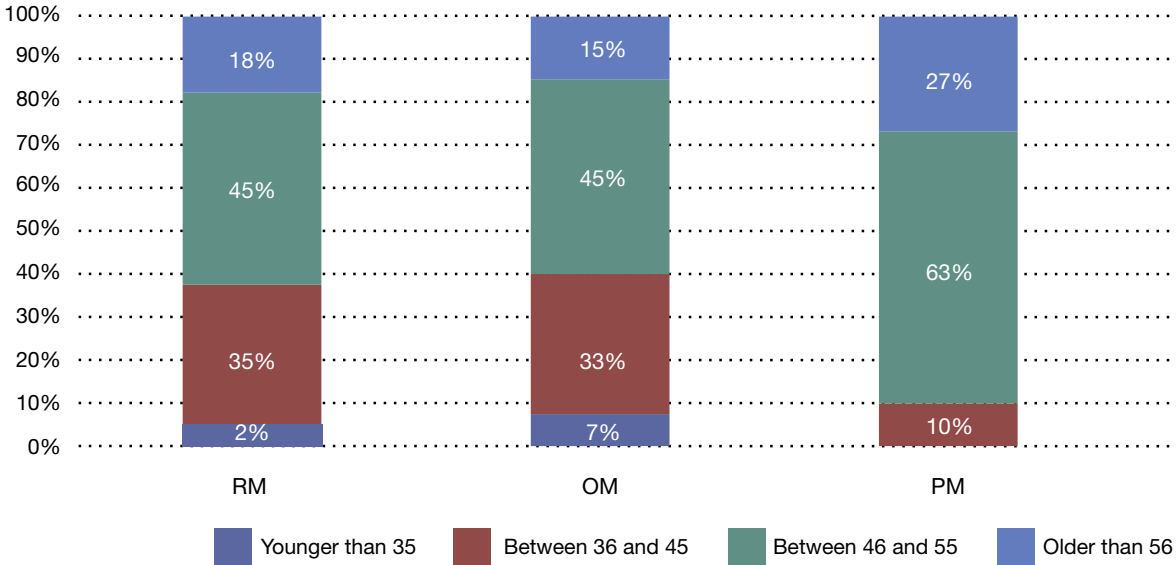
The following text presents the analysis of the data delivered in the 2022 governance practices questionnaire and compliance questionnaire.

Number of members and composition of the management board

- According to the governance practices questionnaire, as at 31 December 2022, the majority of management board members (85%) had a university degree (87% in 2021), while 5% of them had a PhD (3% in 2021).

- As at 31 December 2022, 9% of management board members were foreign citizens (22 of them, 11% in 2021).
- As at 31 December 2022, management boards of share issuers consisted of 2 members on average (2 members in 2021 as well).
- Out of the total number of female management board members (34), 3 of them (9%) had a PhD (6% in 2021).
- According to the data from the governance practices questionnaire, as at 31 December 2022, most management board members (48%) were between 46 and 55 years old (44% in 2021), 31% of them were between 36 and 45 years old (30% in 2021), 18% of them were over 56 years of age (22% in 2021), while 3% of them were younger than 35 years of age (4% in 2021). The age structure shows a rising trend in the number of management board members aged between 46 and 55 (4 %).

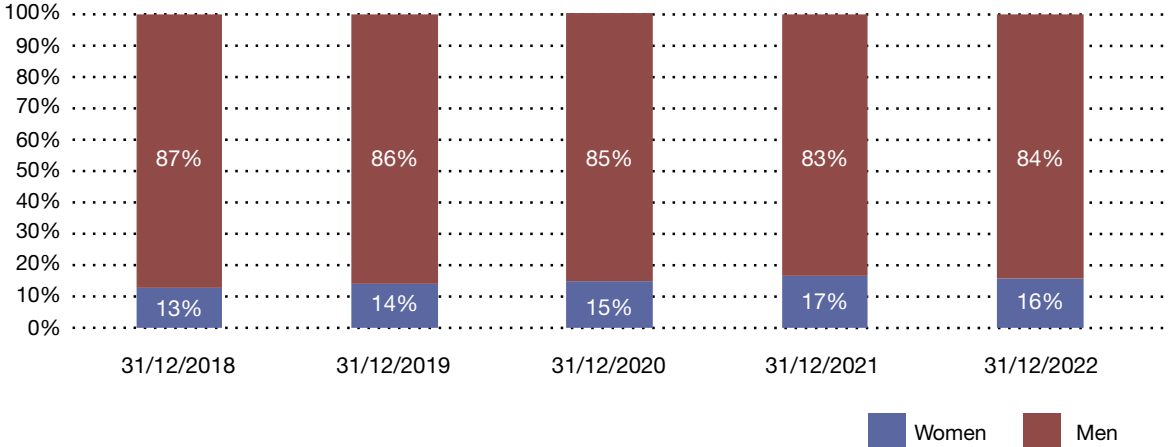
Chart 67 Management board age structure as at 31/12/2022 by segments of the regulated market



Source: Governance practices questionnaire 2022

- The majority of management board members aged between 46 and 55 sat on management boards of the issuers whose shares are admitted to trading on the Prime Market (63%), a share significantly higher compared to the other two segments of the regulated market, where it totalled about 45%.
- There were no members younger than 35 on management boards of the issuers whose shares are admitted to trading on the Prime Market.

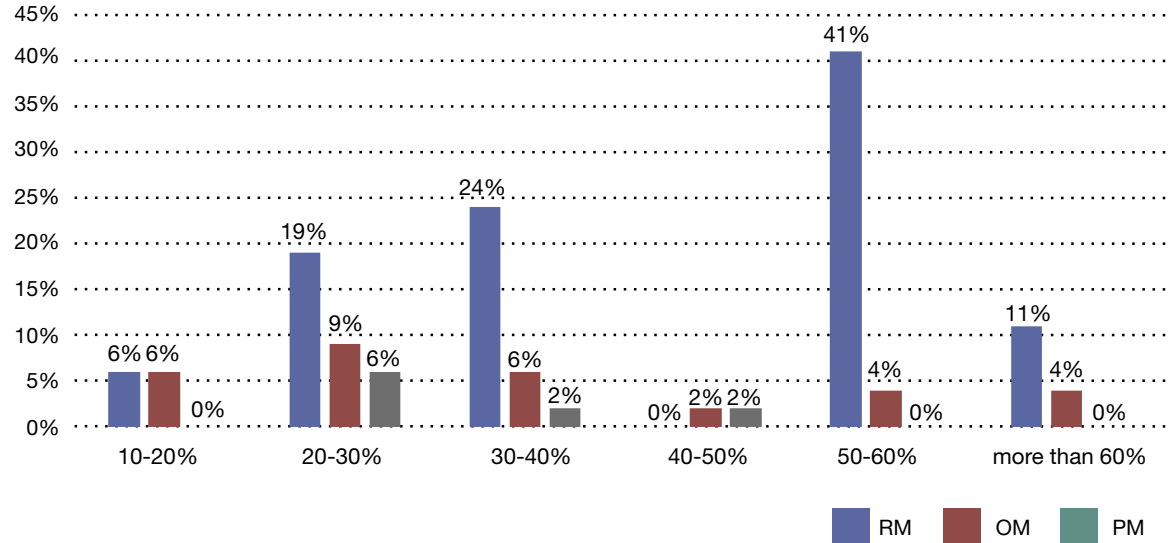
Chart 68 Share issuers' management board gender structure from 2018 to 2022



Source: court register¹⁴

Management board gender structure did not change significantly during the observed period. At the end of 2022, the share of women on share issuers' management boards declined slightly relative to 2021.

Chart 69 Share issuers that set a target percentage of female management board members in 2022



Source: Governance practices questionnaire 2022

- According to the corporate governance practices questionnaire, 75 issuers set a target percentage of female management board members (81 issuers in 2021).
- The largest number of issuers (24 or 32%) set a target percentage of female management board members ranging between 50% and 60%, while a target percentage of female management board members ranging between 40% and 50% was set by the smallest number of issuers (2 or 4%).

¹⁴ 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.

- Broken down by individual segments of the market:
 - the largest number of issuers on the Regular Market set a target percentage of female management board members ranging between 50% and 60%; this percentage was set to range between 10% and 20% by the smallest number of these issuers,
 - the largest number of issuers on the Official Market set a target percentage of female management board members ranging between 20% and 30%; this percentage was set to range between 40% and 50% by the smallest number of these issuers,
 - 3 issuers (50%) on the Prime Market set a target percentage of female management board members ranging between 20% and 30%; while this percentage was set to range between 30% and 50% by the other issuers.

Meetings of the management board

- In 2022, the number of management board meetings held ranged from 1 to 244 (the number of meetings held by one issuer on the Regular Market), while the average number of management board meetings held during the year was 23 (in 2021, the number of management board meetings held ranged from 1 to 243 (the number of meetings held by one issuer on the Regular Market), while the average number of the meetings held during the year was 24).
- In 2022, 36 issuers (41%) reported having a schedule of meetings of the management board (39 issuers or 42% in 2021).
- A total of 65 issuers (75%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 16 issuers (24%) reported changes in this regulation having occurred during the year (in 2021, 65 issuers (70%) reported having an internal regulation on management board activities, and 16 of them (25%) reported changes in this regulation having occurred during the year).

Terms of office and duration of management board membership

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

- At the end of 2022, the average duration of management board membership was five years (as in 2021).
- As at 31 December 2022, the average number of terms of office of management board members was 2.15 (2.10 in 2021). In 2022, the largest number of consecutive terms of office (10) was reported by 3 management board members (in 2021, the largest number of consecutive terms of office (9) was reported by 3 management board members).
- In 2022, a total of 57 issuers reported new appointments (first term of office - 105 newly appointed management board members). (In 2021, 20 issuers reported a total of 35 newly appointed management board members).
- Out of the 105 newly appointed management board members, 14 (13%) were women (in 2021, out of the 35 newly appointed management board members, 9 (26%) were women).

Resignations of management board members

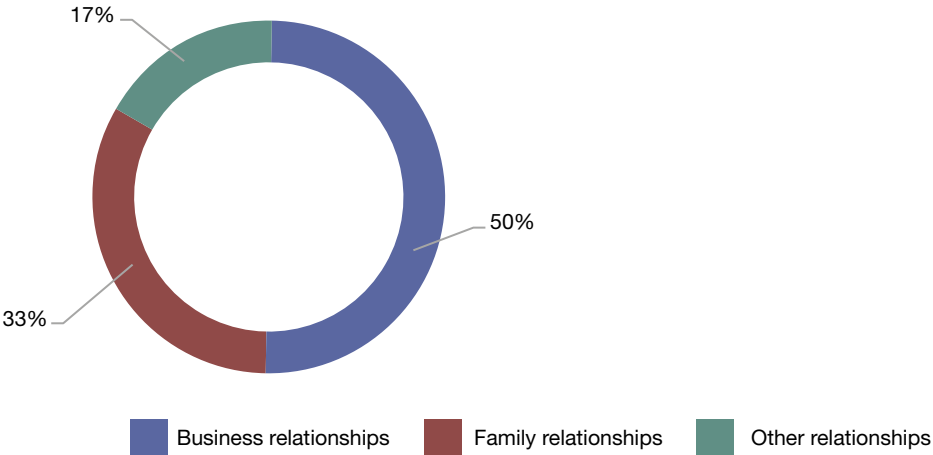
Resignations of management board members are submitted in writing.

- In 2022, a total of 17 management board members resigned prior to the expiry of their terms, mostly due to personal reasons (18 management board members resigned due to same reasons in 2021).

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

The following chart shows the proportion of management board members related to other management board members in 2022 with respect to the type of relationship.

Chart 70 Relationship between management board members and other management board members in 2022

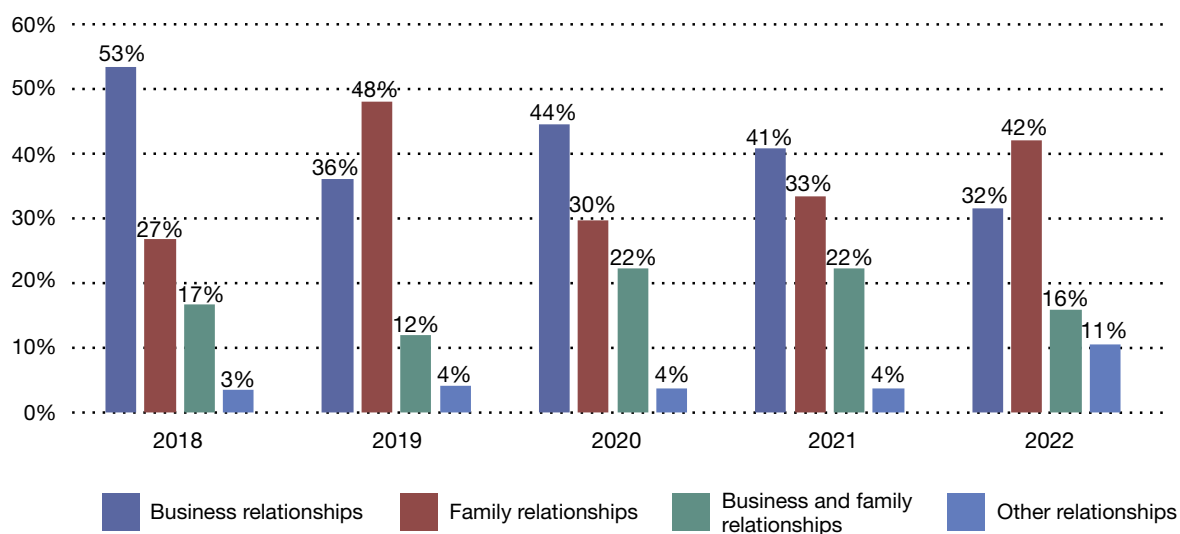


Source: Governance practices questionnaire 2022

In 2022, a total of 18 management board members in 8 issuers were related to other management board members. The majority of management board members (9, or 50%) were related by business relationships. The rest of them were related by family relationships (6 management board members, or 33%) and other relationships (3 management board members, or 17%). In the preceding year, a total of 22 management board members in 9 issuers were related to other management board members. The majority of management board members (11, or 50%) were related by business relationships. The rest of them were related by family relationships (5 management board members, or 23%), business and family relationships (4 management board members or 18%) and other relationships (2 management board members or 9%).

The chart below shows the relationship between management board members and supervisory board members from 2018 to 2022, by type or relationship.

Chart 71 Relationship between management board members and supervisory board members from 2018 to 2022



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

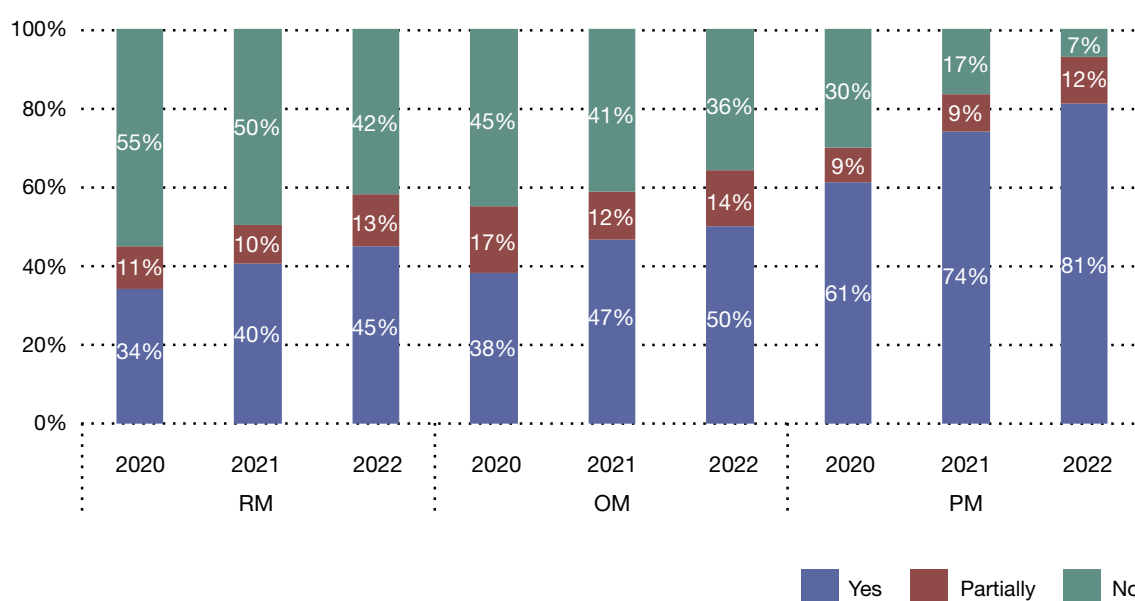
- In the period observed, the majority of management board members were related to supervisory board members by business relationships (41% on average), while 5% of management board members on average were related to supervisory board members by other relationships.
- In 2022, a total of 19 management board members in 15 issuers were related to supervisory board members. The majority of them were related by family relationships (8 management board members or 42%), followed by business relationships (6 management board members or 32%), business and family relationships (3 management board members or 16%) and other types of relationships (2 management board member or 11%). In 2021, a total of 27 management board members in 18 issuers were related to supervisory board members, with the majority of them being related by business relationships.
- In 2022, a total of 79 management board members were at the same time management board members in 3 other companies on average, of which 0.5 on average were issuers on the regulated market, and 0.6 on average were a related company within the meaning of Article 473 of the Companies Act (in 2021, 83 management board members were at the same time management board members in 3 other companies on average, of which 0.5 on average were issuers on the regulated market, and one on average was a related company).
- In 2022, a total of 63% of the share issuers reported having in place rules of procedure of the management board which define the division of responsibilities and cooperation among management board members and were approved by the supervisory board (51% in 2021).
- Supervisory boards of 95% of the share issuers ensured that the management board was defined by a minimum number of members and a combination of members who possessed an appropriate level of education, skills, knowledge and professional and practical experience (92% in 2021).

- Supervisory boards of 81% of the share issuers evaluated the effectiveness of cooperation arrangements between the supervisory and management board in the preceding 12 months (76% in 2021).

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

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

Chart 72 Share issuers' compliance with the section "Appointment of board members" in 2020, 2021 and 2022 by segments of the regulated market

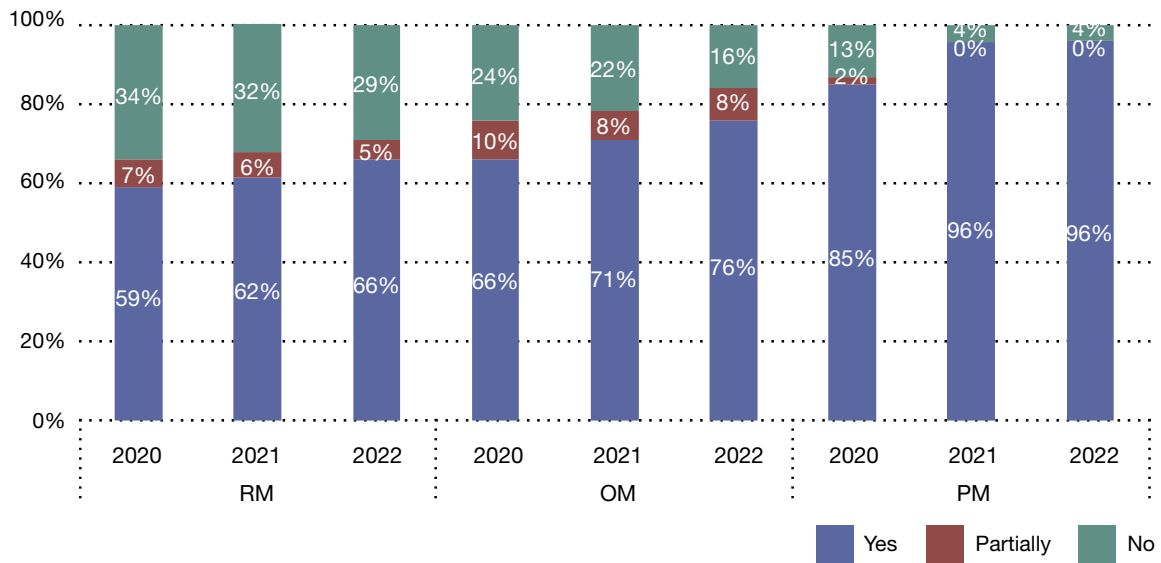


Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

- In 2022, the level of compliance with the section "Appointment of board members" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 81% on average.
- The average level of compliance of issuers on the Official Market and Regular Market with the section "Appointment of board members" reached 50% and 45% respectively.

The issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Appointment of board members" in comparison with 2020 and 2021.

Chart 73 Share issuers' compliance with the section "Management board" in 2020, 2021 and 2022 by segments of the regulated market

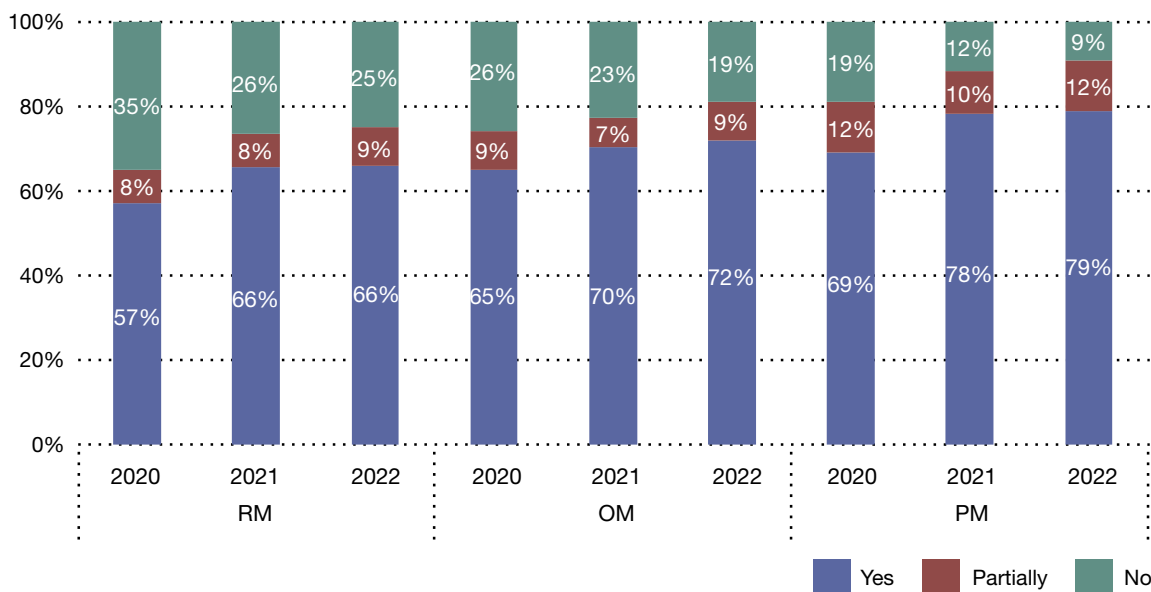


Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

- In 2022, the issuers whose shares are admitted to trading on the Prime Market recorded the level of compliance with the section "Management board" of 96% on average.
- The average level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 76% and 66% respectively.

The issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section "Management board" in comparison with 2020 and 2021.

Chart 74 Share issuers' compliance with the section "Duties of board members" in 2020, 2021 and 2022 by segments of the regulated market



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

- The issuers whose shares are admitted to the Prime Market recorded the level of compliance with the section “Duties of board members” reaching 79% on average.
- The level of compliance with this section achieved by the issuers whose shares are admitted to the Official Market and Regular Market reached 72% and 65% respectively.

REMUNERATION OF BOARD MEMBERS

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

Remuneration of management board members

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

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

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

The table below shows the average gross amount of fixed and variable remuneration paid to management board members, the average amount of other benefits paid to management board members and the average value of options given to management board members in the period from 2018 to 2022. The amounts shown in Table 18 are average amounts paid to the entire management board (not to a single management board member).

Table 18 Remuneration paid to share issuers' management board members in the 2018-2022 period

		Average gross amount of remuneration (in EUR)		Average amount of options held by management board members (in EUR)	Average amount of other benefits (in EUR)
		Fixed remuneration	Variable remuneration		
2022	Number of issuers	80	35	1	37
	Amount	336,807	120,412	243,270	56,463
2021	Number of issuers	84	35	2	32
	Amount	273,764	176,383	236,483	39,155
2020	Number of issuers	86	36	3	31
	Amount	276,371	79,991	475,849	49,632
2019	Number of issuers	84	39	2	31
	Amount	299,595	269,678	147,863	109,227
2018	Number of issuers	73	19	3	1
	Amount	330,148	308,684	1,628,522	158,976

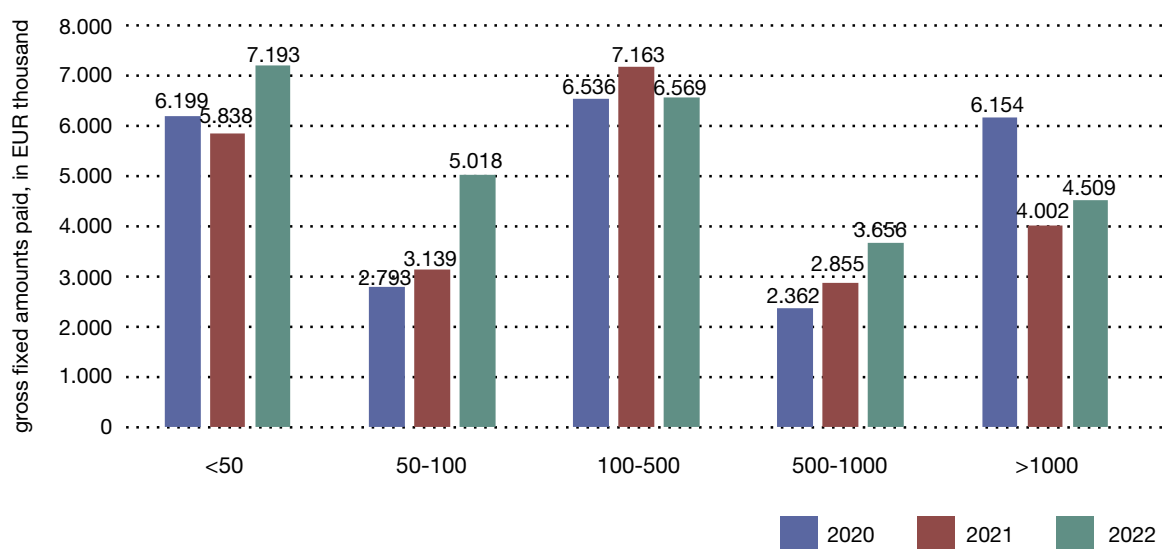
Source: Governance practices questionnaire 2019, 2020, 2021 and 2022, Annual Report on Corporate Governance for 2018

- In 2022, 80 issuers paid a gross fixed amount of remuneration to management board members totalling EUR 26,944,547 (in 2021, 84 issuers paid a gross fixed amount of remuneration to management board members totalling EUR 22,996,170).
- The average gross fixed amount of remuneration paid to management board members in 2022 is higher compared to the previous observed periods, and totals EUR 336,807 (it was the lowest in 2021).
- The gross fixed amount of remuneration paid to management board members in 2022 ranged from EUR 14.3 thousand to EUR 2.9m (in 2021, it ranged from EUR 14.3 thousand to EUR 2.6m). As in the previous year, the highest gross amounts of fixed remuneration in 2022 were paid to management board members in the banking sector, while the lowest amount was paid by an issuer engaged in management activities of holding companies.
- A total of 45 issuers paid gross variable remuneration to management board members reaching EUR 9,632,924 (in 2021, the amount totalling EUR 6,173,393 was paid by 35 issuers).
- The gross amounts of variable remuneration paid to management board members in 2022 reached EUR 120,411 on average (EUR 176,383 in 2021).
- The gross variable amounts of remuneration paid to management board members in 2022 ranged from EUR 870 to EUR 1.5m (from EUR 438 to EUR 1.09m in 2021).
- In 2022, the highest gross amount of variable remuneration was paid to management board members of an issuer engaged in wholesale and retail trade services, while the lowest amount was paid by an issuer engaged in the accommodation and food service activities (as in the previous period).
- One issuer from the food industry granted options to management board members in the amount of EUR 243,270 (in 2021, 2 issuers from the food industry granted options to management board members in the amount of EUR 472,966, with single amounts of the options granted ranging from EUR 184 thousand to EUR 288 thousand).

- A total of 37 issuers also paid other benefits to management board members reaching EUR 2,089,125 (in 2021, the amount totalling EUR 1,252,951 was paid by 32 issuers). The amounts of other benefits paid to management board members in 2022 ranged from EUR 79 to EUR 606 thousand (in 2021, they ranged from EUR 66 to EUR 317 thousand).
- A total of 71 issuers reported having submitted the annual management board remuneration report to the general meeting (74 issuers in 2021).

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

Chart 75 Total gross amounts of fixed remuneration paid to management board members (in EUR thousand) in relation to market capitalisation of issuers (in EUR m) in 2020, 2021 and 2022



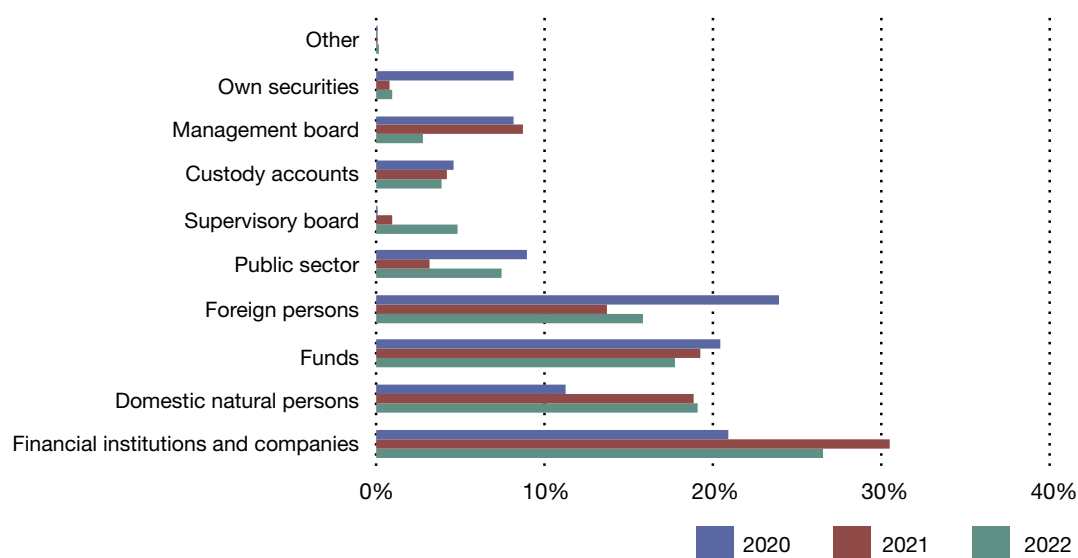
Source: Governance practices questionnaire for 2020, 2021 and 2022, ZSE

In 2022, management board members were paid gross fixed remuneration in the amount reaching EUR 26,944,547.38 (in 2021, this amount totalled EUR 22,996,171).

The largest amount of gross fixed remuneration reaching EUR 2,913,979 was paid to management board members by issuers with their market capitalisation in the amount of > EUR 1,000m, while the smallest amount of gross fixed remuneration reaching EUR 14,332 was paid to management board members by issuers with their market capitalisation of < EUR 50m.

- Compared to 2021, the greatest difference in total gross fixed remuneration paid to management board members was recorded among issuers with their market capitalisation reaching from EUR 50m to EUR 100m (60%) and from EUR 500m to EUR 1,000m (28%).
- The decrease in gross fixed remuneration paid to management board members in 2022, compared to 2021, amounted to 8% for share issuers with their market capitalisation from EUR 100m to EUR 500m.

Chart 76 Ownership structure of the share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand in 2020, 2021 and 2022



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

The ownership structure of the share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand in 2022 was dominated by financial institutions and companies with a 27% share, followed by domestic natural persons with a 19% share (in 2021, the ownership structure of share issuers that paid gross fixed remuneration to management board members totalling more than EUR 500 thousand was dominated by foreign persons with a 24% share).

Management board remuneration policy

Article 247a of the Companies Act prescribes the obligation to decide on the system of remuneration of members of the management board and supervisory board through the adoption of a remuneration policy.

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

Pursuant to Provisions 51 and 52 of the Code, the supervisory board should determine annual remuneration paid to each member of the management board, based on recommendations from the remuneration committee and in line with the approved remuneration policy, while the policy should be prepared in accordance with relevant legal requirements. The remuneration of management board members and key performance indicators taken into account when determining performance-based part of remuneration should be at an ade-

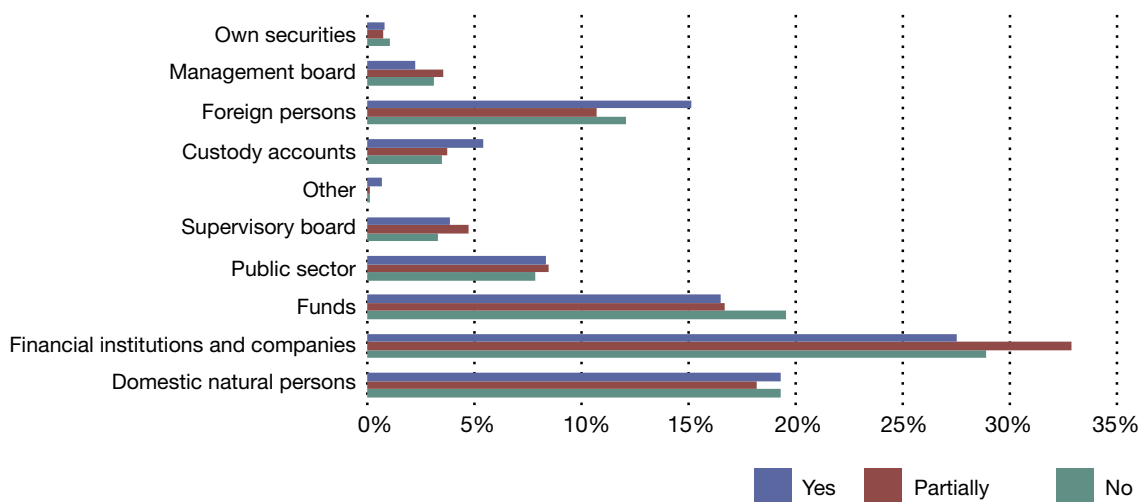
quate level taking account of the strategy agreed, risk appetite, economic environment the company is operating in, and pay and working conditions of the company’s employees.

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

- In 2022, 84% of the issuers reported having in place a remuneration policy for management board members, of which 6 issuers on the Prime Market, 18 issuers on the Official Market and 49 issuers on the Regular Market (in 2021, 76% of the issuers reported having in place a remuneration policy, of which 6 issuers on the Prime Market, 18 issuers on the Official Market and 47 issuers on the Regular Market).
- A total of 93% out of 73 issuers that had in place a remuneration policy for management board members publicly disclosed their policy (in 2021, 94% out of 71 issuers with a remuneration policy in place publicly disclosed their policy).
- The remuneration policy was approved by shareholders at the general meeting of 86% of the issuers (in 2021, this number reached 78%).
- The remuneration policy of 51% of the issuers included provisions specifying in more detail circumstances in which part of the management board member’s remuneration would be withheld or recovered (46% in 2021).
- A total of 95% of the issuers reported that the level of remuneration paid to their management board members took account of the strategy agreed, risk appetite, economic environment the company is operating in, and the pay and working conditions of the company’s employees (92% of the issuers in 2021).

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

Chart 77 Ownership structure of share issuers with a remuneration policy for management board members in place in 2020, 2021 and 2022



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

The issuers that reported having in place a remuneration policy for management board members in 2022 were mostly owned by financial institutions and companies (29%) and funds (20%) (by financial institutions and companies (33%) and domestic natural persons (18%) in 2021).

Severance allowance for management board members

- In 2022, 7% of the issuers reported having agreed the amount of severance allowance for management board members totalling EUR 2,484,784 (in 2021, 10% of them reported having agreed the amount of severance allowance for management board members totalling EUR 3,099,678).
- In 2022, the amounts of severance allowance agreed ranged from EUR 33.3 thousand to EUR 1.1m (from EUR 17.2 thousand to EUR 1.2m in 2021).
- A total of 7% of the issuers paid severance allowance to management board members in 2022 (9% of the issuers in 2021).

Remuneration of supervisory board members

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

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

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

- In 2022, 57% of the issuers reported having in place a remuneration policy for supervisory board members (6 issuers on the Prime Market, 12 issuers on the Official Market and 32 issuers on the Regular Market), of which 46 issuers (92%) reported having publicly disclosed the policy.

Table 19 Manner of determining the level of remuneration for supervisory board members in 2020, 2021 and 2022

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

Source: Governance practices questionnaire 2020, 2021 and 2022

- In 2022 (as in the previous periods), the level of remuneration for supervisory board members was most often determined by the general meeting (80% of the issuers), followed by the statute (15% of the issuers) and other manners of determining the level of remuneration for supervisory board members of issuers (5% of the issuers).
- In 2022, fixed amounts of remuneration totalling EUR 6,833,985 were paid to supervisory board members by 83% of the issuers (the amount of EUR 5,676,643 was paid by 83% of the issuers in 2021).

The following table shows the amounts of remuneration paid to supervisory board members in the period from 2018 to 2022.

Table 20 Remuneration paid to supervisory board members in the 2018-2022 period

		Average gross amount of remuneration (in EUR)		Average amount of other benefits (in EUR)
		Fixed remuneration	Variable remuneration	
2022	Number of issuers	72	/	20
	Amount	94,916	/	57,706
2021	Number of issuers	72	/	17
	Amount	73,723	/	114,313
2020	Number of issuers	79	/	18
	Amount	67,335	/	136,020
2019	Number of issuers	75	/	12
	Amount	67,818	/	38,905
2018	Number of issuers	78	7	1
	Amount	63,377	33,109	424

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

- In 2022, 72 share issuers paid remuneration to supervisory board members in the total amount of EUR 6,833,985, while 20 issuers paid other benefits to supervisory board members in the total amount of EUR 1.15m.
- In 2022, fixed amounts of remuneration paid to supervisory board members ranged from EUR 3.4 thousand to EUR 559.3 thousand (from EUR 3.2 thousand to EUR 500.6 thousand in 2021).
- A total of 77% of the issuers reported having submitted the annual supervisory board remuneration report to the general meeting (75% of the issuers in 2021).
- Levels of remuneration of the chair and members of the supervisory board of the majority of the issuers (69%) reflected the time commitment and responsibilities of their roles (69% of the issuers in 2021 as well).
- Remuneration policies and/or internal regulations of 64% of the issuers prohibit the inclusion of variable or other elements relating to business performance in the remuneration of supervisory board members (59% of the issuers in 2021).

- A total of 80% of the issuers reported having included data on the remuneration of individual supervisory board members in the annual remuneration report (72% of the issuers in 2021).

Remuneration paid to the senior management

- In 2022, 75% of the share issuers paid fixed remuneration to their senior management in the total amount of EUR 45,800,954, with single amounts of the remuneration ranging from EUR 12.5 thousand, reported by an issuer engaged in management activities of holding companies, to EUR 4.9m, reported by an issuer engaged in financial and insurance activities (in 2021, 70% of the share issuers paid fixed remuneration to their senior management in the total amount of EUR 49,071,976, with single amounts of the remuneration ranging from EUR 12.5 thousand, reported by an issuer engaged in management activities of holding companies, to EUR 3.8m, reported by an issuer from the insurance sector).

Table 21 Remuneration paid to the issuers' senior management in the 2018-2022 period

		Average gross amount of remuneration (in EUR)		Average amount of other benefits (in EUR)
		Fixed remuneration	Variable remuneration	
2022	Number of issuers	65	36	26
	Amount	704,630	139,416	63,816
2021	Number of issuers	65	27	20
	Amount	754,953	278,346	76,847
2020	Number of issuers	67	29	19
	Amount	753,675	111,360	61,004
2019	Number of issuers	62	31	23
	Amount	828,973	316,117	51,457
2018	Number of issuers	57	15	11
	Amount	721,920	301,542	94,102

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

- In 2022, 36 issuers paid variable remuneration to their senior management in the total amount of EUR 9,062,056, with single amounts of variable remuneration ranging from EUR 2.7 thousand, reported by an issuer engaged in the manufacture of textiles, clothing, leather and footwear, to EUR 2m, reported by an issuer from the refined petroleum products manufacturing sector (in 2021, 27 issuers paid fixed remuneration to their senior management in the total amount of EUR 4,221,729, with single amounts of the remuneration ranging from EUR 1.1 thousand, reported by an issuer from the food industry, to EUR 1.6m, reported by an issuer from the refined petroleum products manufacturing sector).
- Other benefits in the average amount of EUR 63,816 were paid to the senior management by 26 issuers (in 2021, other benefits in the average amount of EUR 76,847 were paid to the senior management by 19 issuers).

- One issuer granted options to the senior management in the total amount of EUR 270,821 (one issuer in 2021 as well, with the total amount reaching EUR 396,985).

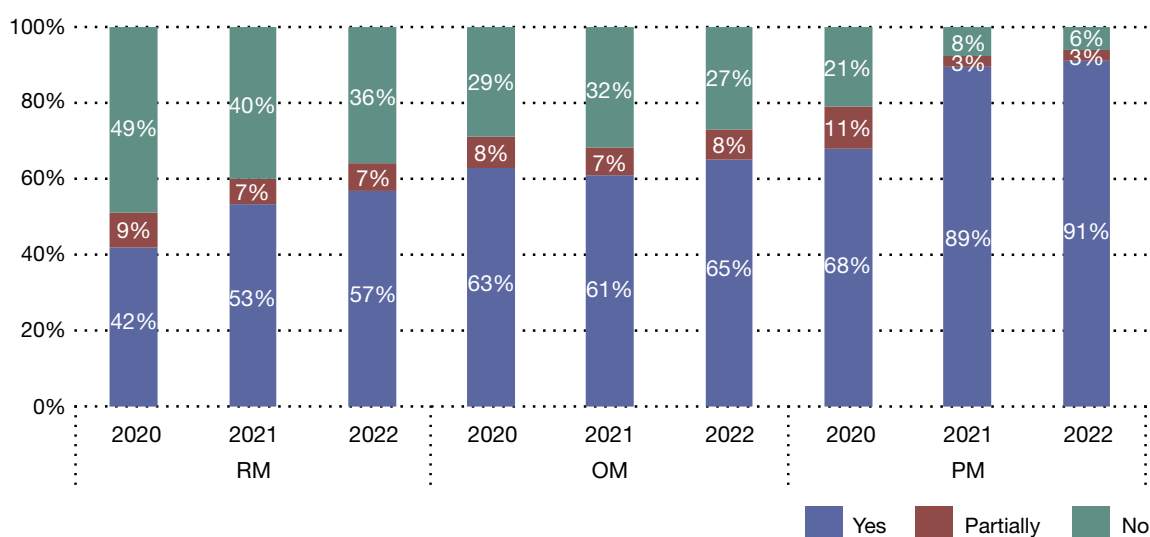
Severance allowance for the senior management

- In 2022, 10 issuers agreed the amount of severance allowance for their senior management in the total amount of EUR 3,319,988, with single amounts ranging from EUR 16.2 thousand to EUR 975.1 thousand (in 2021, 7 issuers agreed the amount of severance allowance for their senior management in the total amount of EUR 2,139,737, with single amounts ranging from EUR 17.2 thousand to EUR 824.9 thousand).
- Severance allowance in the total amount of EUR 1,155,320 was paid to the senior management by 10 issuers, with single amounts of the severance allowance ranging from EUR 12.7 thousand to EUR 304.2 thousand (in 2021, severance allowance in the total amount of EUR 1,455,917 was paid to the senior management by 7 issuers, with single amounts of the severance allowance ranging from EUR 1.06 thousand to EUR 879.8 thousand).

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

The following chart shows the compliance of issuers with the section "Remuneration of board members" by segments of the regulated market according to the data submitted in the compliance questionnaire for the year 2020, 2021 and 2022.

Chart 78 Share issuers' compliance with the section "Remuneration of board members" in 2020, 2021 and 2022 by segments of the regulated market



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

- The level of compliance with the section "Remuneration of board members" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 91% on average.

- The level of compliance recorded by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 65% and 57% respectively.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section “Remuneration of board members” in comparison with 2020 and 2021.

RISKS, INTERNAL CONTROL AND AUDIT

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

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

- In 2022, 37% of the issuers reported having a person in charge of risk management (31% of the issuers in 2021):
 - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2021)
 - 8 issuers on the Official Market (7 issuers on the Official Market in 2021), and
 - 19 issuers on the Regular Market (17 issuers on the Regular Market in 2021).
- Out of the 32 issuers that reported having a person in charge of risk management in 2022, the majority (10) were from the financial sector (in 2021, the majority (9) of 29 issuers that reported having appointed a person in charge of risk management were also from the financial sector).
- The most frequent risk faced by issuers in 2022 was macroeconomic environment risk, as in 2021.
 - The most frequent risks faced by issuers in 2022 were:
 - macroeconomic environment risk (reported by 24 issuers),
 - liquidity risk (reported by 16 issuers),
 - operational risk (reported by 11 issuers), and
 - credit risk (reported by 9 issuers).
- In 2022, the majority of the issuers (96%) reported maintaining an effective risk management system that ensures reliable risk identification, measurement and monitoring (93% of the issuers in 2021).

Internal control and audit

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

Internal control system

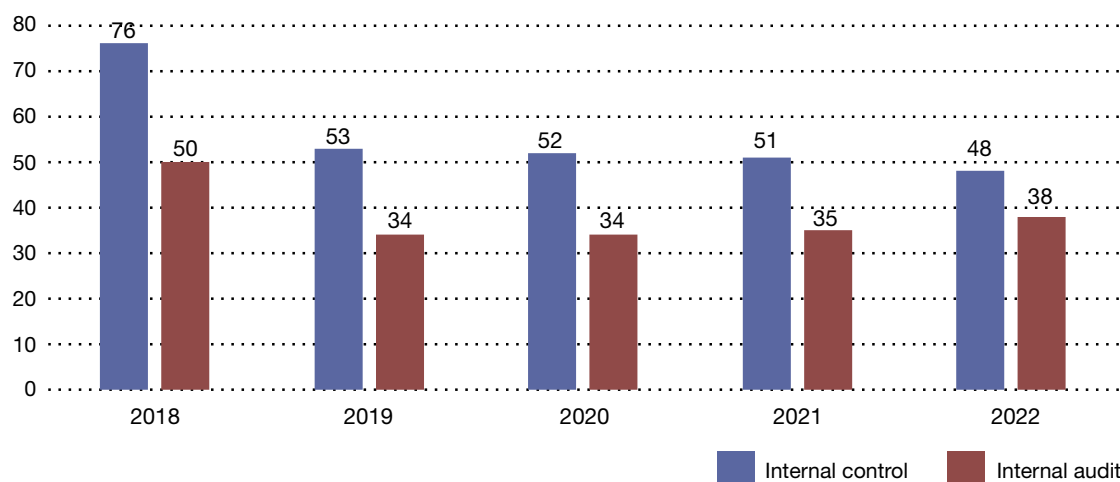
- In 2022, 55% of the issuers reported having in place an internal control system (55% of the issuers in 2021 as well). Broken down by segments of the regulated market, this system was established by:
 - 6 issuers on the Prime Market (6 issuers on the Prime Market in 2021),
 - 12 issuers on the Official Market (14 issuers on the Official Market in 2021), and
 - 30 issuers on the Regular Market (31 issuers on the Regular Market in 2021).
- In 2022, there were 16 employees in the internal control system on average (15 employees in 2021).
- The majority of the issuers that reported having in place an internal control system in 2022 were from the tourism industry (12 issuers), followed by 9 issuers from the financial sector and 4 issuers from the food industry (in 2021, the majority of the issuers that reported having in place an internal control system were from the tourism industry (12 issuers), followed by 11 issuers from the financial sector and 4 issuers from the food industry).

Internal audit system

- In 2022, 44% of the issuers reported having in place an internal audit system (38% of the issuers in 2021). Broken down by segments of the regulated market, this system was established by:
 - 5 issuers on the Prime Market (5 issuers on the Prime Market in 2021),
 - 14 issuers on the Official Market (14 issuers on the Official Market in 2021), and
 - 19 issuers on the Regular Market (16 issuers on the Regular Market in 2021).
- In 2022, there were 4 employees in each internal audit system on average, as in 2021.
- The majority of the issuers that reported having in place an internal audit system in 2022 were from the financial sector (8 issuers), followed by 5 issuers from the tourism industry and 2 issuers from the food industry (the majority of the issuers that reported having in place an internal audit system in 2021 were from the financial sector (9 issuers), followed by 4 issuers from the tourism industry and 2 issuers from the food industry).
- The audit committee of 38% of the issuers that reported not having in place an internal audit system assessed the need for this function within the framework of internal control system assessment once in the previous 12 months (34% of the issuers in 2021).
- The audit committee of 44% of the issuers that reported having in place an internal audit system received the internal auditor's reports and supervised the implementation of their recommendations (37% of the issuers in 2021).
- The market capitalisation of shares of the 38 issuers that had in place an internal audit system in 2022 amounted to EUR 14.5m as at 31 December 2022 (market capitalisation of shares of the 35 issuers that had in place an internal audit system in 2021 amounted to EUR 13.9m as at 31 December 2021).

The following chart shows the number of the issuers that reported having in place internal audit and control systems in the period from 2018 to 2022.

Chart 79 Number of share issuers with internal audit and control systems in place in the 2018-2022 period

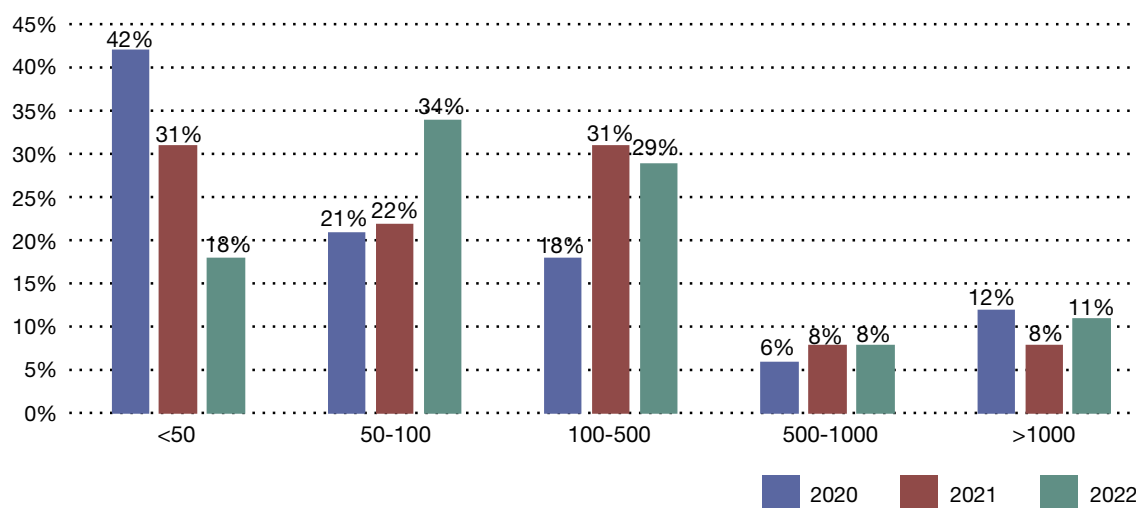


Source: Governance practices questionnaire 2019, 2020, 2021 and 2022, Annual Report on Corporate Governance for 2018

- All the 6 issuers with shares admitted to the Prime Market in 2022 reported having an internal control system in place, and 83% of them also had an internal audit system in place (as in 2021).
- Out of 19 issuers on the Official Market, 63% had in place an internal control system, while 74% of them also had in place an internal audit system (in 2021, out of 21 issuers on the Official Market, 67% had in place an internal control system and an internal audit system).
- Out of 62 issuers on the Regular Market, 48% had in place an internal control system, while 31% of them had in place an internal audit system (in 2021, out of 66 issuers on the Regular Market, 47% had in place an internal control system, while 24% of them had in place an internal audit system).

The following chart shows the share of the issuers that had in place an internal audit system in 2022 in relation to their market capitalisation.

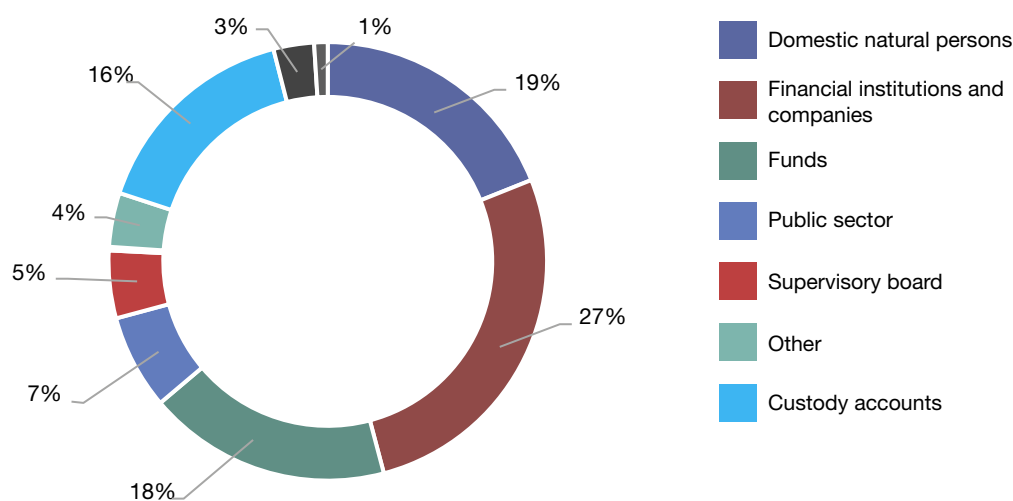
Chart 80 Share of issuers having in place an internal audit system in 2020, 2021 and 2022 in relation to their market capitalisation (in EUR m)



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

- It is evident that in 2021 and 2022, the share of issuers with an internal audit system is equally present in higher classes of market capitalisation.

Chart 81 Ownership structure of share issuers with an internal audit system in place in 2022



Source: Governance practices questionnaire 2022, CDCC

- The largest share in the ownership structure of the issuers that had an internal audit system in place in 2022 was accounted for by financial institutions and companies (27%), while the share of domestic natural persons amounted to 19% (the largest share in the ownership structure of the issuers that had an internal control system in place in 2021 was also accounted for by financial institutions and companies (21%), while the share of domestic natural persons amounted to 18%).

External audit

The process of selecting the external auditor is overseen by the audit committee, which makes recommendations to the supervisory board on the selection of the external auditor and the terms of their appointment. In accordance with the Code and legal requirements, the company should have an external auditor, whose main function is to ensure that financial statements of the company adequately reflect its current financial position. Independent external auditors are not related through ownership or other interests with the company. In 2022, 51% of the issuers received financial statement audit services from one of the four largest audit firms.

- Broken down by segments of the regulated market, financial statement audit services were provided in 2022 by one of the four largest audit firms for:
 - 6 issuers on the Prime Market (6 issuers on the Prime Market in 2021),
 - 13 issuers on the Official Market (14 issuers on the Official Market in 2021), and
 - 27 issuers on the Regular Market (28 issuers on the Regular Market in 2021).
- The majority of the issuers (13) that received financial statement audit services from one of the four largest audit firms belonged to the tourism industry (in 2021, the majority

of the issuers (14) that received financial statement audit services from one of the four largest audit firms also belonged to the tourism industry).

- At end-2022, market capitalisation of the issuers that used services provided by the four largest audit firms totalled EUR 15.1bn and accounted for 84% of the total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2022 (at end-2021, market capitalisation of the issuers that used services provided by the four largest audit firms totalled EUR 14.1bn and accounted for about 77% of total market capitalisation of shares admitted to trading on the regulated market as at 31 December 2021).
- 2 issuers, both from the Regular Market, had used services of the same audit firm for 7 years or longer (in 2021, 9 issuers had used services of the same audit firm for longer than 7 years, of which 3 issuers on the Official Market and 6 issuers on the Regular Market).
- The average length of time during which issuers used services of the same audit firm was 3.5 years (4 years in 2021).
- 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 as well in 2021).
- The average gross amount paid to an audit firm for audit services provided in 2022 reached EUR 80.2 thousand (EUR 49.2 thousand in 2021), with all the amounts ranging between EUR 4.9 thousand and EUR 649.9 thousand (between EUR 3.3 thousand and EUR 362.9 thousand in 2021).
- In 2022, audit firms provided services other than audit services to 20 issuers, with the average gross amount paid to an audit firm for other services during the year amounting to EUR 31.3 thousand (in 2021, other services were provided by audit firms to 23 issuers, with the average gross amount paid to an auditor for other services totalling EUR 29.6 thousand).

Chart 82 Gross amount paid to audit firms for audit services provided during 2022 in relation to market capitalisation of issuers



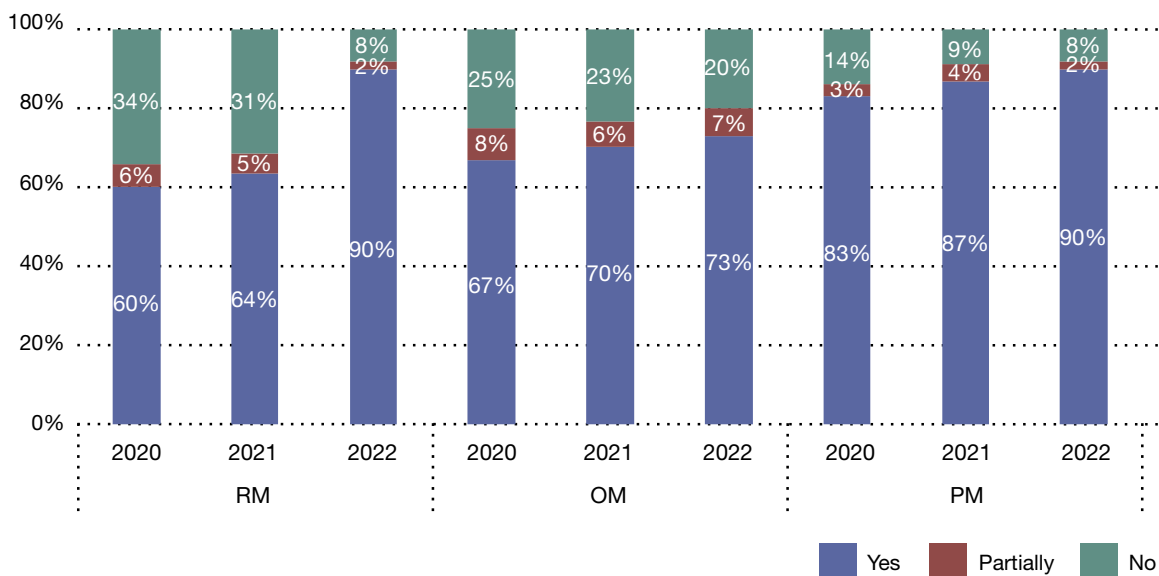
Source: Governance practices questionnaire 2022, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2022 and market capitalisation of the issuers amounted to 0.5864 (in 2021, it stood at 0.7510).

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

The following chart shows the compliance of issuers with the section “Risks, internal control and audit” by segments of the regulated market according to the data submitted in the compliance questionnaire for 2020, 2021 and 2022.

Chart 83 Share issuers' compliance with the section “Risks, internal control and audit” in 2020, 2021 and 2022 by segments of the regulated market



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

- The level of compliance with the section “Risks, internal control and audit” achieved by the issuers whose shares are admitted to trading on the Prime Market reached 90%.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 73% and 90% respectively.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the section “Risks, internal control and audit” in comparison with 2020 and 2021.

GENERAL MEETING

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

Internal rules of procedure of the general meeting

- In 2022, a total of 41% of the issuers reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 8 issuers on the Official Market and 24 issuers on the Regular Market (in 2021, 41% of the issuers as well reported having in place rules of procedure of the general meeting, of which 4 issuers on the Prime Market, 8 issuers on the Official Market and 26 issuers on the Regular Market).
- Out of the 36 issuers that had in place rules of procedure of the general meeting, 5 issuers reported changes in their rules of procedure during the year (2 issuers in 2021).

Participation in the general meeting

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

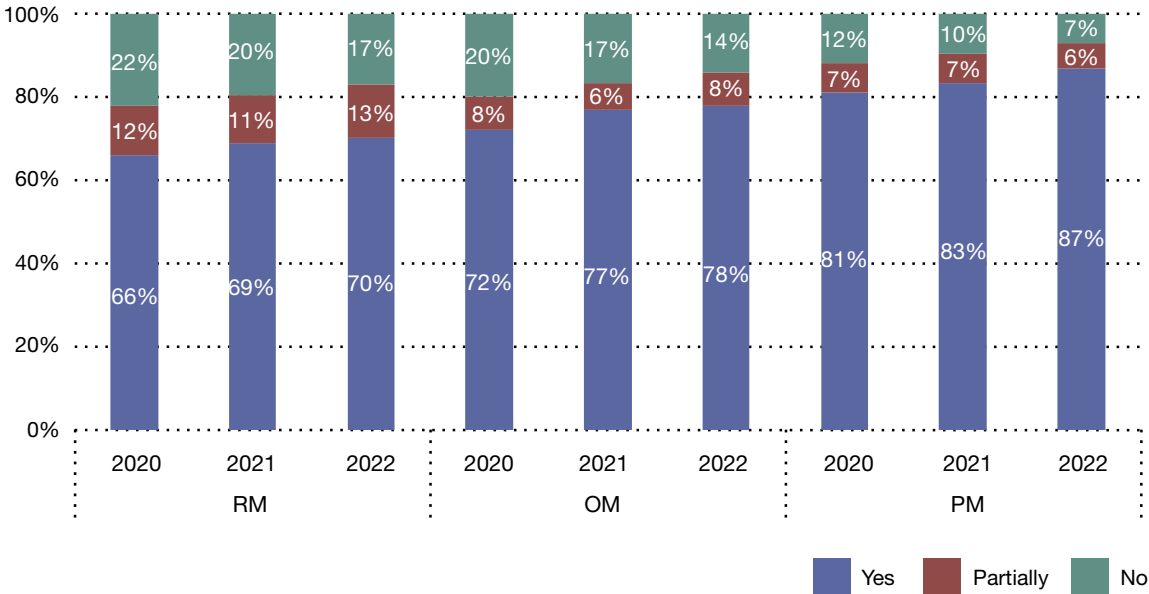
- In 2022, a total of 113 general meetings were held (120 general meetings in 2021).
- According to the data from the governance practices questionnaire, 64 issuers reported having held only 1 general meeting, 15 issuers held 2 general meetings, 5 issuers held 3 general meetings, and 1 issuer held 4 general meetings (in 2021, 71 issuers reported having held only 1 general meeting, 17 issuers held 2 general meetings, while 5 issuers held 3 general meetings).
- According to the data from the governance practices questionnaire, the largest number of shareholders who participated in the general meeting was reported by an issuer on the Regular Market, and the number totals 380,504. Excluding this issuer, that represents a significant deviation from the average, the average number of shareholders who participated in the general meeting amounts to 20 (39 in 2021).
- Only 31% of the issuers allowed their shareholders, on the basis of the statute or another internal regulation, to vote online without limitations (25% of the issuers in 2021).
- In 2022, 98% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 93% of them ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge (in 2021, 99% of the issuers published a notice of the general meeting not later than 30 days prior to the date of its convention, while 93% of them ensured that the agenda, decisions and other materials for the general meeting were available on their websites free of charge).
- A total of 38% of the share issuers ensured that all documents required for the general meeting were available in Croatian and English (39% of them in 2021).
- The chair and deputy chair of the supervisory board, chairs of supervisory board committees and all management board members attended general meetings of 59% of the issuers (54% of the issuers in 2021).

External auditors attended general meetings of 60% of the issuers at which financial statements were presented (60% of the issuers in 2021 as well).

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

The following chart shows the compliance of issuers with the section "Shareholders and the general meeting" by segments of the regulated market according to the data submitted in the compliance questionnaire for 2020, 2021 and 2022.

Chart 84 Share issuers' compliance with the section "Shareholders and the general meeting" in 2020, 2021 and 2022 by segments of the regulated market



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

- The average level of compliance of issuers on the Prime Market, Official Market and Regular Market with the section "Shareholders and the general meeting" reached 87%, 78% and 70% respectively.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Shareholders and the general meeting" in comparison with 2020 and 2021.

TRANSPARENCY AND CORPORATE SOCIAL RESPONSIBILITY

Investor relations

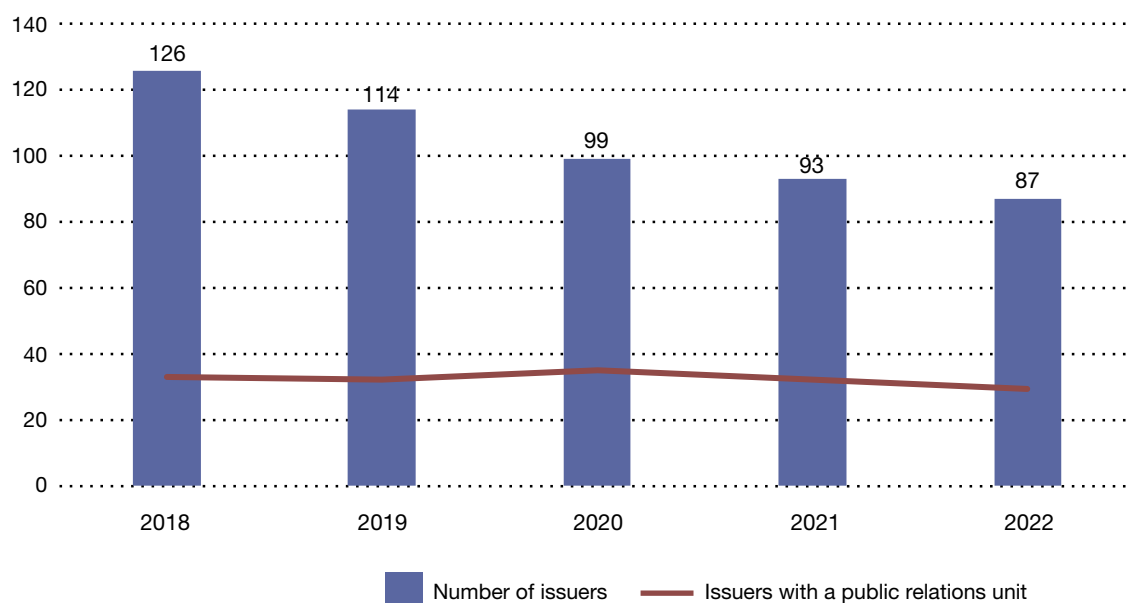
Basic principles in connection with transparency and corporate social responsibility imply that the company shall ensure that shareholders and other stakeholders have easy and non-discriminatory access to information on the company's ownership structure, corporate governance arrangements and financial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

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

- In 2022, 99% of the issuers had their websites in Croatian, of which 73% had their websites in English as well (in 2021, 99% of the issuers had their websites in Croatian, of which 70% had their websites in English as well).
- One issuer on the Regular Market did not have a website in 2022 (as in 2021).
- In 2022, 99% of the issuers made sure that the information published on their websites was up-to-date and published within deadlines prescribed by law and regulations (96% of the issuers in 2021).
- In 2022, 33% of the issuers had a separate organisational unit or employees in charge of investor relations exclusively (34% of the issuers in 2021). 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 (6 issuers in 2021),
 - 10 issuers in the Official Market (9 issuers in 2021), and
 - 14 issuers on the Regular Market (17 issuers in 2021).
- A separate organisational unit or employees in charge of investor relations were reported mostly by issuers from the tourism industry (7 issuers; in 2021, 8 issuers from the tourism industry).

The following chart shows the number of the issuers that had a separate organisational unit or employees in charge of investor relations in the period from 2018 to 2022.

Chart 85 Number of issuers with a separate organisational unit or employees in charge of investor relations in the period from 2018 to 2022



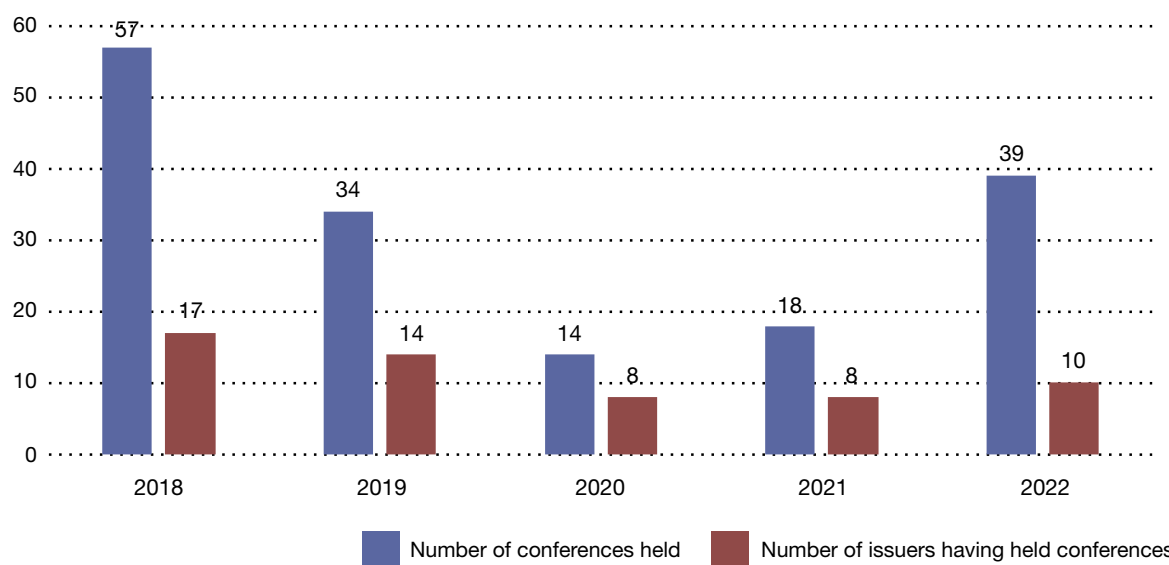
Source: Governance practices questionnaire 2019, 2020, 2021 and 2022, Annual Report on Corporate Governance for 2018

The chart shows that the number of issuers with an organisational unit or employees in charge of investor relations exclusively held more or less steady in spite of a reducing number of issuers in the period observed. Compared to the number of issuers, the largest share of issuers with an organisational unit or employees in charge of investor relations exclusively was recorded in 2020 (35%) and the smallest in 2022 (29%).

- In 2022, a total of 10% of the issuers (as in 2021) had an institution in charge of monitoring the position of issuers on the capital market (drawing up market position analyses, etc.).
- In 2022, 36% of the issuers (32% of them in 2021) reported having published the calendar of significant events on their websites:
 - 6 issuers on the Prime Market (6 issuers in 2021),
 - 12 issuers in the Official Market (12 issuers in 2021), and
 - 13 issuers on the Regular Market (12 issuers in 2021).
- A total of 11% of the issuers (9% of them in 2021) reported having held one or more press conferences in 2022, of which 3 issuers on the Prime Market, 4 issuers on the Official Market and 3 issuers on the Regular Market (4 issuers on the Prime Market, 3 issuers on the Official Market and 1 issuer on the Regular Market in 2021).
- The largest number of press conferences were reported by an issuer on the Official Market (22), an issuer on the Prime Market (4), and 2 issuers on the Regular Market (4 and 3 conferences respectively) (in 2021, the largest number of press conferences (6) were reported by an issuer on the Prime Market and an issuer on the Official Market).

The following chart shows the number of the issuers who held press conferences in the period from 2018 to 2022 and the number of the conferences held in that period.

Chart 86 Number of the issuers that held press conferences and the number of the conferences held in the 2018-2022 period



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

The largest number of press conferences held (57) were reported in 2018, but that year also saw the largest number of the issuers whose shares were admitted to trading on the regulated market. 2022 saw an increased number of press conferences held compared to 2021.

- The most common reasons for convening a press conference in 2022 were presentations of significant activities and investments (3 issuers) and presentations of business results (4 issuers). The most common reasons for convening a press conference in 2021 were presentations of business results (4 issuers).

Dividend payments

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

- In 2022, a decision on the payment of dividend out of profits generated in 2021 was adopted by 41% of the issuers (in 2021, a decision on dividend payment was made by 24% of the issuers), of which:
 - 4 issuers on the Prime Market (4 issuers in 2021),
 - 9 issuers in the Official Market (6 issuers in 2021), and
 - 23 issuers on the Regular Market (12 issuers in 2021).
- The largest number of the issuers (5) that adopted a decision on the payment of dividend or advance dividend out of profits generated in 2021 belonged to the financial sector and insurance sector, followed by the tourism industry (the financial sector and insurance sector in 2021, 5 issuers).

- The total market capitalisation of the issuers that adopted a decision on dividend payment at the end of the year in 2022 reached EUR 15.9bn (in 2021, it stood at EUR 8.4bn).
- Among these issuers, the largest market capitalisation was reported by an issuer from the refined petroleum products manufacturing sector (EUR 4.5bn; EUR 1.9bn by an issuer from the telecommunications industry in 2021), and the smallest by an issuer from the financial sector (EUR 4.7m; EUR 3.6m by an issuer from the financial sector in 2021).
- The average amount of dividend per stock paid out in 2022 totalled EUR 11.47 (EUR 17.06 in 2021). The largest amount was paid out by an issuer engaged in wholesale and retail trade services and it totalled EUR 185.51.

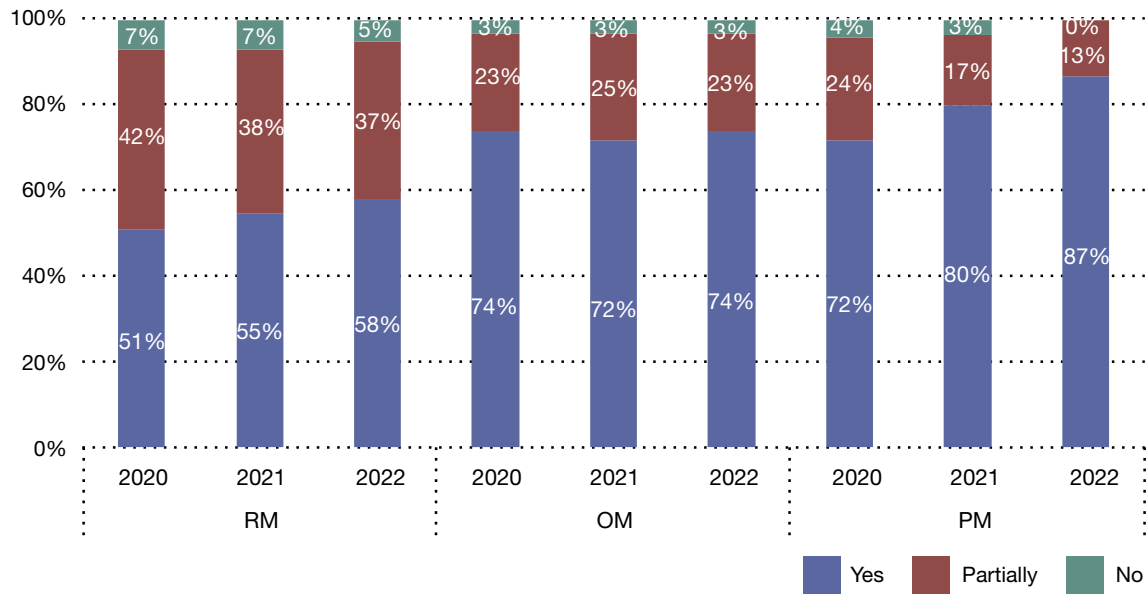
Corporate Governance Code

- A total of 83% of the issuers (6 issuers on the Prime Market, 18 issuers on the Official Market and 49 issuers on the Regular Market) published their compliance questionnaire for 2022 on their websites (80% of the issuers in 2021).
- 31% of the issuers (29% of them in 2021) complied with another corporate governance code in addition to the Code (3 issuers on the Prime Market, 7 issuers on the Official Market and 17 issuers on the Regular Market).
- Out of the 27 issuers who complied with another corporate governance code in addition to the Code in 2022, 17 issuers complied with an internal code, 5 issuers complied with the Code of Corporate Governance of Companies in which the Republic of Croatia Holds Shares, 4 issuers complied with other codes, while 1 issuer complied with a code applied in the industry the issuer belongs to (in 2021, 27 issuers also complied with another corporate governance code, mostly with an internal code of the issuer).

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

The following chart shows the compliance of issuers with the section "Disclosure and transparency" by segments of the regulated market according to the data submitted in the compliance questionnaire for 2020, 2021 and 2022.

Chart 87 Share issuers' compliance with the section "Disclosure and transparency" in 2020, 2021 and 2022 by segments of the regulated market

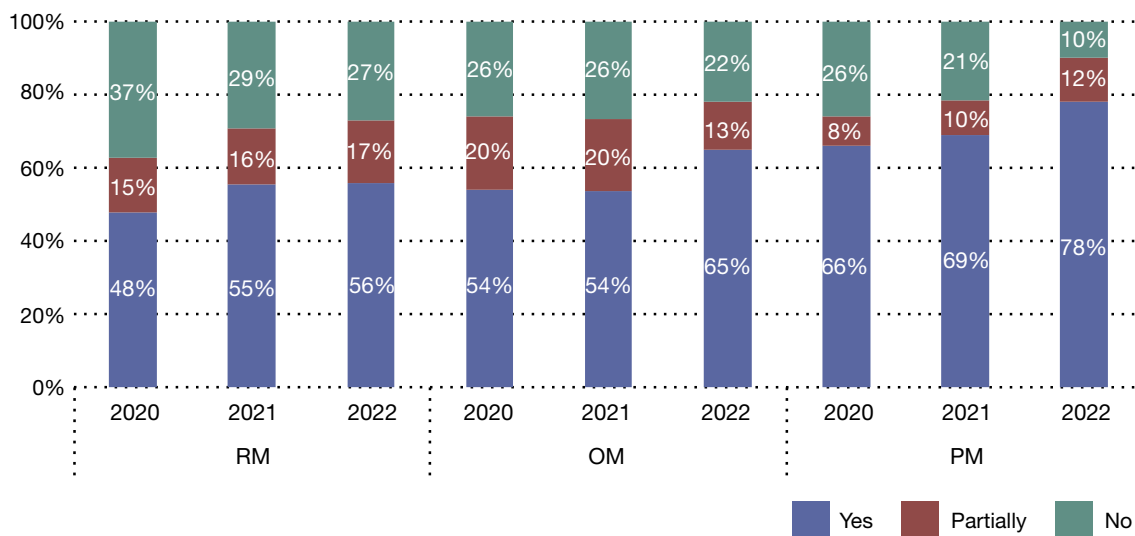


Source: Compliance questionnaire 2020, 2021 and 2022, internal calculation

- The level of compliance with the section "Disclosure and transparency" achieved by the issuers whose shares are admitted to trading on the Prime Market reached 87% on average.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 74% and 58% respectively.

In 2022, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed greater compliance with the provisions of the Code relating to the section "Disclosure and transparency" in comparison with 2020 and 2021.

Chart 88 Share issuers' compliance with the section "Stakeholders and corporate social responsibility" in 2020, 2021 and 2022 by segments of the regulated market



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

- The level of compliance with the section “Stakeholders and corporate social responsibility” achieved by the issuers whose shares are admitted to trading on the Prime Market reached 78% on average.
- The level of compliance with this section achieved by the issuers whose shares are admitted to trading on the Official Market and Regular Market reached 65% and 56% respectively.

As regards this section, the issuers whose shares are admitted to trading on the Prime Market, Official Market and Regular Market showed improvement in compliance relative to 2020 and 2021.

ANNUAL REPORT ON CORPORATE GOVERNANCE FOR BOND ISSUERS



INTRODUCTION

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

At the end of 2022, 11 issuers had a total of 13 corporate bonds admitted to trading, of which 11 bonds were admitted to trading on the Official Market and 2 bonds on the Regular Market. Of the 11 issuers, 7 issued only corporate bonds and were obliged to submit to Hanfa the governance practices questionnaire for bond issuers, while the remaining 4 issuers issued both bonds and shares and were obliged to submit to Hanfa the governance practices questionnaire for share issuers.

Out of the 7 corporate bond issuers obliged to submit their 2022 governance practices questionnaire to Hanfa, all of them (100%) fulfilled this obligation. The following data relate to the issuers that submitted to Hanfa their 2022 governance practices questionnaires for bond issuers.

At the end of 2022, the market capitalisation of bonds reached EUR 11.6bn, decreasing by 1% compared to the end of 2021, when it amounted to EUR 11.7bn. In 2022, two new issuers (Agro Invest Grupa d.o.o. and Meritus ulaganja d.d.) listed their bonds on the Official Market.

CAPITAL AND ITS ORIGIN

Initial capital

The following table shows data on the initial capital of corporate bond issuers and market capitalisation of corporate bonds in the period from 2018 to 2022.

Table 22 Initial capital of corporate bond issuers and market capitalisation of corporate bonds from 2018 to 2022

Number of issuers					Initial capital and market capitalisation	2018	2019	2020	2021	2022
2018	2019	2020	2021	2022						
6	5	5	7	7	Initial capital (EUR bn)	790	664	683	696	764
					Market capitalisation (EUR bn)	461	455	487	567	770

Source: court register, ZSE

- The initial capital of corporate bond issuers reached EUR 764bn at the end of 2022, rising compared to end-2021 (by 9%).

- The market capitalisation of corporate bonds admitted to trading on the regulated market amounted to EUR 770bn at the end of 2022, increasing by 26% compared to the end of the previous year.

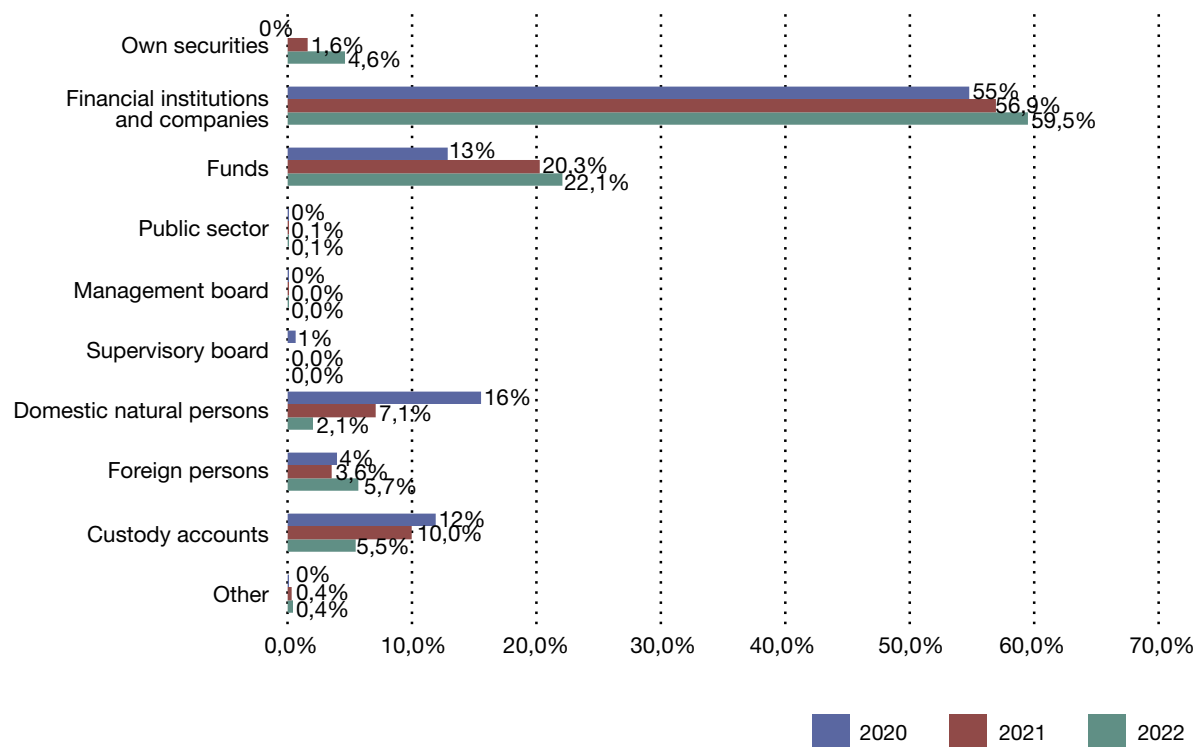
Ownership structure of corporate bond issuers

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

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

The chart below shows the ownership structure of corporate bond issuers as at 31 December 2020, 2021 and 2022 by the above-mentioned categories.

Chart 89 Ownership structure of corporate bond issuers as at 31/12/2020, 31/12/2021 and 31/12/2022



Source: CDCC

- In 2022, the ownership structure of corporate bond issuers was again dominated by financial institutions and companies with a 59.5% share, followed by funds with a 22.1% share and domestic natural persons with a 16% share, while the smallest share was accounted for by the public sector and management and supervisory board members (from 0% to 0.1%). Foreign persons made up a slight share in this structure (5.7% in 2022); however, this share rose a little between end-2020 and 2022 (1.7%).
- In the period from 2020 to 2022, the ownership structure of corporate bond issuers showed a decline in the share of domestic natural persons (13.9%) and custody accounts (6.5%) and a rise in the share of funds (9.1%) and financial institutions and companies (4.5%).

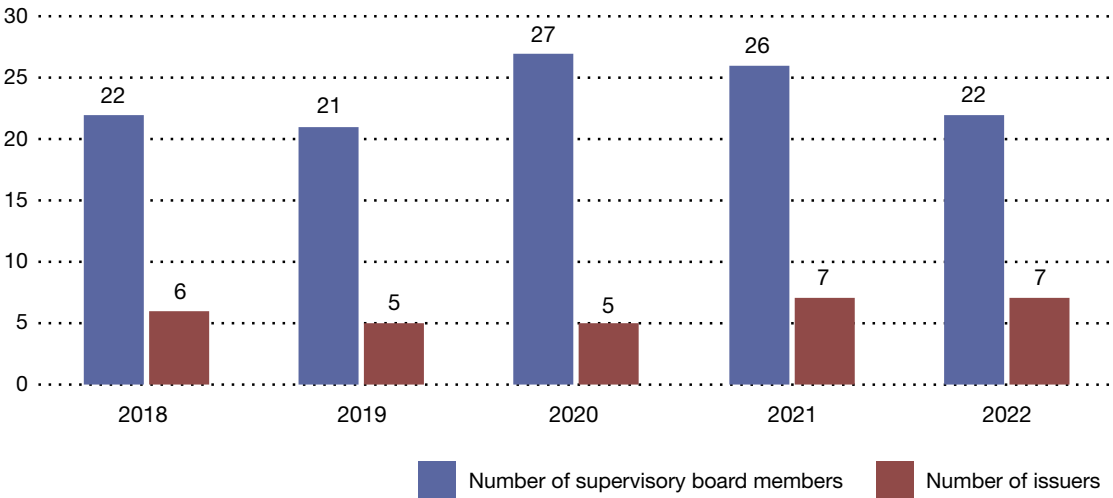
SUPERVISORY BOARD AND ITS COMMITTEES

Supervisory board

- At the end of 2022, supervisory boards of corporate bond issuers consisted of 3 members on average (4 members at the end of 2021).
- At end-2022, the proportion of women on supervisory boards of corporate bond issuers was by 19 percentage points larger than the proportion of women on management boards (at the end of 2021, the proportion of women on supervisory boards of corporate bond issuers was by 34 percentage points larger than the proportion of women on management boards).

The following chart shows the number of supervisory board members of corporate bond issuers in the period from 2018 to 2022.

Chart 90 Number of supervisory board members of corporate bond issuers in the 2018-2022 period



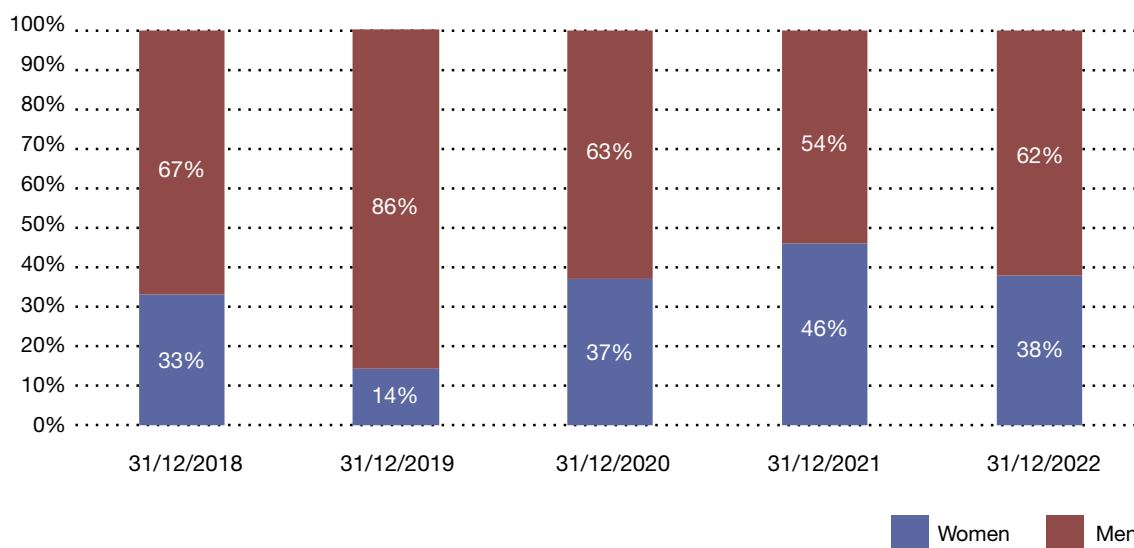
Source: court register

In the observed period, the number of supervisory board members ranged from 22 in 2018 to 27 in 2020 to 22 in 2022. In 2022, the number of corporate bond issuers remained

unchanged compared to 2021, while the number of supervisory board members decreased by 4. This is due to the removal from trading of an issuer with 4 supervisory board members.

The gender composition of corporate bond issuers' supervisory boards in the period from 2018 to 2022 is shown in the following chart.

Chart 91 Bond issuers' supervisory board gender structure in the 2018-2022 period



Source: court register

- The proportion of women on bond issuers' supervisory boards was lower as at 31 December 2022 than as at 31 December 2021.
- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 38%, exceeding the average number of women on management boards of corporate bond issuers, which reached 19% in the same period.

Table 23 Age structure of corporate bond issuers' supervisory boards in the 2018-2022 period

Age of supervisory board members	2018	2019	2020	2021	2022
Younger than 35	2%	-	-	-	5%
Between 36 and 45	27%	24%	22%	19%	18%
Between 46 and 55	37%	29%	26%	35%	41%
Older than 56	34%	47%	52%	46%	36%

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

- During the observed period, there was one member of a corporate bond issuer's supervisory board under 35 years of age. In 2022, the majority of supervisory board members of corporate bond issuers were between 46 and 55 years old.

- As at 31 December 2022, 36% of supervisory board members of corporate bond issuers were older than 56 years of age, 41% of them were between 46 and 55 years old, 18% of them were between 36 and 45 years old, and 5% of them were younger than 35 years of age (as at 31 December 2021, 46% of supervisory board members of corporate bond issuers were older than 56 years of age, 35% of them were between 46 and 55 years old, while 19% of them were between 36 and 45 years old).
- As at 31 December 2022, the majority of supervisory board members of corporate bond issuers (82%) had a university degree (77% of supervisory board members at the end of 2021).
- The average number of corporate bond issuers' supervisory board meetings held in 2022 was 11 (8 meetings in 2021).

Supervisory board committees

- One corporate bond issuer (14%) had in place all three supervisory board committees in 2022 (1 issuer in 2021, as well).
- Broken down by individual committees, 7 issuers (100%) had an audit committee, one issuer had a remuneration committee and a nomination committee (in 2021, 6 issuers had an audit committee, while one issuer had a remuneration committee and a nomination committee).
- Each of the supervisory board committees had a minimum of 3 members (as in 2021).
- Out of the 7 issuers that had in place an audit committee in 2022, 6 (86%) had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee (in 2021, out of the 6 corporate bond issuers that had in place an audit committee, 5 had internal working procedures of that committee, and 1 issuer publicly disclosed working procedures of its audit committee).
- The average number of audit committee meetings during 2022 was 3. The issuer with a remuneration committee in place held 4 meetings in 2022, while the issuer with a nomination committee in place held 1 meeting (in 2021, 3 meetings of the audit committee were held on average, while the issuer with a remuneration committee and a nomination committee in place held 3 remuneration committee meetings and 2 nomination committee meetings).

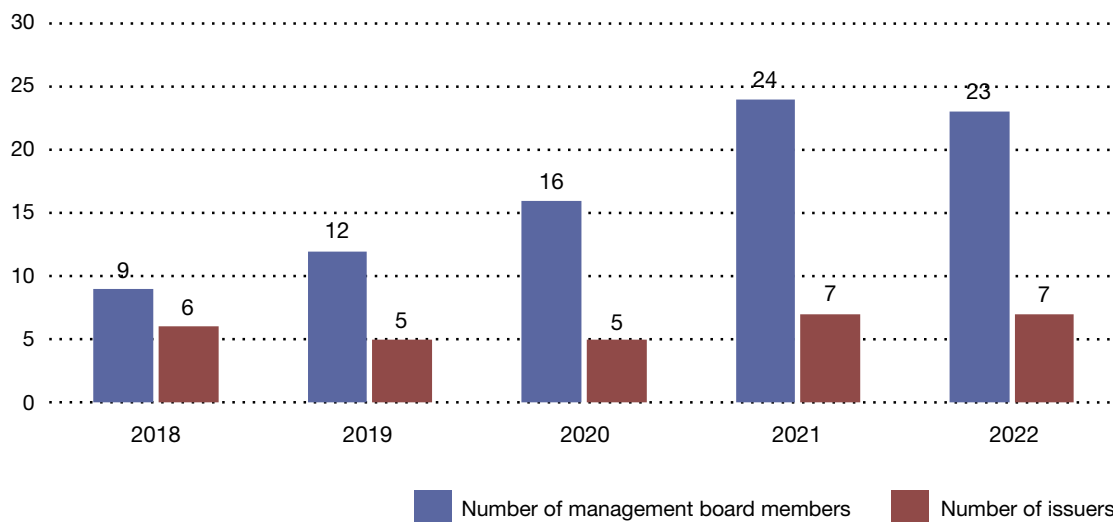
MANAGEMENT BOARD

The following analysis presents the data on management board members of corporate bond issuers in the 2018 - 2022 period.

- In 2022, 1 corporate bond issuer (14%) had a one-tier governance system, while 6 issuers (86%) had a two-tier governance system (in 2021, out of 7 corporate bond issuers, 1 issuer had a one-tier governance system, while 6 issuers had a two-tier governance system).
- At end-2022, management boards of corporate bond issuers consisted of 3 members on average (as in 2021).

The number of management board members of corporate bond issuers in the period from 2018 to 2022 is shown in the following chart.

Chart 92 Number of management board members of corporate bond issuers in the 2018-2022 period

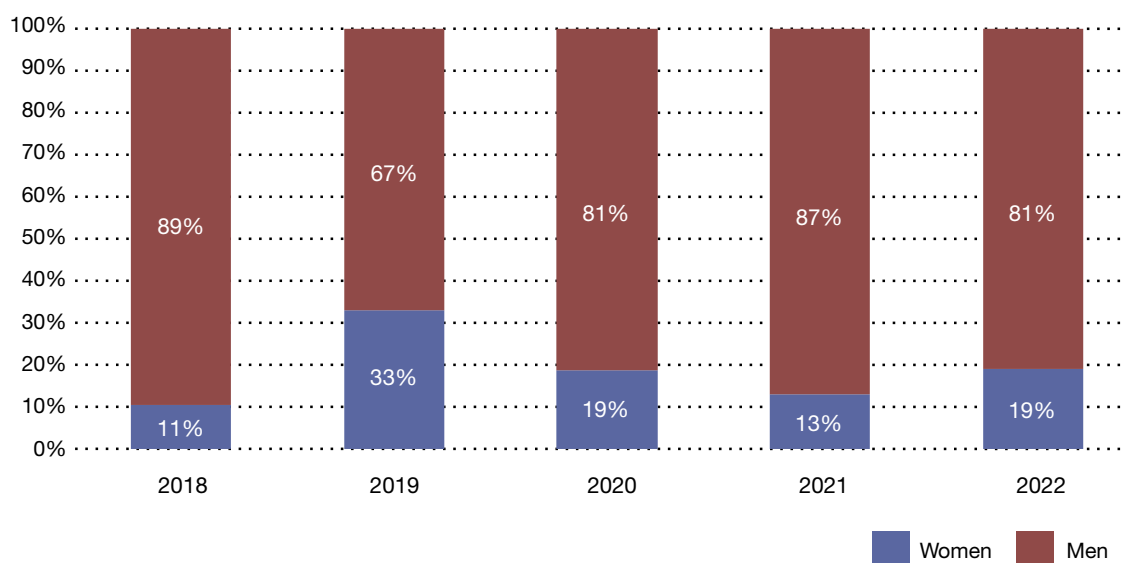


Source: court register

- The number of management board members of bond issuers grew continuously from 2018 to 2021, having fallen slightly by the end of 2022.
- In 2022, the number of bond issuers remained unchanged compared to 2021 (7).

The following chart shows the share women on management boards of corporate bond issuers in the period from 2018 to 2022.

Chart 93 Share of women on management boards of corporate bond issuers in the 2018-2022 period



Source: court register

In the period observed (2018 - 2022), the average share of women on management boards of corporate bond issuers totalled 19%.

Table 24 Age structure of corporate bond issuers' management boards in the 2018-2022 period

Age of management board members	2018	2019	2020	2021	2022
Younger than 35	-	-	-	-	-
Between 36 and 45	30%	44%	31%	21%	17%
Between 46 and 55	60%	33%	50%	54%	61%
Older than 56	10%	22%	19%	25%	22%

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

- During 2018, 2020, 2021 and 2022, the majority of management board members were between 46 and 55 years old.
- At the end of 2022, the majority of management board members had finished undergraduate university study and graduate university study or an integrated undergraduate university study and graduate university study / undergraduate university study (39%) and a graduate specialist professional study / undergraduate professional study (17%) (at the end of 2021, the majority of management board members had finished undergraduate university study and graduate university study or an integrated undergraduate university study and graduate university study / undergraduate university study (58%) and a postgraduate university scientific study or postgraduate university art study - Master of Science (13%)).
- 5 issuers (71%) reported having an internal regulation on management board activities (rules of procedure of the management board), and 1 issuer reported having made amendments to that regulation during the year (in 2021, out of 7 bond issuers, 5 reported having an internal regulation on management board activities (rules of procedure of the management board), and 1 issuer reported having made amendments to that regulation during the year).
- 5 issuers reported having a schedule of meetings of the management board (4 issuers in 2021). The average number of corporate bond issuers' management board meetings held in 2022 was 29 (26 in 2021).
- In 2022, one member of a corporate bond issuer's management board resigned before the expiry of their term of office due to personal reasons (in 2021, no members of corporate bond issuers' management board resigned before the expiry of their term of office).

DUTIES AND RESPONSIBILITIES OF BOARD MEMBERS

Conflicts of interest and related party transactions

- In 2022, 2 issuers (29%) reported having in place an internal regulation for cases of related party transactions (2 issuers in 2021 as well).
- No conflicts of interest were reported in 2022 (nor in 2021).

The following table shows the average value of transactions concluded by corporate bond issuers in the period from 2018 to 2022 with shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members and the senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 25 Average value of related party transactions in the period from 2018 to 2022

		Gross value of related party transactions concluded by the issuer			
		with shareholders holding more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with the senior management of the issuer	within the group the issuer belongs to or is its parent
2022	Number of issuers having reported the transaction	2	2	1	6
	Average transaction value (in EUR)	407,368,403	877,350	9,622,864	179,744,163
2021	Number of issuers having reported the transaction	3	2	1	6
	Average transaction value (in EUR)	601,583,198	2,724,639	8,928,932	849,059,134
2020	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in EUR)	188,284,366	1,998,976	6,454,134	126,310,964
2019	Number of issuers having reported the transaction	3	1	1	3
	Average transaction value (in EUR)	219,638,562	2,358,999	3,977,165	224,795,179
2018	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in EUR)	358,625.11	2,146,489	3,039,980	98,479,080

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

- In 2022, the highest value of related party transactions was recorded in transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer (in 2021, the highest value of related party transactions was recorded in transactions concluded by issuers within the group the issuer belongs to or is its parent), while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer (as in 2021).
- In 2022, as in the previous years, the highest value of related party transactions was recorded in transactions concluded by issuers with shareholders holding more than 5% of the initial capital of the issuer, while the lowest value of related party transactions was recorded in transactions concluded by issuers with management and supervisory board members of the issuer.

REMUNERATION OF BOARD MEMBERS

Remuneration of management board members

- In 2022, 2 corporate bond issuers (29%) reported having a remuneration policy for management board members, and only 1 issuer (14%) published the remuneration policy for management board members on its website (in 2021, 2 corporate bond issuers as well had a remuneration policy for management board members, and only 1 issuer published it on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to management board members in the 2018 - 2022 period.

Table 26 Remuneration paid to corporate bond issuers' management board members in the 2018-2022 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration (in EUR)	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2022	Number of issuers	5	4	2	0
	Amount	576,324	270,923	4,712	0
2021	Number of issuers	6	3	2	0
	Amount	453,334	227,431	3,809	0
2020	Number of issuers	4	1	0	0
	Amount	562,162	150,651	0	0
2019	Number of issuers	4	2	0	1
	Amount	454,273	287,112	0	31,477
2018	Number of issuers	6	4	3	1
	Amount	612,869	290,196	26,021	192,400

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

- In 2022, 5 corporate bond issuers (71%) paid gross fixed remuneration to management board members in the total amount of EUR 2,881,620 (6 issuers out of 7 in 2021).
- The gross fixed amount of remuneration paid to management board members in 2022 reached EUR 576,324 on average (EUR 453,334 in 2021).
- The gross fixed amounts of remuneration paid to management board members in 2022 ranged from EUR 143.6 thousand to EUR 1.7m (in 2021, they ranged from EUR 70.8 thousand to EUR 1.6m).
- 4 corporate bond issuers paid variable remuneration to management board members in the amount of EUR 1,354,614 (in 2021, 3 corporate bond issuers paid variable remuneration to management board members in the amount of EUR 1,364,586).

- The average amount of gross variable remuneration paid to management board members in 2022 reached EUR 270,923 (EUR 227,431 in 2021).
- 2 corporate bond issuers paid other benefits to management board members in the amount reaching EUR 4.7 thousand on average (EUR 3.8 thousand in 2021).
- No corporate bond issuers granted options to management board members in 2022 (nor in 2021).
- In 2022, 2 issuers granted shares to management board members in the amount totalling EUR 121,892 (in 2021, 1 issuer in the amount of EUR 135,719).
- In 2022, no issuers agreed severance allowance with management board members (in 2021, 1 issuer in the amount of EUR 85 thousand).
- In 2022, 1 issuer paid severance allowance in the amount totalling EUR 27 thousand (1 issuer as well in 2021, in the amount of EUR 76 thousand).

Remuneration of supervisory board members

- In 2022, 2 corporate bond issuers (29%) reported having a remuneration policy for supervisory board members, and only 1 issuer (14%) published the remuneration policy for supervisory board members on its website (in 2021, 2 corporate bond issuers as well had a remuneration policy for supervisory board members, and only 1 issuer published it on its website).

The following table shows the average amount of remuneration paid by corporate bond issuers to supervisory board members in the 2018 - 2022 period.

Table 27 Remuneration paid to corporate bond issuers' supervisory board members in the 2018-2022 period

		Average gross amount of remuneration (in EUR)		Average amount of other remuneration
		Fixed remuneration	Variable remuneration	
2022	Number of issuers	3	0	1
	Amount	405,537	0	17,675
2021	Number of issuers	3	0	1
	Amount	485,540	0	15,133
2020	Number of issuers	3	0	0
	Amount	198,516	0	0
2019	Number of issuers	3	0	0
	Amount	193,261	0	0
2018	Number of issuers	5	0	1
	Amount	51,227	0	1,440

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

- The amount of remuneration for supervisory board members was determined by the general meeting of 3 issuers (2 issuers in 2021).
- No corporate bond issuers reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting in 2022 (nor in 2021).

Remuneration of the senior management

- A total of 5 bond issuers paid remuneration to the senior management in 2022, of which 5 issuers paid fixed remuneration only, and 3 issuers paid both fixed and variable remuneration (in 2021, 6 issuers paid fixed remuneration).
- The amounts of fixed remuneration paid to the senior management in 2022 ranged from EUR 199 thousand (paid by an issuer from the computer, electronic and optical products manufacturing sector) to EUR 2.4m (paid by an issuer from the banking sector) (from EUR 152 thousand in 2021 (paid by an issuer from the construction industry) to EUR 2.2m (paid by an issuer from the banking sector)). The average amount of variable remuneration in 2022 stood at EUR 177 thousand.
- In 2022, 2 issuers agreed severance allowance with the senior management in the amount totalling EUR 233 thousand (1 issuer as well in 2021, in the amount of EUR 90 thousand).
- In 2022, severance allowance was paid to the senior management in the amount of EUR 101 thousand (in 2021, no issuers paid severance allowance to their senior management).
- In 2022, 2 issuers granted shares to the senior management and 2 issuers paid other benefits to the senior management ranging from EUR 4 thousand to EUR 23 thousand (in 2021, 1 issuer granted shares to the senior management and 3 issuers paid other benefits to the senior management ranging from EUR 4 thousand to EUR 64 thousand).

RISKS, INTERNAL CONTROL AND AUDIT

Internal control and audit

- In 2022, 3 issuers had an internal control system in place (3 issuers in 2021 as well).
- There were 38 employees in the internal control system on average, with the most employees in the internal control system having been reported by an issuer from the banking sector (in 2021, there were 37 employees in the internal control system on average, with the most employees in the internal control system having been reported by an issuer from the banking sector).
- 5 issuers reported having an internal audit system in place in 2022 (5 issuers in 2021 as well).

Managing company risks

- 3 issuers (43%) reported having a person in charge of risk management (3 issuers in 2021 as well).

- The most frequent risks faced by corporate bond issuers in 2022 were liquidity risk, credit risk, political risk and other risks (liquidity risk, credit risk, interest rate risk and other risks in 2021).

External audit

- In 2022, 7 corporate bond issuers used services of 8 different external auditors; the number of auditors was higher than the number of issuers because one issuer used services of 2 different auditors that carried out a joint audit (as in 2021).
- 3 issuers used services of the largest audit firms (3 issuers in 2021 as well).
- At the end of 2022, the average length of the time period during which issuers used services of the same external audit firm was 4 years (3 years in 2021).
- All the 7 issuers reported the gross amount paid to an external audit firm for audit services provided in 2022, and the amounts ranged from EUR 7 thousand to EUR 171 thousand (from EUR 12 thousand to EUR 439 thousand in 2021). External auditors were paid an average of EUR 97 thousand (EUR 107 thousand in 2021).
- 2 issuers reported the gross amount paid to an external audit firm for other services provided in 2022, and the amount totalled EUR 91 thousand on average (2 issuers in 2021 as well, and the amount totalled EUR 10 thousand).

TRANSPARENCY AND CORPORATE SOCIAL RESPONSIBILITY

- In 2022, 5 issuers had their websites in both Croatian and English, while 1 issuer had its website in Croatian only (in 2021, 5 issuers had their websites in both Croatian and English).
- In 2022, 2 issuers (1 issuer from the computer, electronic and optical products manufacturing sector and 1 issuer from the construction industry) had a separate department or employees in charge of investor relations exclusively (in 2021, 2 issuers as well (1 issuer from the distribution sector and 1 issuer engaged in real estate services)).
- 2 issuers published the calendar of significant events on their websites, 1 issuer engaged in real estate services and 1 issuer engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations (2 issuers in 2021 as well, 1 issuer engaged in real estate services and 1 issuer engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations).
- 2 issuers reported having held press conferences in 2022, of which 1 issuer held 5 press conferences during the year (in 2021, 2 issuers as well, of which 1 issuer held a total of 4 press conferences during the year).

Corporate Governance Code

- In 2022, 1 issuer complied with another corporate governance code in addition to the Code, namely an internal code of the issuer (in 2021, 2 issuers complied with another corporate governance code in addition to the Code, namely an internal code of the issuer).
- The issuer who complied with an internal code in addition to the Code in 2022 was engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations (the issuer who complied with an internal code in addition to the Code in 2021 was also engaged in the manufacture of basic pharmaceutical products and pharmaceutical preparations).

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