

STATEMENT OF THE MANAGEMENT BOARD

After the year 2019 on the local market had ended on a positive note, it seemed things could only get better in 2020. But few people could have guessed what incredible and historically unparalleled events were to follow over the past year. Even though the global pandemic of unseen proportions seemed the least likely of all the things that might have happened, nowadays it is a reality lived by most of the world. As new modalities of doing business and living in general have been established, the memories of “prepandemic” everyday life and operations sometimes seem pale and distant.

However incredible two series of earthquakes that hit Croatia might be, they too will have to be added to whatever marked 2020. Irrespective of these unimaginable events or in spite of them, the local capital market proved robust and resilient enough not only to survive but to advance as well – through new share issues, new investment products, service improvement and numerous other steps – some of which were not always apparent but which contributed significantly to market quality and efficiency as well as to a better service provided to all its participants.

Early in March, the Zagreb Stock Exchange was among more than 90 exchanges to mark the International Women’s Day by symbolically ringing the bell for the start of trading to draw attention to the vital role of the business sector in enhancing gender equality, as a way to achieve sustainable development goals and raise awareness of the principles of women’s empowerment. That event was also attended by Croatia’s President Zoran Milanović.

A number of our other either actual or virtual events gathered more than 900 participants in a bid to exchange knowledge and experience, helping to create a network of stakeholders relevant to a sound functioning of the capital market. We connected investors and analysts to our issuers through investment conferences, enlisting the participation of more than 200 individuals, to provide a platform for information exchange even in these challenging times and emphasise the importance of timely information provision and reporting in crisis circumstances. Moreover, we emphasised continually the necessity of complete and timely information provision to the investment public on the impact of the COVID-19 crisis on business of the issuers themselves.

May saw the year’s first webcast for Prime Market issuers, with Prime Plus online investment conference at which Prime Market and several Official Market companies participated, along with a first participation of companies listed on the Macedonian Stock Exchange, following in November. Traditional winter Ljubljana and Zagreb Stock Exchange Investment Days in December were held online for the first time. All these events were attended by analysts and investors from 60-odd investment firms and banks from Croatia and Slovenia, as well as Austria, Bosnia and Herzegovina, Serbia, Estonia, Finland, Luxembourg, the United Kingdom, the United States and Turkey. Such exceptional attendance serves to prove that, in these demanding circumstances, keeping an open dialogue between traded companies and investment public and promoting the highest transparency standards is more important than ever.

In June, the Croatian Financial Services Supervisory Agency (HANFA), the Central Depository and Clearing Company and the Zagreb Stock Exchange held the 11th round of their annual education, intended for the companies whose shares are admitted to trading on the Zagreb Stock Exchange’s regulated market. It was the first year in which this training event took place virtually, with a record 160 issuer representatives participating to hear presentations on the novelties concerning capital

market regulation and other related topics. Workshops relating to the new Code of Corporate Governance prepared by HANFA and the Exchange were also held to make it easier for issuers to apply the provisions of the Code and report on their application.

The ZSE Academy marked its 10th anniversary in May. Founded in 2010 as the educational arm of the Zagreb Stock Exchange with support of the European Bank for Reconstruction and Development, the ZSE Academy is currently the biggest provider of training services on financial markets in Croatia. The ZSE Academy has developed more than 80 various training programmes so far and organised 500+ courses and workshops for more than 10 000 participants, of whom approximately 70% have been trained completely free of charge. Focusing on the education of the young, the ZSE Academy has delivered training to more than 5 000 secondary school and university students from across Croatia, Europe and the world (Brazil, South Africa, Canada, China, the U.S. and other countries) to date. In keeping with new pandemic circumstances, since April it has held very successful online seminars, which – thanks to an excellent response – have seen an increase in the number of participants and training events by about 15%. Also, under a new cooperation agreement concluded with the Montenegro Stock Exchange towards the end of the year, the Zagreb Stock Exchange established a partnership primarily in the field of education aimed at enhancing the expertise and delivering professional training to participants in the Montenegrin capital market via ZSE Academy educational services.

The Zagreb Stock Exchange Management Board President Ivana Gažić has been appointed member of the Securities and Markets Stakeholder Group (MSG) of the European Securities and Markets Authority (ESMA). That body of the central European capital market regulator is made up of 30 individuals who represent the interests of different categories of EU financial market stakeholders. It has an advisory role and facilitates a dialogue between ESMA and key stakeholders on EU financial markets, pointing to inconsistencies in the application of EU regulations and supervisory practices in Member States and, generally, advises ESMA with regard to market standards, guidelines, recommendation and policies. The four-year mandate of the new members began to run on 1 July 2020.

The European Commission has appointed the Zagreb Stock Exchange member of a Technical Task Force for SMEs as a major step for the Exchange's Progress Market, designed for the SME segment. The Zagreb Stock Exchange has been actively involved in a dialogue with EU bodies on this topic but its selection to take part in this European Commission body will enable it to take and even more active role in the creation of European SME policies. The Technical Task Force is a body designated to provide expert SME-related opinions and analyses to the Commission and identify the areas in which other actions and improvements might be necessary when it comes to access to capital for such business. The Progress Market was among the first registered SME Growth Markets, as part of the Zagreb Stock Exchange development strategy aimed at creating the conditions to provide growth capital to companies in all stages of their development, fostering a positive environment for entrepreneurs that also will be conducive to economic growth and employment.

Having completed the annual accreditation process of the Global Legal Entity Identifier Foundation (GLEIF) for local LEI operating units once again, the Exchange has reaffirmed its status and the quality of this service. The Exchange is accredited to assign LEIs to entities registered in 12 countries and

manages more than 1 200 LEIs. According to GLEIF's monthly reports, it has continually been among the best LEI operators in the world.

Four companies admitted to trading on the Zagreb Stock Exchange – AD Plastik, Arena Hospitality Group, Ilirija and the Zagreb Stock Exchange – have been selected for participation in the European Bank for Reconstruction and Development (EBRD) programme to produce SME company analyses which was launched in May. The programme is aimed at increasing the public availability of analytical materials relating to SMEs admitted to trading on regional exchanges. It is fully compliant with the goals of the European Commission Action Plan on Building a Capital Markets Union, which puts a special emphasis on the importance of facilitating access to funding, including through risk capital, especially to SMEs, as one of the five priority areas for market development.

Croatian Telecom, Inc. became the sixth issuer to be admitted to trading on the Exchange's top tier, the Prime Market, with a total of five new issues admitted to trading on the regulated market over the course of the year.

The calculation of the new CROBEX10tr index, as the 11th Zagreb Stock Exchange share index and the second total return index, began in July to provide investors with a higher number of incoming data and facilitate investment decision-making while also enabling a simpler yet more comprehensive tracking of market developments. At the same time, such indices are suitable for the issuing of structured products or exchange-traded funds (ETFs). These first new instruments to be issued in the local market in a long while, ETFs began trading in November. One of the new ETFs issued by InterCapital Asset Management (ICAM), 7CRO, is linked to the CROBEX10tr (index of the 10 most liquid Zagreb Stock Exchange shares) and the other, 7SLO, to SBITOP (index of the 11 most liquid Ljubljana Stock Exchange shares), providing a simple and cost-effective vehicle for investment in prominent Croatian and Slovenian companies.

The new Exchange website, designed to improve user experience by presenting information in a new, more accessible and comprehensible manner, was launched in October. The quality and level of numerous services providing for an efficient functioning of the market and all its participants has seen technological improvements, such as the new version of the trading system, new data infrastructure, new EHO issuer service, etc.

In two years of its existence the Zagreb Stock Exchange blog *Burzin brief* has seen the publication of more than 50 texts written by renowned local and foreign experts, focusing on crucial topics for the financial markets and economy of Croatia and the region, as a reference point for information provision and the exchange of ideas and reflections on current finance issues.

Financial market participants managed to gather in person in Rovinj for the conference entitled "Challenge of Change", organised jointly by the Association of Pension Fund Management and Pension Insurance Companies and the Zagreb Stock Exchange for nine years in a row, as the most important gathering of Croatia's and regional financial industry. It was 30th annual Zagreb Stock Exchange conference, featuring keynote speeches by Deputy Prime Minister and Finance Minister Zdravko Marić, Minister for Labour, Pension System, Family and Social Policy Josip Aladrović, central bank governor Boris Vujčić, head of HANFA Ante Žigman and numerous other prominent Croatian and foreign figures. As part of the Conference, daily *Poslovni dnevnik* and the Exchange held a presentation of their 11th award to companies providing the best investor relations.

The year ended with a ceremony at which the annual Zagreb Stock Exchange Awards were presented for the ninth time.

Despite apocalyptic circumstances, the Zagreb Stock Exchange maintained business and trading continuity through uninterrupted provision of superior quality products and services, aimed at meeting the needs by shareholders, investors, issuers, member firms and all other stakeholders for efficient, transparent and cost-effective capital market services.

One also needs to make note of unwavering efforts by all market participants – member firms and issuers in particular, as well as excellent cooperation with the Regulator – without which it would have been impossible to bring such a challenging year as 2020 to a successful close.

In the coming year, we will strive to improve our services further and continue to develop all the initiated projects, focusing in particular on enhancing the level of knowledge and expertise of all capital market participants through the ZSE Academy, while also joining forces with the Regulator, issuers and other stakeholders to create an environment conducive to excellence, the highest ethical standards in business and corporate governance in a bid to contribute to increasing the value of the market as a whole and to create better investment opportunities for companies and investors.

The Zagreb Stock Exchange development over the past three decades since its establishment has always been aimed at creating a regional leader in the provision of capital market services by setting up sound and resilient market infrastructure, comparable to those of the most developed markets.

We are confident that this is the time, as Croatia faces some of the greatest challenges in its history, in which the Exchange can put its full potential to work and take the appropriate place in the country's economic system to provide additional sources of capital to the companies hit by the crisis or those seeking to use the circumstances for business expansion, either through acquisitions or by penetrating new markets. In other words, the Exchange wishes to put the capacity it has to use so that it can become one of the key catalysts of such growth and development that the Croatian economy and its companies undoubtedly deserve.

TRADING IN 2020

The year got off to a good start in terms of solid trading statistics, as a logical continuation of the very good year 2019, which would prove a useful buffer for the events to follow. The first COVID-positive patient in Croatia was suspected on 24 February 2020 and, as a result, the CROBEX index lost close to 5% of its value in a single day. As the suspicion was confirmed on the subsequent day, the CROBEX recorded a further almost 2% loss. In the intense trading marked by high market volatility that ensued over the following weeks, daily turnover totalled approximately HRK 30 million – or three times as much as usual – with major corrections in the indices.

The market activity was relatively subdued in April and, although halved, share turnover trading was halved stood considerably higher than in January (approx. +50%). May and June brought about further market stabilisation, as well as a mild recovery in index values and market capitalisation, and the rest of the year was slightly less hectic than its first half.

While the index correction reached as much as -30% at a certain point, most of the losses were recouped at an annual level.

Order book trading turnover and total turnover ended 4.5% higher, with order book share turnover exceeding that in the previous year by 5.6%. Overall, Market value expressed through market capitalisation strengthened by almost 3%. Prime Market, bolstered by the listing of Croatian Telecom, Inc. shares, led capitalisation growth while Prime Market recorded the highest increase (124.3%) in terms of the number of transactions.

ETFs, which began trading in mid-Novembers, attracted substantial investor interest, ending the year in the “green” with almost HRK 22 million in turnover in merely a few weeks.

Despite corrections, indices closed at a satisfactory level, especially in view of the overall situation through the year and the losses generated, which were mostly annulled by its end.

While some indices shed between 7.5% and 10% percent of their value, the CROBEX and the CROBEXtr declined by 13.8% and 12.5% respectively. Certain indices recorded major gains, however, with the CROBEXindustrija (+9.19%) and the CROBEXkonstrukt (+61.74%) leading the way. The CROBEXtunist grew a meagre +0.60%, marking a symbolic victory for one of the hardest hit sectors, which eventually recorded better results in Croatia than in many comparable markets and certainly beating some earlier forecasts.