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CORPORATE GOVERNANCE

2013

CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



HANFA

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Introduction

For the fourth consecutive year, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) has drawn up the Annual Report on Corporate Governance (hereinafter: the Report), presenting the level of corporate governance reached by issuers whose securities are admitted to trading on the regulated market in the Republic of Croatia.

Corporate governance in the European Union and in other countries of the region and worldwide is aimed at increasing the responsibility of relevant persons within companies, strengthening internal and external control mechanisms and more stringent transparency requirements in relation to information provided to shareholders and investors.

Sources of data

As in the previous years, the fourth edition of the Report has been prepared on the basis of data collected directly from issuers, from Zagrebačka burza d.d (hereinafter: Zagreb Stock Exchange), from Središnje klirinško deponitarno društvo d.d. (Central Depository and Clearing Company, hereinafter: CDCC), and from the register of companies.

The Questionnaire for the Preparation of the 2013 Annual Report on Corporate Governance (hereinafter: the Questionnaire) was intended for all the issuers whose securities were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2013. It comprised a comprehensive list of questions about general data on the issuer, own shares, management and supervisory board structure, management and supervisory board meetings, supervisory board committees, management and supervisory board members' remuneration and options, all general meetings held, Code of Corporate Governance¹, internal and external control, risks, conflicts of interest, dividend payments, etc.

Pursuant to the Ordinance on information that needs to be submitted by issuers whose securities are admitted to trading on a regulated market in the Republic of Croatia to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission (Official Gazette 66/14), the deadline for the submission of the Questionnaires is 30 June of the current year.

2013 Capital Market

The continuing decline in economic activity, followed by a decrease in liquidity, had an impact on capital market activities, causing both a further drop in trading liquidity on the Zagreb Stock Exchange, which recorded a slight (1.2%) fall in total turnover, and a downward trend in share issuers' listings on the regulated market. As regards market trends, the most significant stock index, CROBEX®, grew by 3.1% compared to 2012, while the most important bond index, CROBIS®, fell by 4.4%. Capital market developments were also marked by pre-bankruptcy settlement proceedings initiated against issuers whose securities were admitted to trading on the regulated market in the Republic of Croatia, with more than 40 issuers undergoing pre-bankruptcy settlement proceedings during 2013. A positive trend was reflected in the fact that four share issuers employed specialists for the purpose of ensuring stock liquidity. At the end of 2013, there were a total of seven stocks traded by specialists, of which four stocks were traded by two specialists – members of the Zagreb Stock Exchange each (three stocks at the end of

¹ The Code was drawn up by the Zagreb Stock Exchange and Hanfa, for the purpose of setting high standards of corporate governance and transparency of operation of joint-stock companies. Another purpose of the Code was to protect investors and other stakeholders by laying down requirements for sound and responsible governance and for the supervision of business and management functions of joint-stock companies.

2012)². It is important to mention that the accession of the Republic of Croatia to the European Union also caused changes in the capital market regulatory framework: prior to the accession, all the relevant directives had already been implemented in the Croatian legislation, and as of 1 July 2013, all EU regulations, including those relating to the capital market, have been directly applicable in the Republic of Croatia, too.

1 Annual Report on Corporate Governance of Share Issuers

1.1 Introduction

Out of 165 issuers admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2013, 135 completed and submitted the Questionnaire. The total market capitalisation of issuers that submitted their data amounted to HRK 110.7bn or 97.65% of the market capitalisation of all listed issuers. On the same date, three issuers were undergoing bankruptcy proceedings and three issuers were undergoing winding-up proceedings.

Number of issuers and number of shares

In 2013, the number of issuers on the regulated continued its downward trend.

As at 31 December 2013, the number of issuers totalled 165, falling by 10.33% compared to the previous year, when there were 184 issuers admitted to trading (19 more), or by 19.12% in comparison with 31 December 2011, when there were 204 issuers admitted to trading.

Out of a total of 165 issuers admitted to trading as at 31 December 2013, 21 issuers were admitted to trading on the official market and 144 on the regular market. As at 31 December 2012, out of a total of 184 issuers, 21 were admitted to trading on the official market and 163 on the regular market. As at 31 December 2011, out of a total of 204 issuers, 20 were admitted to trading on the official market and 184 on the regular market.

In the course of 2013, the number of admitted ordinary shares declined by 19 or 10.27% (from 185 as at 31 December 2012 to 166 as at 31 December 2013). The number of admitted preference shares held steady and totalled 15 as at 31 December 2013.

Shares not traded yet

By 31 December 2013, 14 admitted shares of ten different issuers had not been traded on the Zagreb Stock Exchange, namely shares of the following issuers: ordinary share of 3. MAJ BRODOGRADILIŠTE d.d. (3MAJ-R-A), preference shares of Croatia Airlines d.d. (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, CRAL-P-A4), ordinary share of Dalma d.d. (DALS-R-A), preference share of Istarska kreditna banka Umag d.d. (IKBA-P-A), ordinary share of Kapitalni fond d.d. (KAPF-R-A), ordinary share of PAN-papirna industrija-trgopromet d.d. (PAN-R-A), preference share of Plava laguna d.d. (PLAG-P-A), ordinary share of Poljoprivredno poduzeće Orahovica d.d.

² Source: Zagreb Stock Exchange

(PPOR-R-A), preference share of Pounje d.d. (PUNT-P-A) and ordinary share of Vodoprivreda Zagreb d.d. (VDZG-R-A).

The number of admitted shares that had not been traded fell by two relative to 31 December 2012, due to the removal from trading of ordinary shares of Dalit corp. d.d. u stečaju (DLTC-R-A) and the transaction in shares of Sunce osiguranje d.d.

Admissions

In 2013, there were no admissions of shares of new issuers either on the official or on the regular market of the Zagreb Stock Exchange, just as there were no such admissions in 2011 or 2012.

In 2013, 18 issuers withdrew their shares from the regular and one from the official market; in 2012, 21 issuers withdrew their shares from the regular and none from the official market; while in 2011, 12 issuers withdrew their shares from the regular and none from the official market. In the course of the previous year, no issuers transferred from the regular to the official market.

Sector division

a) Classification into the financial and non-financial sector

Issuers are classified into the financial and non-financial sector. The financial sector comprises financial institutions and closed-ended investment funds. The non-financial sector is comprised of other activities.

At the end of 2013, out of a total of 165 share issuers, 22 (13.33%) issuers belonged to the financial, and the remaining 143 (86.67%) to the non-financial sector. At the end of 2012, out of a total of 184 share issuers, 27 (14.67%) issuers belonged to the financial, and the remaining 157 (85.33%) to the non-financial sector. At the end of 2011, out of a total of 204 share issuers, there were 27 (13.24%) issuers from the financial and 177 (86.76%) issuers from the non-financial sector.

b) Classification into groups of activities

The financial and non-financial sectors are divided into subcategories. Table 1.1 shows changes in the number of issuers by activities at the end of 2011, 2012 and 2013.

Table 1.1 Issuers by groups of activities as at 31 December 2011, 2012 and 2013

Group of activities	Number of issuers			
	2011	2012	2013	Change 2012/2013
FINANCIAL SECTOR				
Banks	14	14	13	-1
Insurance	6	6	5	-1
Closed-ended investment funds	7	7	4	-3
NON-FINANCIAL SECTOR				
Agriculture	7	7	5	-2
Industry				0
a. Shipbuilding	4	4	4	0
b. Wood industry	3	3	3	0
c. Energy	1	1	1	0
d. Pharmaceuticals	3	3	3	0
e. Food, beverage and tobacco	25	22	20	-2
f. Chemical industry	8	5	5	0
g. Metalworking industry	10	8	6	-2
h. Textile industry	8	5	4	-1
i. Other industries	6	1	0	-1
Construction industry	12	12	11	-1
Property	4	4	6	2
Telecommunications	5	5	5	0
Transport	12	10	10	0
Trade	19	19	18	-1
Tourism	46	44	38	-6
Other activities	4	4	4	0
TOTAL	204	184	165	-19

Source: Hanfa, Zagreb Stock Exchange

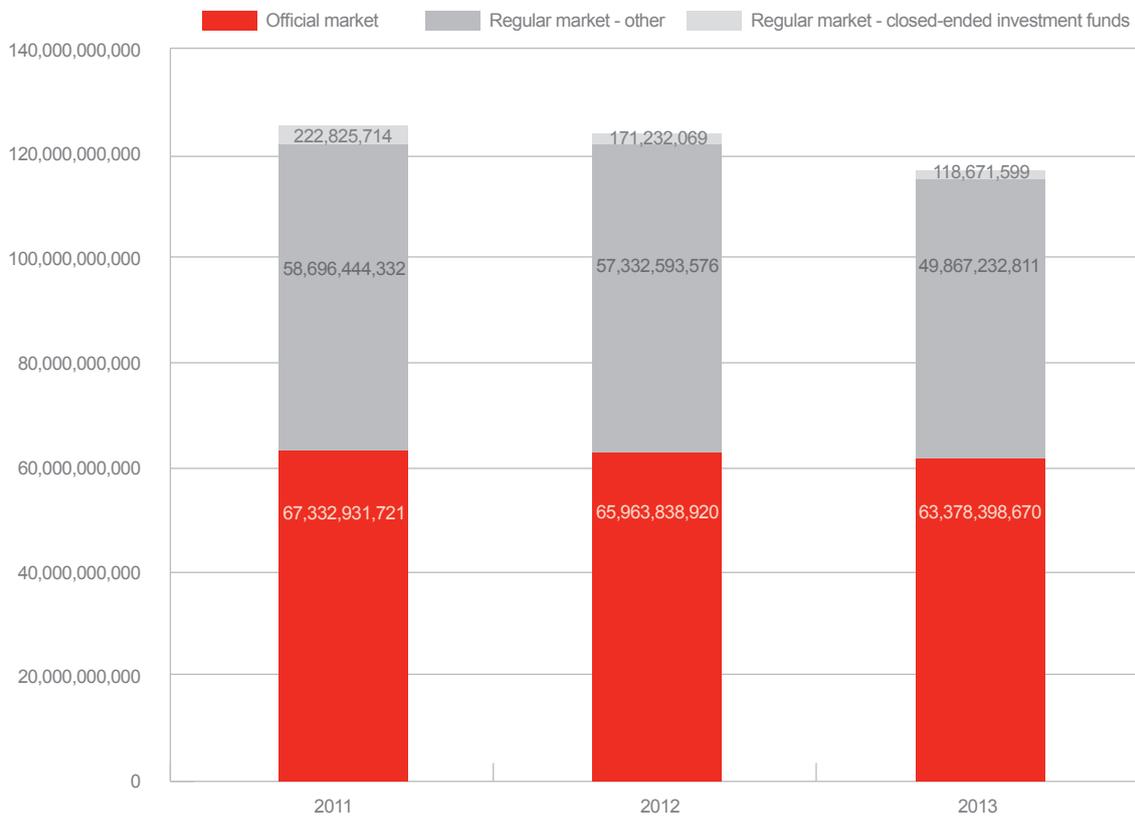
At the end of 2013, the largest number of issuers belonged to the tourism industry, followed by issuers from the food industry and from trade.

Out of 19 issuers that removed their shares from trading on the regulated market in 2013, two belonged to the financial, and 17 to the non-financial sector. The removals were mostly due to the decision of the general meeting (eight issuers). Six issuers removed their shares from trading on the regulated market due to the initiation of the bankruptcy proceedings, meaning that issuers' shares were removed from trading at the request of the trustee in bankruptcy. Four issuers removed their shares from the regulated market as a result of the squeeze-out of minority shareholders, and one issuer transformed into a limited liability company.

Market capitalisation

Chart 1.1 shows changes in market capitalisation by types of market at the end of 2011, 2012 and 2013.

Chart 1.1 Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2011, 2012 and 2013



Source: Zagreb Stock Exchange

- In 2013, the total market capitalisation of the official market declined by 3.92%, reaching HRK 63.4bn as at 31 December 2013.
- In 2013, the total market capitalisation of the regular market decreased by 13.07%, amounting to HRK 49.9bn as at 31 December 2013.
- Market capitalisation of issuers which submitted their 2013 Questionnaires (135 issuers) stood at HRK 110.7bn as at 31 December 2013.

1.2 Capital and origin of capital

The following text presents an analysis of the initial capital of issuers based on data from the register of companies, an analysis of the market capitalisation of issuers based on data from the Zagreb Stock Exchange and an analysis of capital distribution, ownership structure and capital origin based on data from the CDCC.

1.2.1 Initial capital

Initial capital is the start-up capital of issuers used for starting their business. The minimum initial capital requirements for joint-stock companies amount to HRK 200,000.00. From the shareholders' point of view, the most important function of the initial capital is, depending on nominal amounts of individual shares initial capital is divided into, to serve as a measure for internal relations among the shareholders.

At end-2013, the initial capital of 165 share issuers totalled HRK 60.4bn, falling compared to end-2012, when 184 issuers recorded their initial capital in the amount of HRK 66.4bn or 9.93% more. In comparison with 2011, when there were 39 admitted issuers more, the initial capital fell by HRK 8.2bn.

The amount of share issuers' initial capital ranged, as in 2012, between HRK 6.7m and HRK 9bn.

In the course of 2013, 18 issuers (three times more than in 2012) increased their initial capital, whereas 13 issuers (one issuer more than in 2012) decreased their initial capital. Out of them, seven issuers (five issuers more than in 2012) both decreased and increased their initial capital.

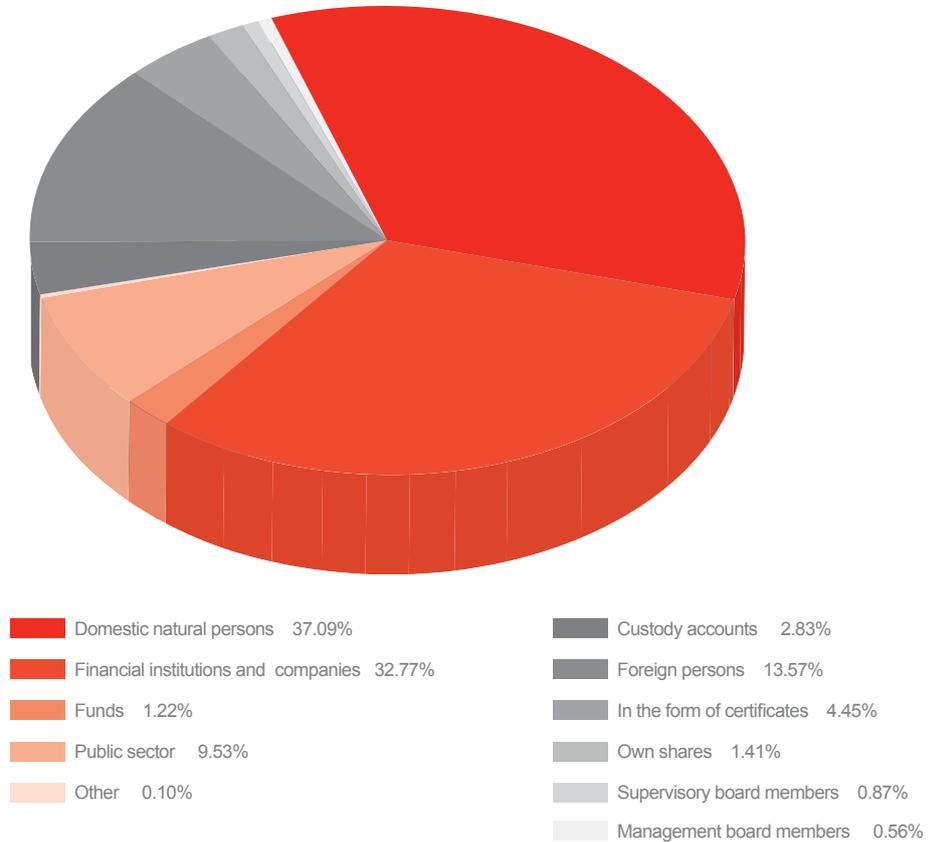
1.2.2 Ownership structure

Data on the ownership structure of share issuers have been provided on the basis of information received from the CDCC. The ownership structure has been analysed by groups of shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to one group only. The structure of joint-stock companies is divided into following groups:

- Own shares,
- Financial institutions and companies,
- Funds (investment funds and pension funds with their registered offices in the Republic of Croatia),
- Public sector (Republic of Croatia),
- Members of the management board,
- 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,
- In the form of certificates,
- Other.

Chart 1.2 presents the ownership structure of share issuers as at 31 December 2013 by the above mentioned groups.

Chart 1.2 Ownership structure of share issuers as at 31 December 2013



Source: CDCC

- As at 31 December 2013, the ownership structure of share issuers was dominated by domestic natural persons with a 37.09% share (35.62% in 2012) and financial institutions and companies with a 32.77% share (33.16% in 2012). The public sector or the Republic of Croatia increased its share from 8.49% in 2012 to 9.53%. A slight increase in the share in the issuers' ownership structure was also recorded by foreign persons (from 13.27% to 13.57%), while the share of funds fell from 2.28% to 1.22%.

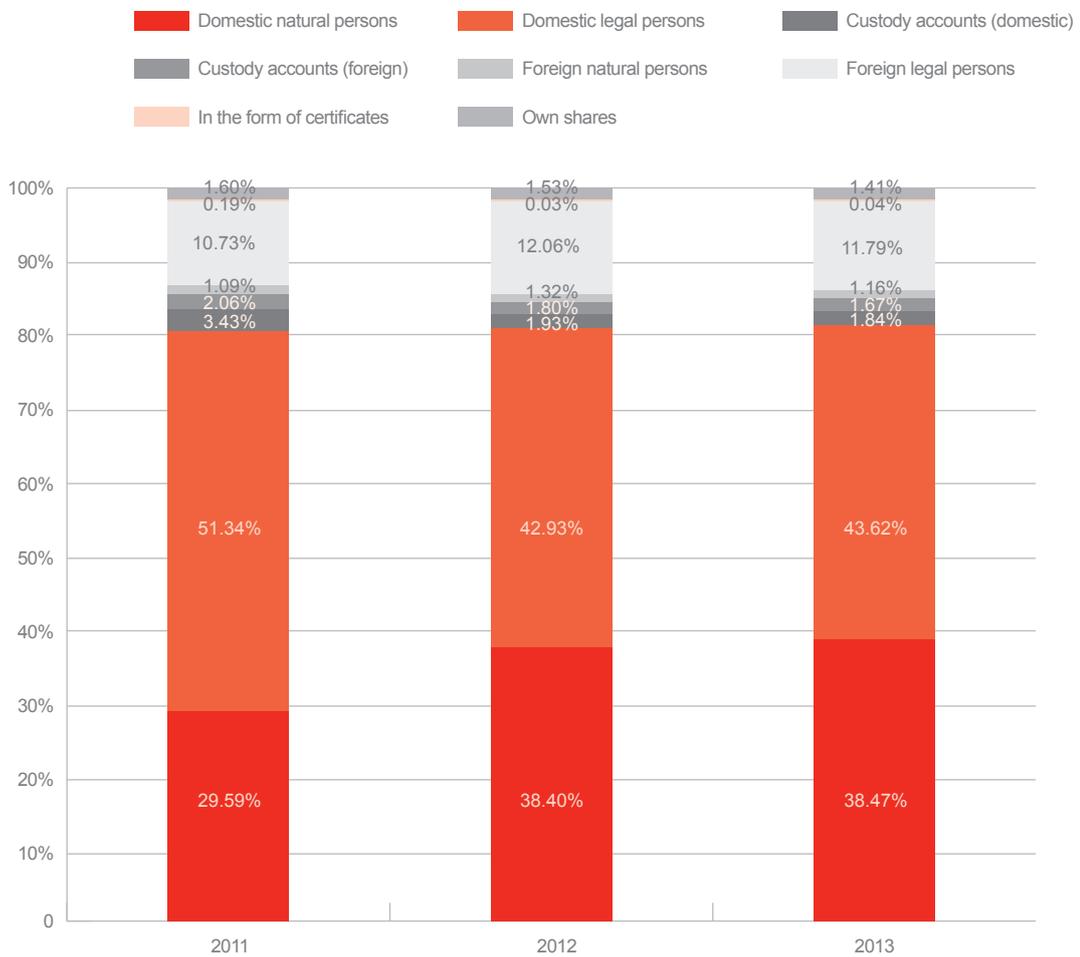
1.2.3 Origin of issuers' capital

There are no legal restrictions with respect to the origin of capital of joint-stock companies.

Chart 1.3 shows the ownership of individual shares by the following categories:

- Domestic natural persons,
- Domestic legal persons,
- Custody accounts (domestic),
- Custody accounts (foreign),
- Foreign natural persons,
- Foreign legal persons,
- Own shares,
- In the form of certificates.

Chart 1.3 Origin of issuers' capital as at 31 December 2011, 2012 and 2013



Source: CDCC

- The largest share in the share ownership was still accounted for by domestic legal persons with a 43.62% share (42.93% and 51.34% in 2012 and 2011 respectively), that remained almost the same as in the previous year, as did the share of domestic natural persons.
- The share of domestic capital totalled 83.75% (83.13% in 2012 and 85.79% in 2011), whereas foreign capital accounted for a 14.79% share (15.31% in 2012 and 13.87% in 2011).

1.3 Issuers' governing bodies

The system of governance of a company is defined by its statute. The general meeting is a mandatory governing body of a company. The governance and supervision of a company may be the function performed by one governing body, namely a board of directors in the case of a one-tier governance system, or by two separate governing bodies, namely a management board and supervisory board in the case of a two-tier governance system..

1.3.1 Management board³

The function of a management board in a two-tier governance system is the management and representation of the company. Members of the management board 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. As at 31 December 2013, out of the total number of issuers (165), two had a one-tier and 163 issuers had a two-tier governance system. This chapter presents the analysis of the structure of share issuers' management and supervisory boards. Data relating to executive directors and the chief executive of issuers with a one-tier governance system are analysed along with data on management board members, while data relating to the board of directors, deputy chairman and chairman of the board of directors are analysed along with data on members of the supervisory board of issuers with a two-tier governance system. The management board may consist of one or more persons. The number of management board members is stipulated by the statute of the issuer. The Companies Act (Croat.: Zakon o trgovačkim društvima, Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 68/13; hereinafter: ZTD), does not stipulate the minimum number of management board members. Only natural persons with full legal capacity may be appointed members of the management board.

The analysis comprises all issuers of shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2011, 2012 and 2013, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies. The ratio of the number of management board members to the number of issuers analysed in this Report is an important tool for the interpretation of data.

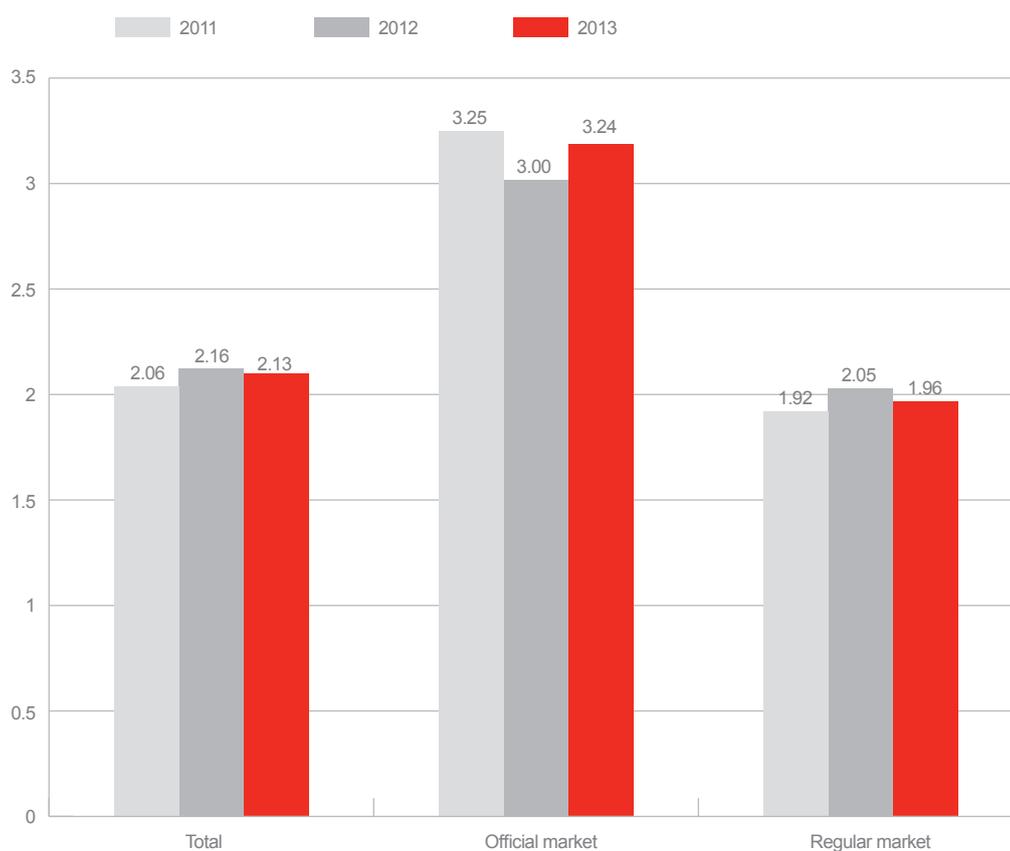
- As at 31 December 2013, there were a total of 334 management board members in 157 analysed issuers (an average of 2.13 management board members per issuer). As at 31 December 2012., the average number of management board members totalled 2.16, whereas as at 31 December 2011, it amounted to 2.06.

³ Data on the number, gender and residence (domestic residents/foreign residents) of management board members have been analysed based on the data from the register of companies 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 register of companies in a timely manner.

- As at 31 December 2013, a total of 73 issuers (46.50%) had a single management board member, while as at 31 December 2012 and as at 31 December 2011 a single management board member was reported by 77 (43.75%) and 96 (48.73%) issuers respectively.
- As at 31 December 2013, the maximum number of management board members totalled seven (as in 2012, while eight management board members were reported by one issuer in 2011).

Chart 1.4 shows the average number of management board members as at 31 December 2011, 2012 and 2013 with respect to the type of market.

Chart 1.4 Average number of management board members by the type of market as at 31 December 2011, 2012 and 2013



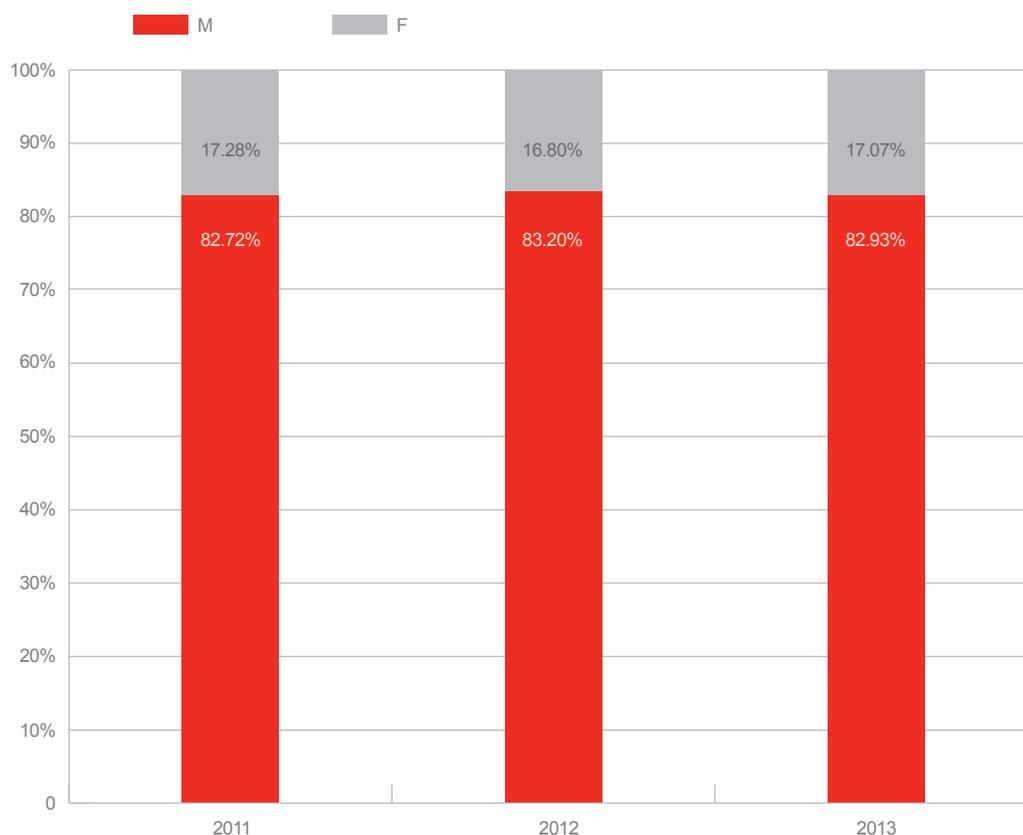
Source: register of companies, Zagreb Stock Exchange

- As at 31 December 2013, the average number of management board members totalled 2.13, falling by 1.39% relative to 31 December 2012. The average number of management board members on the official market rose by 8.00% relative to 31 December 2012, while it dropped by 4.39% on the regular market.

Gender diversity of management board members

Chart 1.5 presents the proportion of men to women on management boards of issuers as at 31 December 2011, 2012 and 2013.

Chart 1.5 Proportion of men to women on management boards as at 31 December 2011, 2012 and 2013



Source: register of companies

- The largest share of female management board members was recorded in the insurance sector (41.67%), followed by the banking sector (32.50%), wood industry (30.00%) and telecommunications (28.57%).

One of the goals of the National Policy on Gender Equality (2011-2015), adopted by the Croatian Parliament at its session on 15 July 2011, is to create gender balance in the process of appointing supervisory and management board members of companies in the public and private sector, by ensuring that the share of the under-represented gender, pursuant to the Act on Gender Equality (Official Gazette 82/08), does not fall below 40%

The data provided in this report shows that the share of women on management boards of issuers is still lagging far behind the intended share.

The following text presents the analysis of the data delivered in the 2013, 2012 and 2011 Questionnaires.

Rules of procedure of the management board

The management board may adopt rules of procedure, provided its adoption does not fall, according to the statute, within the competence of the supervisory board, or provided it has not been adopted by the supervisory board without it having such competence. Matters otherwise regulated by the rules of procedure may be defined by the statute. Pursuant to the Code of Corporate Governance, rules of procedure of the management board must contain provisions on the area of activity and goals, rules of conduct, rules on handling conflicts of interest, the secretariat of the management board, the manner of convening and conducting meetings, decision-making, agenda, minute-taking and document-keeping, and cooperation with the supervisory board.

- In 2013, a total of 59 issuers reported having an internal regulation on management board activities (rules of procedure of the management board).

Meetings of the management board

- A total of 72 issuers submitted their data on the number of management board meetings held in 2013, that ranged between 2 and 245, with the average number totalling 38.
- A total of 35 issuers reported having a schedule of meetings of the management board in 2013.
- In 2013, a total of 12 issuers reported having mechanisms for proxy voting at management board meetings.

Succession planning

Pursuant to the Code of Corporate Governance, the supervisory board of the issuer must provide for a long-term succession planning process, ensuring careful and timely appointment of a successor to any member of the management board of the issuer. The management team of the issuer should also be involved in this process.

- A total of seven issuers reported having established a succession planning process in 2013.

Term of office and duration of the management board membership

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

- In 2013, the average duration of the management board membership was 5.22 years, whereas in 2012 and 2011, it was 5.75 and 5.68 years respectively.
- The sequence number of the term of office of management board members was 1.97 in 2013, while it totalled an average of 2.01 in 2012 and 1.97 in 2010. In 2013, the largest number of consecutive terms of office (9) was reported by one management board member.

Resignation of management board members

Resignation is one of the commonest ways of terminating a function in a governing body of the issuer. Resignation of the management board member is submitted to the supervisory board in writing.

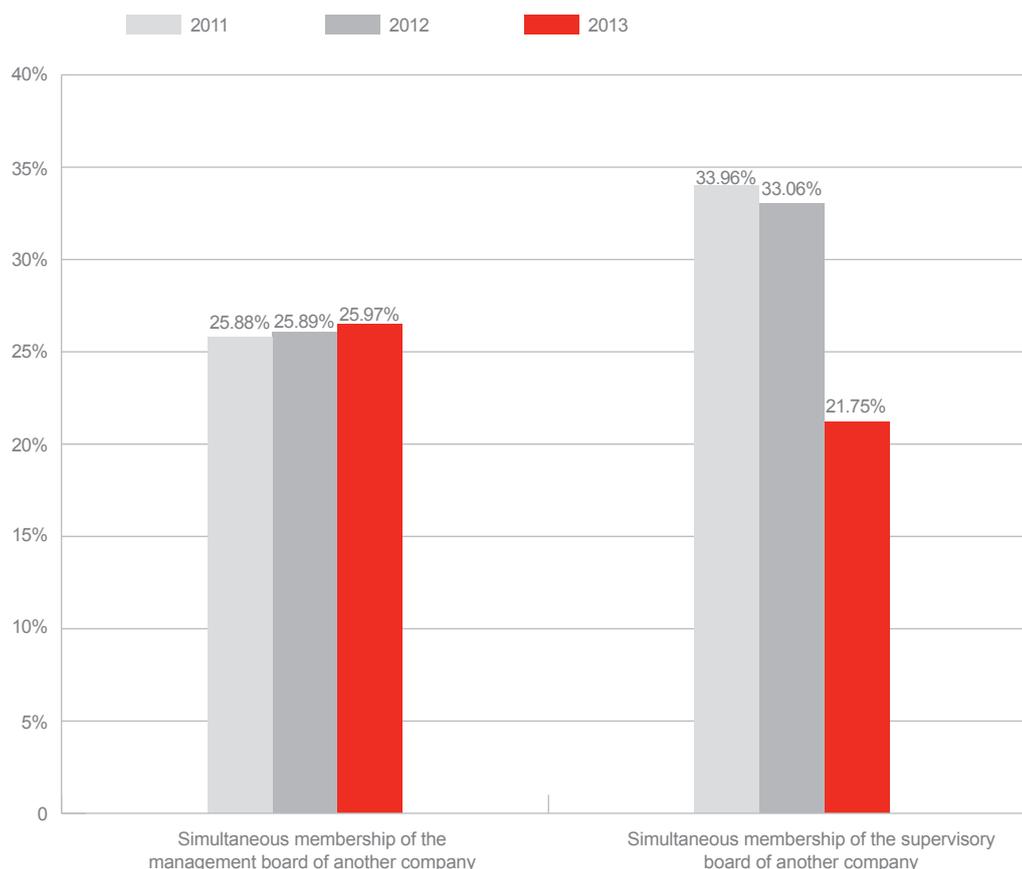
- In the course of 2013, a total of 24 management board members resigned before their terms of office expired. In 2012, there were 26 management board members who resigned, while in 2011 resignation was submitted by 19 management board members. Reasons for the resignations were mostly linked to personal issues and changes in the ownership structure.

- Most of the management board members who resigned came from industry (7), followed by those from the tourism industry and property and funds industry (3) and the construction industry (2).

Multiple management/supervisory board memberships

Chart 1.6 shows changes in the number of management board members who were at the same time members of management/supervisory boards of other issuers.

Chart 1.6 Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2011, 2012 and 2013



Source: Questionnaire

1.3.2 Supervisory board⁴

The supervisory board is the main supervisory body of the company. Supervisory board members are appointed by the general meeting of the company. The statute of the company may provide for certain shareholders to appoint a certain number of supervisory board members. The statute also stipulates the number of supervisory board members appointed by employees pursuant to the Labour Act (Official Gazette 93/14).

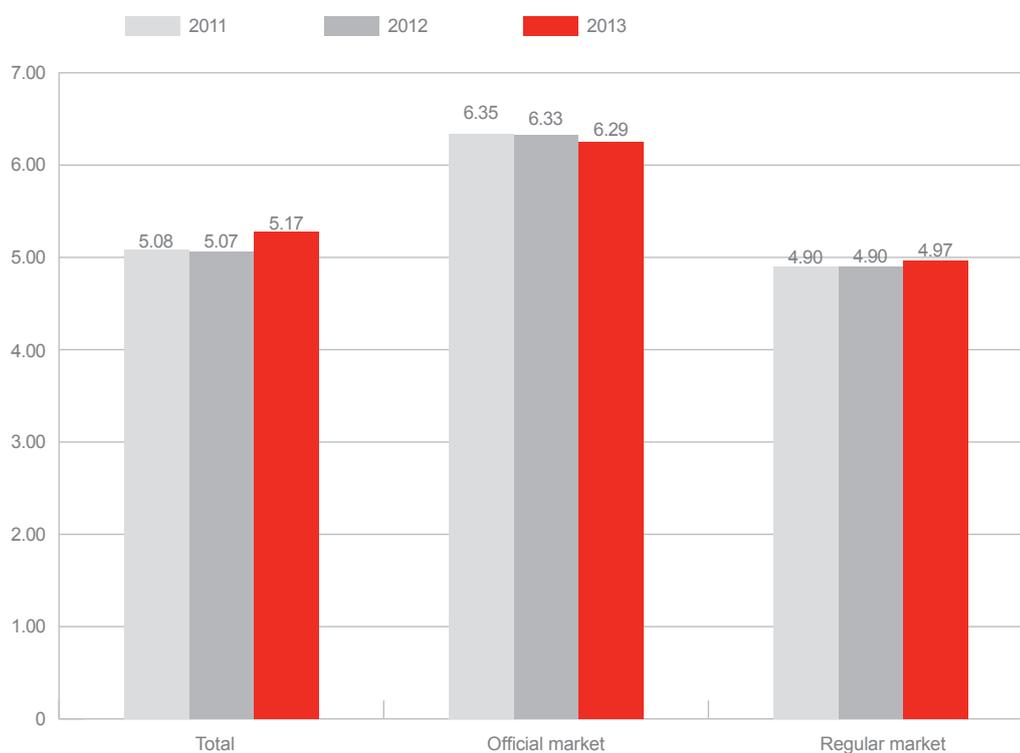
The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2011, 2012 and 2013, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies.

⁴ Data on the number, gender and residence (domestic residents/foreign residents) of supervisory board members have been analysed based on the data from the register of companies 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 register of companies in a timely manner.

- The average number of supervisory board members increased slightly over the three analysed years, from 5.05 as at 31 December 2011 to 5.07 as at 31 December 2012 to 5.17 as at 31 December 2013.
- The minimum number of supervisory board members (3) was reported by 30 issuers as at 31 December 2013, by 40 issuers as at 31 December 2012 and by 47 issuers as at 31 December 2011.
- The maximum number of supervisory board members totalled 13 in all the three analysed years, and was reported by only one issuer in this period.

Chart 1.7 shows the average number of supervisory board members as at 31 December 2011, 2012 and 2013 with respect to the type of market.

Chart 1.7 Average number of supervisory board members by the type of market as at 31 December 2011, 2012 and 2013



Source: register of companies, Zagreb Stock Exchange

Pursuant to the Code of Corporate Governance, the majority of supervisory board members must 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 or majority holder.

The most important feature of an independent supervisory board member is lack of any conflict of interest. Independent supervisory board members ensure the adoption of objective decisions relating to management board members, the company itself and its shareholders, such as decisions on remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, large takeovers and audit function.

The employee/trade union representative is a supervisory board member appointed by the works council. There may be only one such representative on the supervisory board, however, their number is not limited by law. The supervisory board member appointed by the works council has the same legal status as other appointed members of the supervisory board.

The right to appoint supervisory board members may only be granted to certain shareholders or servient holders of certain shares (the representative of significant shareholder/group of shareholders). Holders of certain shares may be granted the right by the statute to appoint supervisory board members if the transfer of those shares requires the consent of the company. Such shares do not constitute a special class of shares. Shareholders may appoint a maximum of one third of supervisory board members.

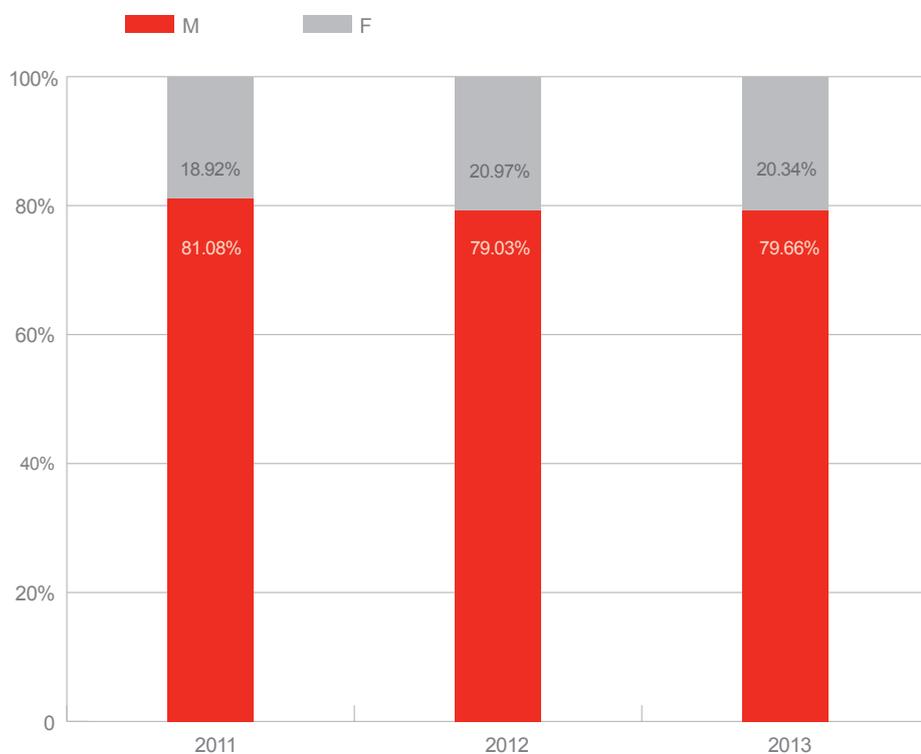
All supervisory board members have equal rights in the decision-making process, irrespective of the said classification.

- According to the data from the 2013 Questionnaire, independent supervisory board members accounted for a 42.82% share in the total number of members of share issuers' supervisory boards (the share rose compared to 2012, when it totalled 39.87%). Employee/trade union representatives made up an 11.86% share (11.92% in 2012), whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 45.32% (48.21% in 2012) of the total number of all supervisory board members.
- Od ukupno 307 nezavisnih članova nadzornih odbora najviše (56) ih je bilo u nadzornim odborima izdavatelja iz sektora prehrambene industrije, 50 ih je bilo u nadzornim odborima izdavatelja iz sektora turizma, 25 u nadzornim odborima izdavatelja iz sektora nekretnina i fondova te 24 u nadzornim odborima izdavatelja iz sektora građevinarstva.

Gender diversity of supervisory board members

Chart 1.8 shows the proportion of men to women on supervisory boards of issuers in 2011, 2012 and 2013.

Chart 1.8 Proportion of men to women on supervisory boards of issuers in 2011, 2012 and 2013



Source: register of companies

- In 2013, out of 816 analysed supervisory board members, 166 were women, who made up a 20.34% share. The average share of women on supervisory boards totalled 20.08% in all the three analysed years.
- In 2013, the share of women on supervisory boards was by 19.16% larger than the share of women on management boards.

The following text presents the analysis of data based on the answers provided in the 2013 Questionnaire.

Meetings of the supervisory board

- In 2013, a total of 44 issuers reported having a schedule of meetings of the supervisory board.
- A total of 47 issuers reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 86 issuers (63.70% of issuers that submitted their Questionnaires) reported having an internal regulation on supervisory board activities. In 2012, 58.94% of issuers that submitted their Questionnaires reported having such a regulation.
- In 2013, supervisory boards held an average of 8.36 meetings, with the number of the meetings ranging from 0 to 117.

Term of office and duration of the supervisory board membership⁵

- The average duration of the supervisory board membership grew slightly over the observed period. At end-2013, it totalled 5.40 years, in 2012 it was 5.22 years, whereas in 2011 it amounted to 5.15 years.
- As at 31 December 2013, the sequence number of the term of office of supervisory board members totalled an average of 2.06. In 2012 and 2011, this number amounted to 1.98 and 1.96 respectively. In 2013, the largest number of consecutive terms of office (13) was reported by one supervisory board member.

Resignation of supervisory board members

In the course of 2013, a total of 21 supervisory board members and three supervisory board chairmen resigned before the expiration of their terms of office. Reasons for the resignations were mostly linked to personal issues, assumption of office in the government, and avoidance of conflicts of interest.

Supervisory board committees

Pursuant to the Code of Corporate Governance, supervisory boards must establish the following committees:

- Audit committee,
- Nomination committee and
- Remuneration committee.

The majority of committee members must be selected from among independent supervisory board members. Each committee must have at least three members. The supervisory board must prescribe in detail the term of office and competence of the committees it has established.

- The audit committee was established by most of the issuers (77 issuers or 57.03% of the issuers that submitted their 2013 Questionnaire; 50.33% of the issuers in 2012, and 46.55% of the issuers in 2011). The remuneration committee was established by 12 issuers and the nomination committee by seven issuers.
- Internal working procedures were established by 42 audit committees (54.55%), seven remuneration committees (58.33%) and six nomination committees (85.71%).
- Apart from having established the said committees, seven issuers reported having set up another committee (committee for loan proposal supervision, sustainability committee, corporate governance committee, property committee, strategic development committee, internal control and audit committee, legal advice committee).
- During 2013, a total of 24 issuers reported being in the process of preparing a report on the work of committees, whereas six issuers made their committee reports publicly available.

1.3.3 Remuneration

The supervisory board of the issuer is responsible for the adoption of decisions on the remuneration of management and supervisory board directors, which must be in line with the long-term interests of issuers and their 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.

1.3.4 Remuneration of management board members of share issuers

The criteria and amount of remuneration of management board members is determined by the supervisory board. In accordance with Article 247 paragraph 1 of the ZTD, when determining the aggregate income of a particular management board member (salary, profit participation, reimbursement of expenses, payment of insurance premiums, commissions and all other benefits), the supervisory board must 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.

Pursuant to the Code of Corporate Governance, the remuneration of management board members must consist of:

- 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), and
- Share options and similar instruments with the effect of long-term incentives.

5 The following analysis presents data on terms of office, resignations, and multiple supervisory board memberships based on the information from the 135 Questionnaires submitted. Therefore, the total number of supervisory board members differs with respect to the data from the register of companies, which relates to all issuers.

Table 1.2 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of share issuers, the average amount of other benefits paid to management board members, the average value of options held by management board members and the respective amounts paid in 2013, 2012 and 2011. The amounts shown in Table 1.2 are average amounts paid to the entire management board (not to a single management board member).

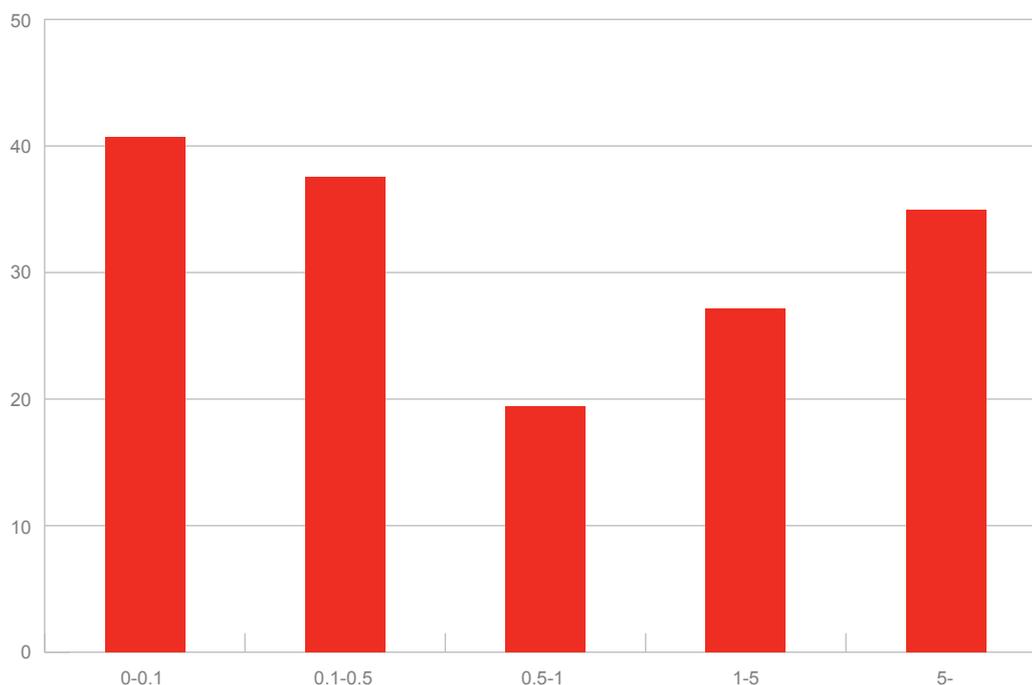
Table 1.2 Amount of remuneration of management board members of share issuers in 2013, 2012 and 2011 (in HRK)

		Average gross amount of remuneration paid to management board members during the year		Average amount of other benefits paid to management board members	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2013	Number of issuers	97	12	7	4
	Amount	1,643,661	3,159,631	738,948	3,961,111
2012	Number of issuers	104	13	7	5
	Amount	1,664,924	3,106,514	499,834	3,881,929
2011	Number of issuers	118	17	10	5
	Amount	574,882	482,458	334,683	640,528

Source: Questionnaire

- In 2013, gross amounts of fixed remuneration paid to management board members ranged between HRK 17 thousand and HRK 13.9m
- As in the previous year, in 2013 the highest nominal amounts of remuneration were paid to management board members of issuers from the banking sector, followed by issuers from the tourism industry, food industry and telecommunications. The lowest nominal amounts of remuneration were paid to management board members of issuers from the transport industry (shipping), wood industry, and property and fund industry.
- Gross amounts of variable remuneration ranged from HRK 30.7 thousand to HRK 17.9m. The highest amount of variable remuneration was paid to management board members from the banking sector and the lowest to management board members from the tourism industry.
- The total value of options held by management board members ranged from HRK 3.4 thousand to HRK 7.6m.
- The total amount of other benefits paid to management board members ranged between HRK 29.6 thousand and HRK 2.8m.
- A total of 20 issuers reported having submitted the annual remuneration policy statement relating to management board members to the general meeting in 2013.

Chart 1.9 Total gross amount of fixed remuneration paid to management board members in 2013 (in HRK million) with respect to the market capitalisation of issuers (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

In 2013, issuers with a market capitalisation totalling HRK 0-0.1bn paid to their management board members an average gross fixed amount reaching HRK 783 thousand; issuers with a market capitalisation totalling HRK 0.1-0.5bn paid to their management board members an average gross fixed amount reaching HRK 1.6m; issuers with a market capitalisation totalling HRK 0.5-1bn paid to their management board members an average gross fixed amount reaching HRK 2.2m; issuers with a market capitalisation totalling HRK 1-5bn paid to their management board members an average gross fixed amount reaching HRK 3.9m, and issuers with a market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount reaching HRK 11.7m.

Management board remuneration policy

Pursuant to the Code of Corporate Governance (Chapter 6.3 Remuneration), the issuer must disclose a remuneration policy statement relating to management and supervisory board members as part of its annual report. The remuneration policy statement must be permanently available on the website of the issuer.

- A total of 28 issuers reported having a remuneration policy for management board members in place for 2013. Such a remuneration policy was reported by 27 and 28 issuers for 2012 and 2011 respectively.
- A total of 18 issuers that reported having a remuneration policy for management board members in place do not make this policy publicly available. Data on remuneration policy for management board members has been made available by the remaining issuers on their websites, the Zagreb Stock Exchange, and Hanfa, i.e. the Officially Appointed Mechanism for the Central Storage of Regulated Information (OAM).

Severance pay

- A total of 13 issuers reported total amounts of severance pay for management board members defined in contracts in 2013, which ranged from HRK 40 thousand to HRK 14.28m.
- Six issuers reported total amounts of severance pay given to management board members in 2013, which ranged from HRK 238.6 thousand to HRK 1.3m.
- In 2013, the highest total amount of gross severance pay was given to management board members of an issuer from the chemical industry, followed by an issuer from the pharmaceutical industry and another issuer from the banking sector.

1.3.5 Remuneration of supervisory board members of share issuers

Pursuant to Article 269 of the ZTD, 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, and it must be in line with the activities carried out by the supervisory board members and with the performance of the issuer.

- In 2013, a total of 25 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 74 issuers reported the level of supervisory board member remuneration being determined by the decision of the general meeting. The other issuers did not provide their answers.

Table 1.3 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to supervisory board members of share issuers, the average amount of other benefits paid to supervisory board members, the average value of options held by supervisory board members and the respective amounts paid in 2013, 2012 and 2011. The amounts shown in Table 1.3 are average amounts paid to the entire supervisory board (not to a single supervisory board member).

Table 1.3 Amount of remuneration of supervisory board members of share issuers in 2013, 2012 and 2011 (in HRK)

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2013	Number of issuers	96	6	2
	Amount	366,808	798,293	172,682
2012	Number of issuers	106	5	2
	Amount	389,518	772,636	93,508
2011	Number of issuers	123	5	2
	Amount	88,269	115,220	12,322

Source: Questionnaire

- In 2013, a total of 96 issuers reported the total gross amount of fixed remuneration paid to supervisory board members, which ranged from HRK 16.1 thousand to HRK 2m.
- Six issuers reported the total gross amount of variable remuneration paid to supervisory board members, which ranged between HRK 16.1 thousand and HRK 1.8m.
- A total of 19 issuers reported having submitted the annual remuneration policy statement relating to supervisory board members to the general meeting.

1.3.6 Remuneration of the senior management of share issuers

- The total gross amount of fixed remuneration paid to the senior management in 2013 was reported by 74 issuers, with the amounts ranging between HRK 124.2 thousand (an issuer from the tourism industry) and HRK 37m (an issuer from the insurance industry).
- The total gross amount of variable remuneration paid to the senior management was reported by seven issuers, with the amounts ranging between HRK 136.7 thousand and HRK 10.8m.
- The total value of options held by the senior management was reported by only two issuers (as in 2012), with the values ranging from HRK 443.8 thousand to HRK 2.1m.
- The total amount of severance pay for the senior management defined in contracts was reported by 15 issuers, with the amounts ranging from HRK 1 to HRK 16.8m.
- The total gross amount of severance pay given to the senior management was reported by ten issuers, with the amounts ranging from HRK 57.5 thousand to HRK 2.4m.
- The total amount of other benefits paid to the senior management was reported by eight issuers, with the amounts ranging from HRK 123 thousand to HRK 4.1m.

1.3.7 Related party transactions

In 2013, a total of 31 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 32 and 26 issuers in 2012 and 2011 respectively.

Table 1.4 sets out the average value of reported transactions during 2011, 2012 and 2013, concluded by the share issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 1.4 Average value of reported related party transactions in 2011, 2012 and 2013 (in HRK)

		Average gross value of related party transactions concluded by the issuer			
		with shareholders with more than 5% of the initial capital of the issuer	with management and supervisory board members of the issuer	with senior management of the issuer	within the group the issuer belongs to or is its parent
2013	Number of issuers having reported the transaction	38	16	10	48
	Transaction value	208,065,812	3,575,421	6,222,242	315,786,981
2012	Number of issuers having reported the transaction	49	19	13	61
	Transaction value	359,391,905	2,511,358	4,794,418	439,989,719
2011	Number of issuers having reported the transaction	53	23	13	65
	Transaction value	311,242,113	4,190,705	5,857,689	506,438,365

Source: Questionnaire

1.3.8 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, and may affect the decision-making process on the basis of interests which differ from interests of the issuer.

- At the end of 2013, a total of 31 issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest. The internal regulations contained the following basic provisions relating to conflicts of interest: identifying potential and/or actual conflicts of interest, transparency, preventing bribery and corruption, monitoring transactions by relevant persons, ensuring that interests of issuers' clients come before the interests of issuers and their employees, protecting investors through the prevention of use of inside information, etc.
- The majority of 31 issuers that reported having an internal regulation in place to identify, prevent and report conflicts of interest came from the banking sector (eight), followed by the property and fund industry (four) and the tourism industry (four).
- In 2013, a total of nine cases of conflicts of interest were reported by two issuers, whereas the other issuers did not report any conflicts of interest. Eight reported cases of conflicts of interest involved persons who failed to abstain from voting on entering related party transactions, whereas data was missing on one reported case of conflicts of interest.

1.3.9 General meeting

The general meeting is the only governing body of the issuer whose work is open to participation by all shareholders. The main function of the general meeting is to ensure that the shareholders' will is expressed. As opposed to the management and supervisory board or board of directors, the general meeting is not a permanent governing body of the issuer and is convened ad hoc, but at least once a year.

- According to the data from 135 completed Questionnaires, two issuers did not hold the general meeting in 2013. According to the data from 151 Questionnaires completed in 2012, six issuers did not hold the general meeting, whereas three issuers reported not having held the general meeting in 2011 pursuant to the data from 174 completed Questionnaires.
- Two issuers reported their reasons for failing to hold the general meeting in 2013, namely the winding up of the company and the fact that the general meeting was to be held in 2014.
- According to the data from 135 completed Questionnaires, a total of 105 issuers reported having held only one general meeting, 19 issuers held two general meetings, whereas nine issuers held three general meetings in 2013.
- The maximum number of general meetings held in 2013, 2012 and 2011 was three.
- Out of a total of 170 general meetings held during 2013, there were 138 regular and 32 extraordinary general meetings.

Remote voting

Pursuant to the Code of Corporate Governance, shareholders must be allowed to participate and, in particular, to vote in the general meeting by using modern communication technologies (e.g. by electronic means).

- Remote voting (e.g. by electronic means) was provided for at three general meetings held by three issuers in 2013.

Internal rules of procedure of the general meeting

- A total of 54 issuers reported having rules of procedure of the general meeting in place for 2013, of which six issuers reported changes in their rules of procedure during the year.
- A total of 26 issuers reported having sent the invitation to the general meeting by registered mail.

Participation in the general meeting

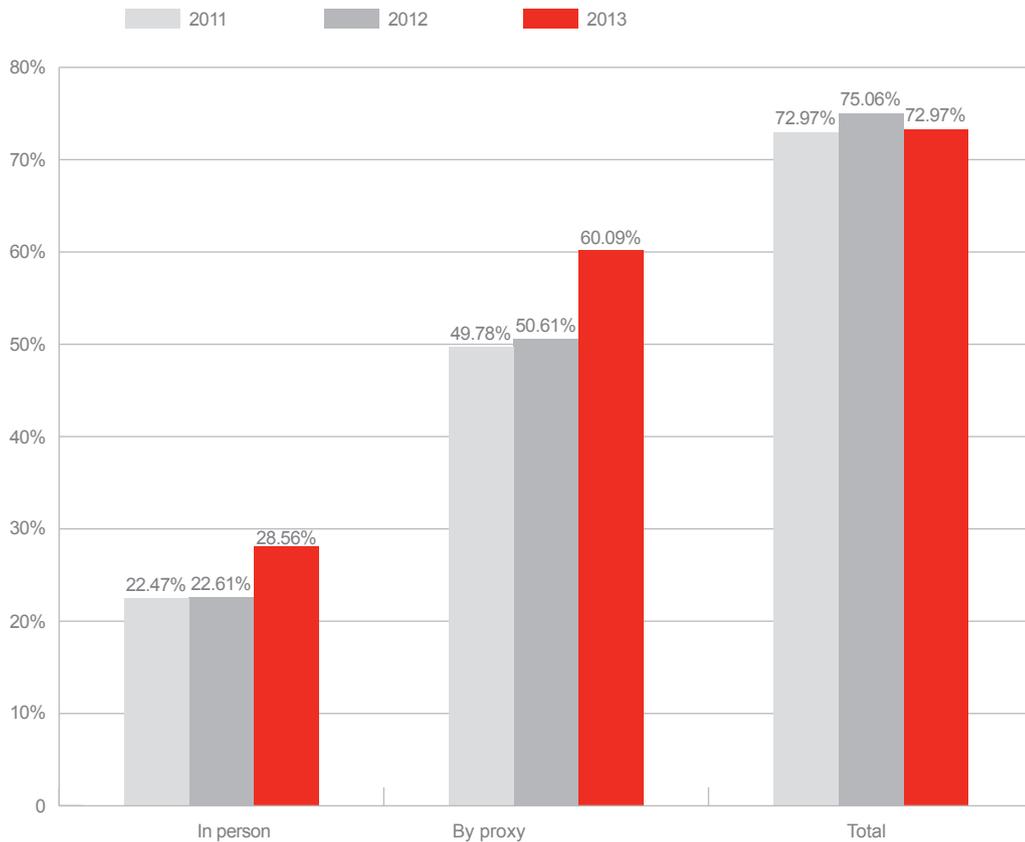
Participation in the work of the general meeting is a fundamental and indefeasible right of shareholders (right to participate). This right may be exercised through a representative, but in majority of cases it is exercised by proxy.

All members of the issuer's governing bodies must participate in the work of the general meeting. The obligation to attend the general meeting relates to all members of the management and supervisory board or board of directors, not only to their members who submit reports or draft decisions. In other

words, even those members of the management and supervisory board or board of directors who are not submitters or petitioners are obliged to attend the general meeting.

Chat 1.10 presents the average percentage of the initial capital held by shareholders who participated in the general meeting and the percentage of the initial capital held by shareholders who participated in the general meeting in person and by proxy.

Chart 1.10 Participation by shareholders in general meetings during 2011, 2012 and 2013



Source: Questionnaire

- General meetings held in 2013 were attended by an average of 34 shareholders.
- The percentage of initial capital held by members of the management and supervisory board who participated in general meetings held in 2013 in their capacity as shareholders totalled 18.88%.
- In 2013, no shareholder voted remotely in general meetings.

Voting limitations, attendance conditions and decision making

Shareholders cannot in general be denied their voting rights. In certain circumstances, the exercise of voting rights in the general meeting is prohibited by law, namely in cases of conflicts between the interests of a shareholder and the interests of the issuer.

- Shareholder voting rights were restricted for some shareholders at ten general meetings held in 2013. In most of those cases, voting rights were restricted due to the reason referred to in Article 293 paragraph 1 of the ZTD, namely issuance of clearance to members of management or supervisory boards or boards of directors. Pursuant to the said provision, voting rights may not be exercised by any person on his own behalf or on behalf of another person in the process of adopting a decision on whether the person should be issued clearance, on releasing the person from an obligation or on exercising rights claimed by the company with respect to that person. With respect to shares not permitting shareholders to exercise voting rights in this manner, no other person can do so on their behalf, either.

1.4 Audit and control

Audit and control are important self-regulatory mechanisms of the issuer. This chapter provides an analysis of the internal and external audit and control of issuers.

Internal control is the main regulatory mechanism for business operations within the company or issuer, including that for the corporate governance.

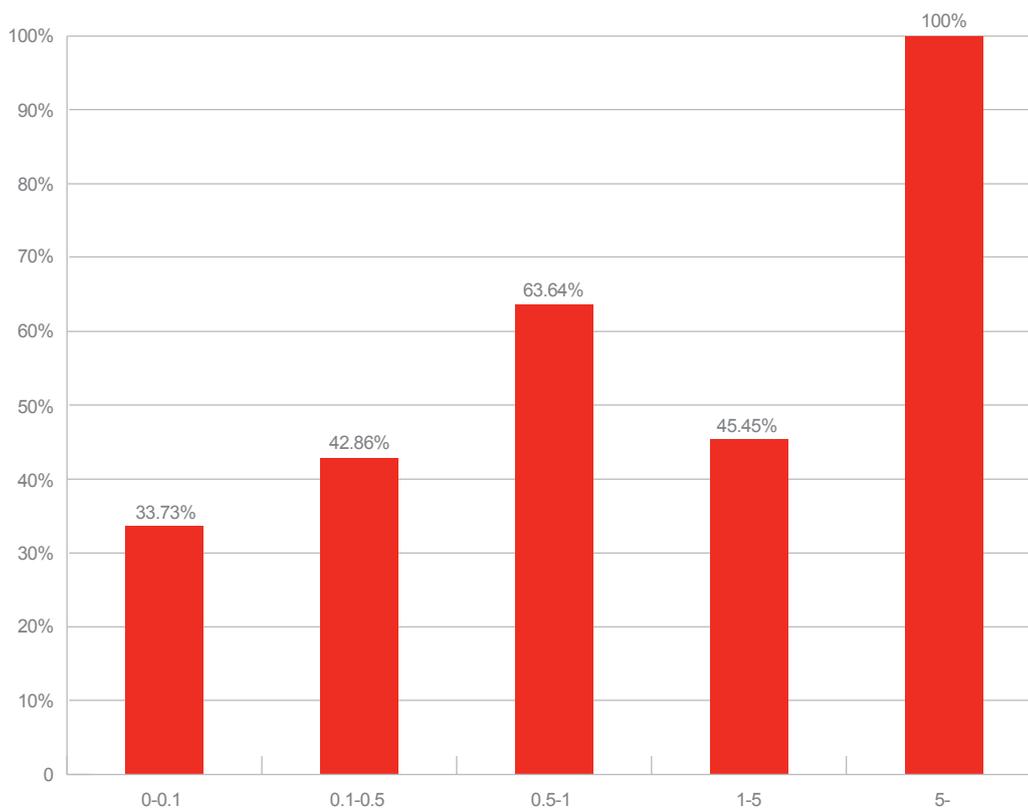
1.4.1 Internal audit and control

Pursuant to the Corporate Governance Code, internal auditors' task is to carry out internal audit activities and to verify the compliance with regulations, guidelines and instructions. Internal auditors submit performance reports directly to the audit committee or to the supervisory board of the company.

One of the prerequisites to sound corporate governance in the interest of all shareholders is an adequate and efficient internal audit and internal control mechanism.

- A total of 55 or 40.74% of the issuers that submitted the 2013 Questionnaire reported having an internal audit system in place. A total of 41.06% and 37.93% of the issuers that submitted the Questionnaire for 2012 and 2011 respectively reported having an internal audit system in place.
- As at 31 December 2013, a total of 55 issuers with an internal audit system in place had a total market capitalisation of HRK 85.2bn. The total market capitalisation of 135 issuers that submitted their 2013 Questionnaires reached HRK 110.7bn as at 31 December 2013.
- Most of the issuers with an internal audit system in place belonged to the banking sector (12 issuers), followed by those from the tourism industry (ten issuers), the food industry (eight issuers) and the insurance sector (five issuers).
- A total of 91 or 67.41% of the issuers that submitted the 2013 Questionnaire reported having an internal control system in place. A total of 66.89% and 60.34% of the issuers that submitted the 2012 and 2011 Questionnaire respectively reported having such a system in place.
- Most of the issuers with an internal control system in place belonged to the tourism industry (20 issuers), followed by those from the banking sector and the food industry (12 issuers) and the insurance sector (five issuers).

Chart 1.11 Share of issuers having an internal audit system in place with respect to market capitalisation (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

1.4.2 Managing company risks

Managing company risks has proved to be of special importance, especially at the time of economic and financial crisis and uncertain business environment. Particular emphasis has been placed on financial institutions. The measurement of prudential risks, which comprise market, credit, operational and liquidity risks, has been regulated by specific regulations. Apart from these risks, there is a whole range of other risks that may arise in the course of business operations of a company.

- In 2013, a total of 38 issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- A total of 32 issuers reported having appointed a person in charge for risk management.
- A total of 49 issuers reported some of the risks having materialised during 2013. The most common materialised risks were the liquidity risk and credit risk.
- According to the data submitted in the Questionnaires, materialised risks were mostly reported by issuers from the banking sector (eight issuers), followed by issuers from the tourism and food industry (six issuers from each of the sectors), property and fund industry and the construction industry (four issuers from each of the sectors) and the telecommunications and trade industry (three issuers from each of the sectors).

1.4.3 External audit

Pursuant to the Corporate Governance Code, companies must have external auditors, who represent an important corporate governance tool. The main function of an external auditor is to ensure that financial statements of the company adequately reflect the current financial position of the company as a whole. An independent external auditor is not related through ownership or other interests with the company, nor does he provide any services to the company.

Auditors have a crucial role in ensuring true and fair presentation of financial statements.

- A total of 35 different audit firms were reported in the 135 Questionnaires submitted for 2013. The largest number of issuers using services of the same audit firm was nine.
- A total of 48 issuers used services of the largest audit firms (the Big Four).
- The average length of the time period during which issuers used services of the same audit firm was 6.7 years.
- The average length of the time period during which issuers used services of the same certified auditor in the same audit firm was 4.7 years.
- A total of 125 issuers reported the gross amount paid to an external audit firm for auditing services provided in 2013. The amount totalled an average of HRK 272 thousand, ranging from HRK 12.5 thousand to almost HRK 4m. The average gross amount paid to an external audit firm in 2012 reached HRK 271 thousand.
- A total of 22 issuers reported having paid an external audit firm for services other than auditing services provided in 2013. The average gross amount totalled HRK 193 thousand, ranging from HRK 1.1 thousand to almost HRK 798 thousand. The following were the services other than auditing services provided in 2013: translation services, consulting, expert lectures, preparation of documentation for pre-bankruptcy settlement proceedings, etc.
- None of the issuers reported family or business relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

1.5 Investor relations

Pursuant to the Corporate Governance Code, the management board of the issuer must provide investors with access to accurate and precise information related to positive and negative aspects of issuer's business operations, which will allow investors to properly understand and assess the issuer's position, and to make an informed investment decision.

1.5.1 Website of the issuer

Issuers are obliged to ensure an efficient and practical information exchange through their publicly available websites. Pursuant to the Corporate Governance Code, for the purpose of equal treatment of all shareholders irrespective of the country of origin, all the information published by issuers on their websites must be provided both in Croatian and English.

- According to the data from the 135 Questionnaires submitted in 2013, all issuers reported having their website in Croatian, and 83 issuers (61.48%) reported having their website in English, as well.

- A total of 43 issuers (31.85%) reported having a separate organisational unit or employees in charge of public (investor) relations exclusively. These issuers mostly belonged to the food industry (eight issuers), tourism industry (seven issuers) and banking sector (five issuers).
- A total of 45 issuers (33.33%) reported having published the calendar of significant events on their website. In 2012, a total of 29.14% of the issuers provided the same answer.
- A total of 16 issuers reported having held one or more press conferences during 2013. The largest number of press conferences held by one issuer was 27. The most common reasons for convening a press conference were presentations of business results (including financial data) and significant activities, signing of important contracts, presentations of products, promotions, announcements of investments and events, humanitarian actions, sponsorships, etc.

1.5.2 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 may be paid out in money or in shares. In addition to that, the management board may, subject to the consent of the supervisory board, adopt a decision on advance dividend payment.

- According to the data from 135 Questionnaires submitted, 27 issuers (20%) adopted a decision on dividend payment in 2013.
- The average amount of dividend per share totalled HRK 110.59.
- Most of the issuers that adopted a decision on dividend payment in 2013 belonged to the tourism industry (five issuers) food industry (four issuers), and banking sector and insurance industry (three issuers from each of the sectors).
- The total market capitalisation of issuers that adopted a decision on dividend payment in 2013 reached HRK 55.68bn. Among these issuers, the largest market capitalisation was reported by an issuer from the telecommunications industry (HRK 14.47bn), and the smallest by an issuer from the food industry (HRK 39.68m).

2 Annual Report on Corporate Governance of Corporate Bond Issuers

- At the end of 2013, a total of 16 corporate bonds were issued by 15 different issuers, of which 12 completed and submitted the Questionnaire for 2013.
- The interest rate ranged between 4.8000% and 12.0000% and totalled an average of 7.6593% (at the end of 2012, it amounted to an average of 7.6917%).
- Three issuers removed their corporate bonds from the official market, or more specifically, their bonds came due in the course 2013. Only one of these issuers issued new corporate bonds in 2013.
- At the end of 2013, one bond issuer belonged to the financial and 14 issuers to the non-financial sector. The majority of bond issuers (four) from the non-financial sector belonged to the telecommunications industry, two issuers were engaged in the trade, transport, construction industry and other activities respectively, and one issuer each was from the energy sector and pharmaceutical industry.
- As at 31 December 2013, none of the corporate bond issuers was undergoing bankruptcy proceedings, but three issuers were undergoing pre-bankruptcy settlement proceedings.

2.1 Capital and origin of capital of bond issuers

Initial capital

Table 2.1 shows data on the initial capital of corporate bond issuers and share and corporate bond issuers.

Table 2.1 Initial capital of corporate bond issuers as at 31 December 2011, 2012 and 2013

Bond issuers	Number of issuers				2011	2012	2013
	2011	2012	2013				
with admitted shares	3	3	4	Initial capital	631,588,700	494,276,000	552,162,200
				Market capitalisation	306,576,680	236,244,592	231,691,297
without admitted shares	11	11	11	Initial capital	22,996,963,848	22,882,547,500	23,076,060,547
				Market capitalisation	2,877,066,455	1,434,075,625	2,508,359,591
TOTAL	14	14	15	Initial capital	23,628,552,548	23,376,823,500	23,628,222,747
				Market capitalisation	3,183,643,135	1,670,320,218	2,740,050,888

Source: register of companies, Zagreb Stock Exchange

- At the end of 2013, out of 15 bond issuers, only four also had their shares on the regulated market of the Zagreb Stock Exchange.
- At the end of 2013, the total initial capital of all corporate bond issuers increased by 1.08% compared to the previous year. The initial capital of corporate bond issuers with admitted shares rose by 11.71%, with the number of issuers also having increased by one. The initial capital of corporate bond issuers without admitted shares rose by 0.85%.
- The total market capitalisation of all corporate bonds issuers increased by 64.04% relative to the previous year. Market capitalisation of corporate bond issuers with admitted shares fell by 1.93%, whereas a 74.91% increase in market capitalisation was reported by corporate bond issuers without admitted shares.

2.1.1 Ownership structure of bond issuers

Data on the ownership structure of bond issuers have been produced on the basis of data received from the CDCC; therefore the following analysis comprises only corporate bond issuers established as joint-stock companies (11 issuers).

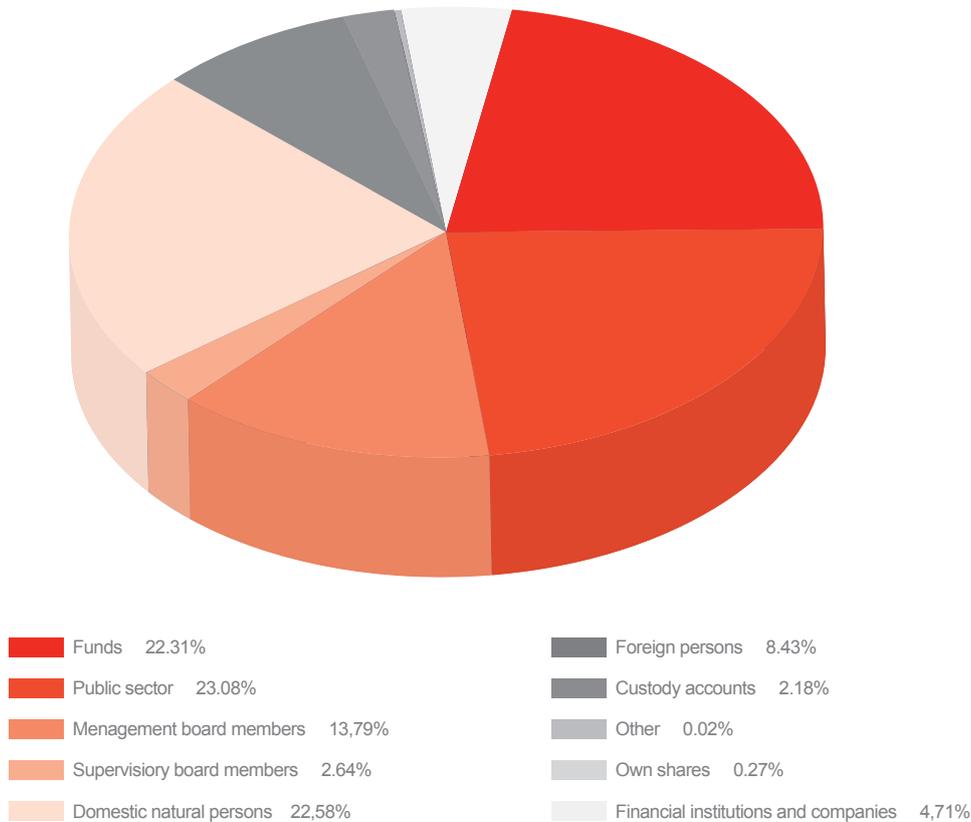
The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

The structure of joint-stock companies is divided into following groups:

- Own shares,
- Financial institutions and companies,
- Funds (investment and pension funds with their registered offices in the Republic of Croatia),
- Public sector (Republic of Croatia),
- Members of the management board,
- Members of the supervisory board,
- 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,
- Other.

Chart 2.1 presents the ownership structure of corporate bond issuers as at 31 December 2013 by the above mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31 December 2013



Source: CDCC

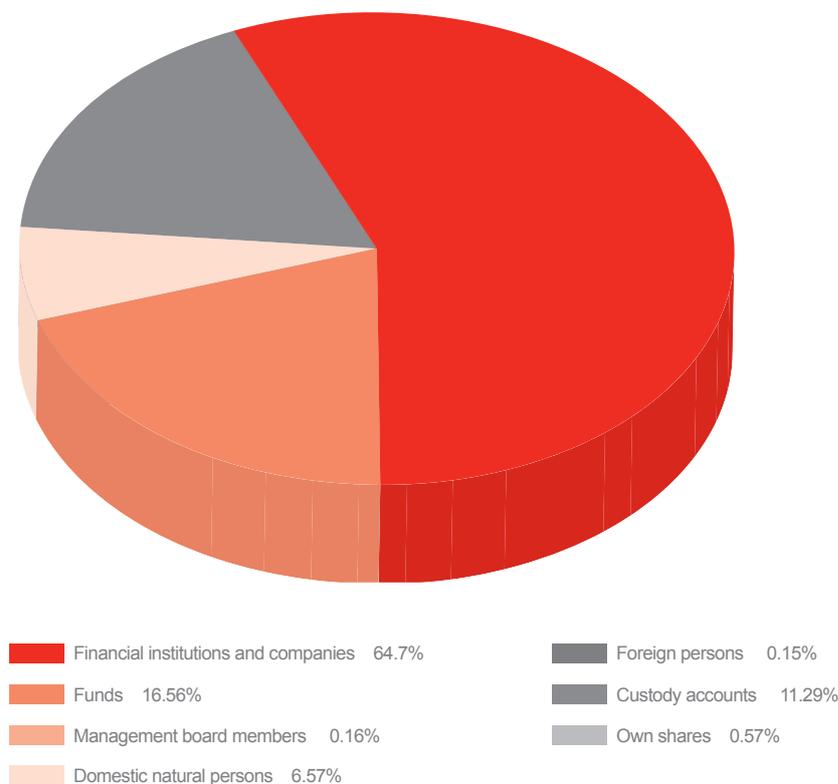
- As opposed to the previous year, the ownership structure of corporate bond issuers established as joint-stock companies was dominated by the public sector with a 23.28% share. Management board members, that ranked first with a 26.51% share last year, took fourth place with a 13.79% share.

2.1.2 Ownership structure of bondholders

The structure of holders of corporate bonds has been analysed based on the same categories as the ownership structure of corporate bond issuers, excluding the “public sector”, “management board members” and “other” categories, which amounted to 0.00%. The data used have been received from the CDCC.

Chart 2.2 presents the structure of holders of corporate bonds as at 31 December 2013 by the defined categories.

Chart 2.2 Structure of holders of corporate bonds as at 31 December 2013



Source: CDCC

- As in 2012, financial institutions and companies were holders of corporate bonds accounting for the largest share (64.70%) in the total ownership structure, and were followed by funds and custody accounts.

2.2 Issuers' governing bodies

This chapter presents an analysis of data on governing bodies of bond issuers, for the management board and supervisory board separately. Data on the general meeting has not been analysed due to the fact that bond issuers have different legal forms (joint-stock company, limited liability company, special legal form).

All bond issuers established as joint-stock companies have a two-tier governance system, meaning that, besides a general meeting, they have two more governing bodies: a management board, which manages and represents the company, and a supervisory board, which supervises the company's business operations.

2.2.1 Management board

The following text presents an analysis of data on management board members of bond issuers established as joint-stock companies, as at 31 December 2011, 2012 and 2013.

The management board may consist of one or more persons. The number of management board members is defined by the statute of the issuer. The ZTD does not stipulate the minimum number

of management board members.

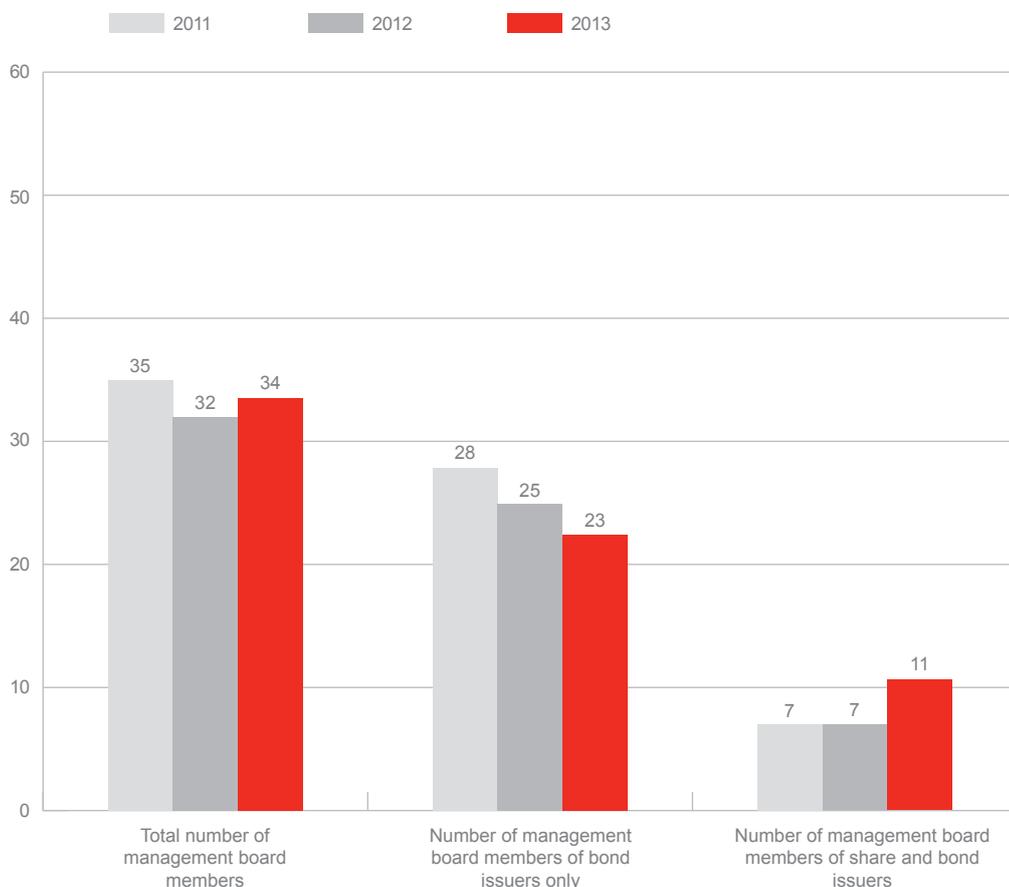
Only natural persons with full legal capacity may be appointed members of the management board.

The analysis of data on the size and structure of the management and supervisory board has taken into account only bond issuers established as joint-stock companies (11 issuers).

The following analysis shows the number of management board members of joint-stock companies – corporate bond issuers, totalling 11 at the end of all the three observed years.

Chart 2.3 shows the total number of management board members of bond issuers as at 31 December 2011, 2012 and 2013.

Chart 2.3 Total number of management board members as at 31 December 2011, 2012 and 2013

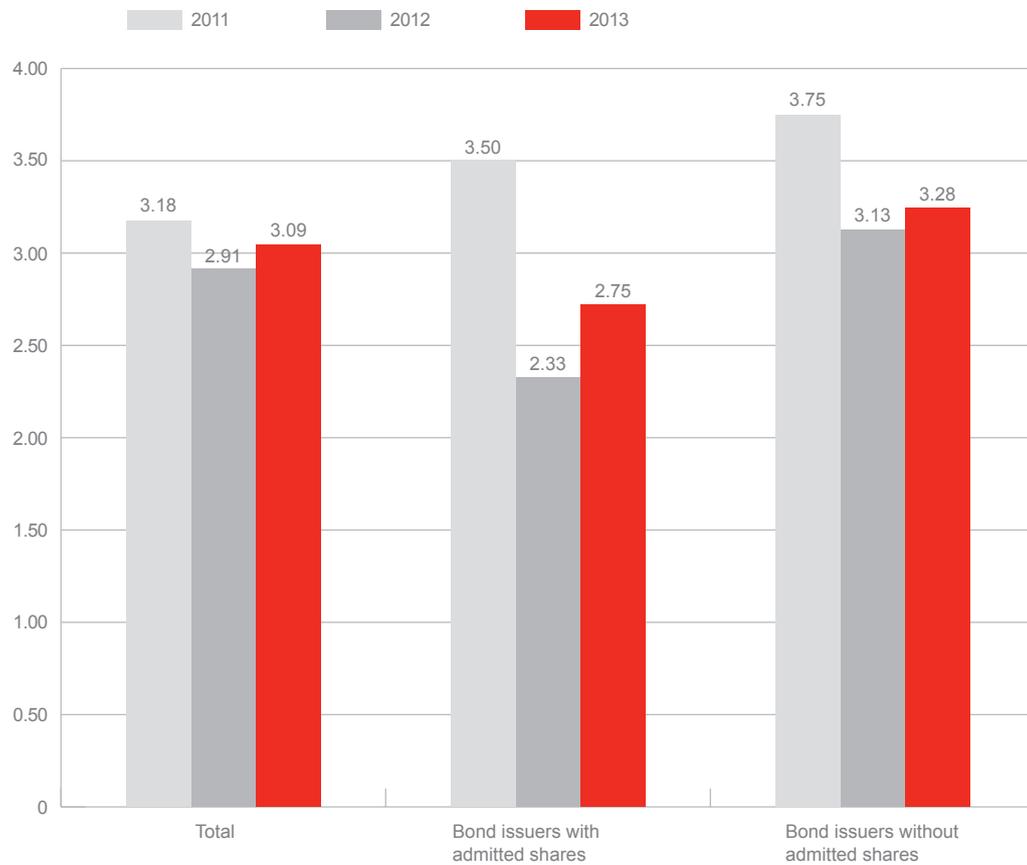


Source: register of companies, Hanfa

- As at 31 December 2013, the maximum number of management board members was six, which was the number of management board members reported by one bond issuer only. The largest number of issuers (four) had three management board members each.

Chart 2.4 shows the average number of management board members of corporate bond issuers as at 31 December 2011, 2012 and 2013.

Chart 2.4 The average number of management board members of bond issuers as at 31 December 2011, 2012 and 2013



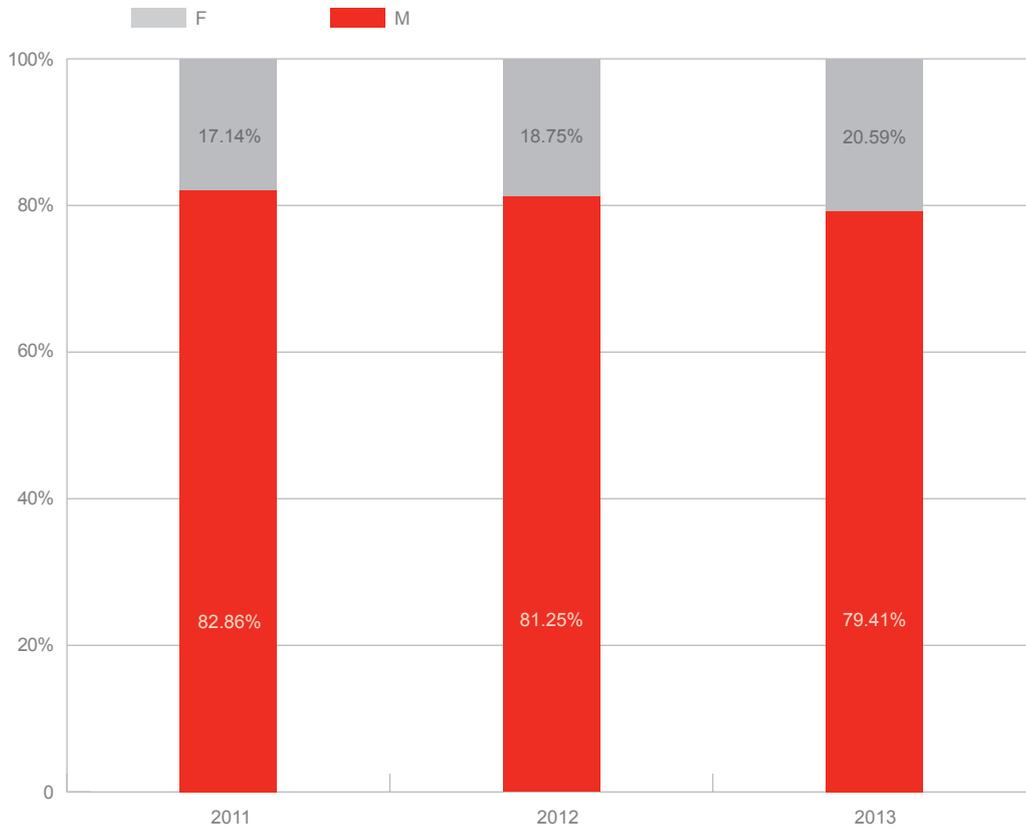
Source: register of companies, Hanfa

Gender diversity of management board members

- As at 31 December 2013, seven women sat on management boards of corporate bond issuers.
- More than half of the corporate bond issuers (6 out of 11 analysed issuers) reported having female management board members as at 31 December 2013.
- Out of the six issuers which had female management board members as at 31 December 2013, four had one female management board members and one issuer had two female members of the management board, that consisted of three members. Three issuers had one management board member only: two issuers had a male and one issuer a female management board member.

Chart 2.5 presents the proportion of men to women on management boards of corporate bond issuers as at 31 December 2011, 2012 and 2013.

Chart 2.5 Proportion of men to women on management boards of corporate bond issuers as at 31 December 2011, 2012 and 2013



Source: register of companies, Hanfa

Rules of procedure of the management board

- Eight corporate bond issuers reported having an internal regulation on management board activities (rules of procedure of the management board) for the year 2013, of which two issuers reported changes in this regulation occurring during the year. The changes were caused by a change in the number of management board members or by a new organisation with respect to management board members' obligations.

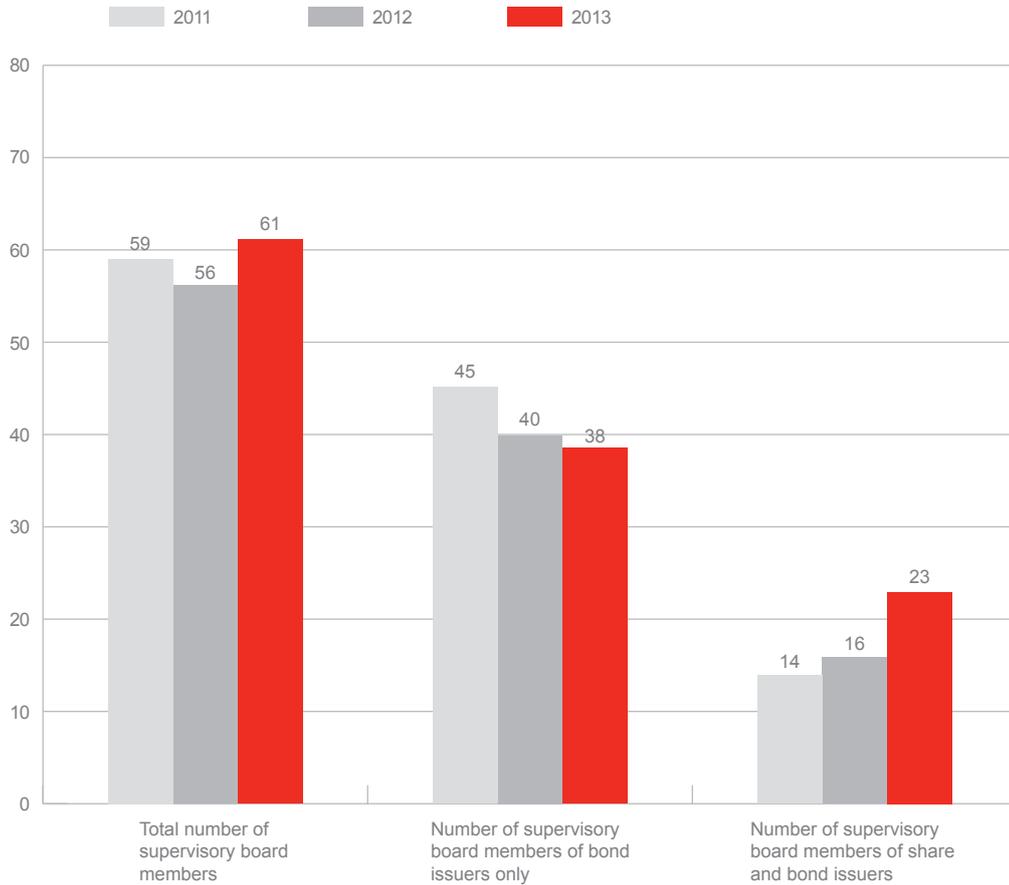
Meetings of the management board

- In 2013, seven corporate bond issuers reported having a schedule of meetings of the management board. Only one issuer reported having a mechanism for proxy voting at management board meetings.

2.2.2 Supervisory board

Chart 2.6 presents the total number of supervisory board members of corporate bond issuers at the end of 2011, 2012 and 2013.

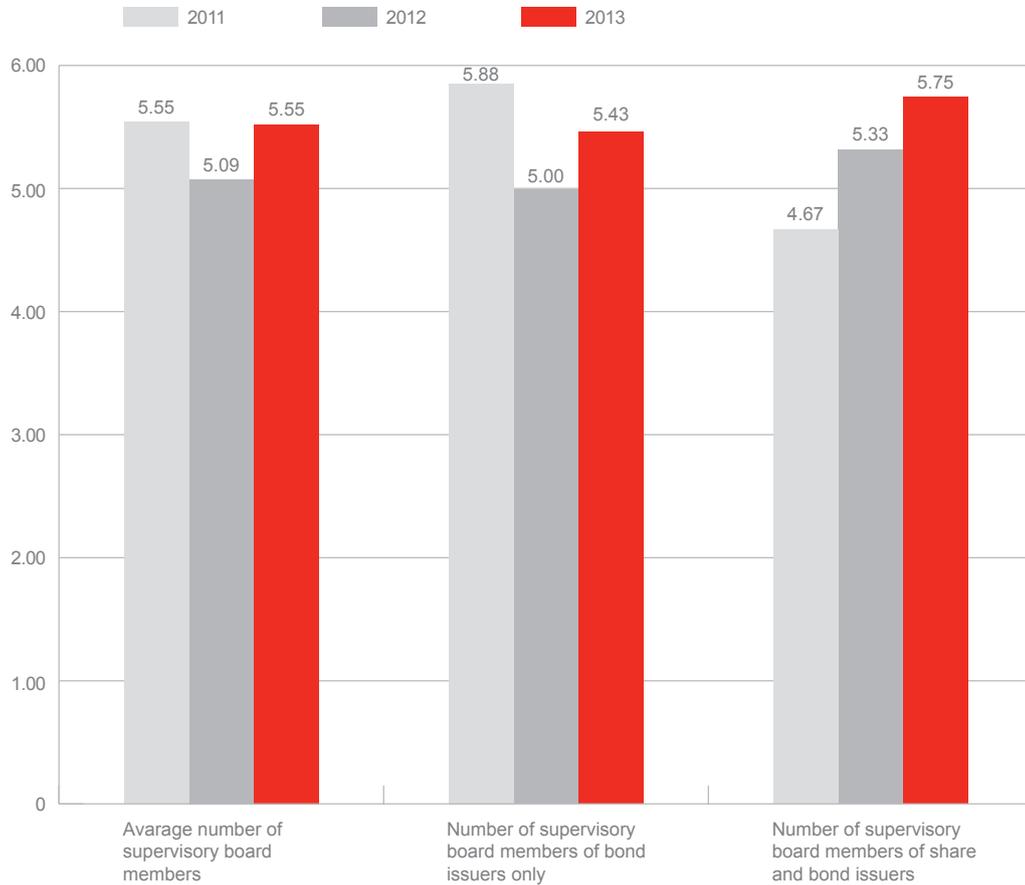
Chart 2.6 The total number of supervisory board members as at 31 December 2011, 2012 and 2013



Source: register of companies

Chart 2.7 shows the average number of supervisory board members of corporate bond issuers as at 31 December 2011, 2012 and 2013.

Chart 2.7 Average number of supervisory board members of corporate bond issuers as at 31 December 2011, 2012 and 2013



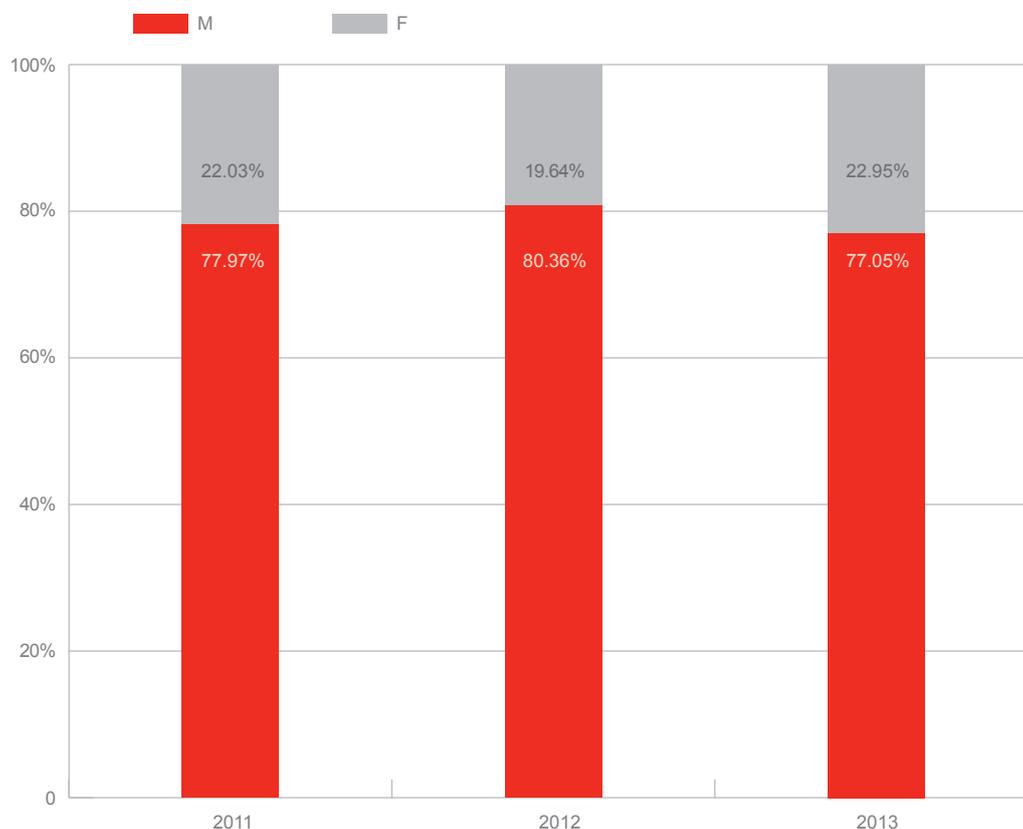
Source: register of companies

- The average number of supervisory board members of corporate bond issuers rose by 9.04% compared to 2012, reaching its 2011 level.

Gender diversity of supervisory board members

Chart 2.8 shows the proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2011, 2012 and 2013.

Chart 2.8 Proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2011, 2012 and 2013



Source: register of companies

- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 21.54%, exceeding the average number of women on management boards of corporate bond issuers in the same period (18.83%), but still being far from the defined gender-balanced representation.

One of the goals of the National Policy on Gender Equality (2011-2015), adopted by the Croatian Parliament at its session on 15 July 2011, is to create gender balance in the process of appointing supervisory and management board members of companies in the public and private sector, by ensuring that the share of the under-represented gender, pursuant to the Act on Gender Equality (Official Gazette 82/08), does not fall below 40%.

Supervisory board committees

- Seven issuers reported having the audit committee and three corporate bond issuers reported having the remuneration committee and the nomination committee each in place in 2013.

Internal working procedures of the committees

- Four out of seven issuers that had the audit committee in place in 2013 reported having established internal working procedures for the audit committee.
- All the issuers that reported having the remuneration committee and the nomination committee in place also reported having established their internal working procedures.

Meetings

- Five out of seven issuers that had the audit committee in place reported the committee meetings having been held in 2013. The average number of audit committee meetings during the year was three.
- One issuer reported three remuneration committee meetings, and two issuers reported three remuneration committee meeting having been held in 2013.
- One issuer reported two nomination committee meetings, and two issuers reported one nomination committee meeting having been held in 2013.

Other committees

- In 2013, three issuers reported having set up another committee, whose names were corporate governance committee (two issuers) and credit committee.
- Two issuers reported the preparation of a report on the work of committees, with reports of one issuer being available to the public.

2.3 Remuneration

2.3.1 Remuneration of management board members

In 2013, five corporate bond issuers reported having a remuneration policy for management board members, whereas four and two issuers reported having such a policy in 2012 and 2011 respectively.

Table 2.2 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of corporate bond issuers, the average amount of other benefits paid to management board members and the average value of options held by management board members, as well as the respective amounts in 2013, 2012 and 2011.

Table 2.2 Amount of remuneration of management board members of corporate bond issuers in 2013, 2012 and 2011 (in HRK)

		Average gross amount of remuneration paid to management board members during the year		Average amount of other benefits paid to management board members during the year	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2013	Number of issuers	11	2	1	2
	Amount	2,992,909	2,090,242	230,400	66,964,225
2012	Number of issuers	13	2	1	2
	Amount	2,674,849	2,069,916	5,892,847	46,896,957
2011	Number of issuers	12	2	1	1
	Amount	655,232	427,524	3,030,868	30,000,000

Source: Questionnaire

- A slight increase in average amounts of remuneration paid to management board members was recorded in comparison to 2012.
- Three issuers reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.
- Two issuers reported using options as a method of remunerating and motivating management board members, with one issuer reporting the amount totalling HRK 130m, and the other HRK 3.9m.

2.3.2 Remuneration of supervisory board members

- In 2013, four corporate bond issuers reported the level of supervisory board member remuneration being determined by the general meeting and two issuers reported that level being prescribed by the statute. The other issuers failed to provide their answers.

Table 2.3 shows the number of issuers which reported the average gross amount of fixed and variable remuneration paid to supervisory board members of corporate bond issuers, the average amount of other benefits paid to supervisory board members, as well as the respective amounts in 2013, 2012 and 2011.

Table 2.3 Amount of remuneration of supervisory board members of corporate bond issuers in 2013, 2012 and 2011

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2013	Number of issuers	8	0	0
	Amount	327,873	0	0
2012	Number of issuers	9	0	2
	Amount	336,428	0	126,656.34
2011	Number of issuers	3	0	1
	Amount	50,001	0	62,508

Source: Questionnaire

- As in the previous years, in 2013 corporate bond issuers did not pay any variable remuneration to supervisory board members, nor were supervisory board members paid any other benefits.
- Three issuers reported the submission of the annual remuneration policy statement relating to supervisory board members to the general meeting.

2.3.3 Related party transactions

- In 2013, two issuers reported having an internal regulation in place for cases of related party transactions.

Table 2.4 sets out the value of reported transactions during 2011, 2012 and 2013, concluded by the issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 2.4 Average value of reported related party transactions in 2011, 2012 and 2013

	Gross value of related party transactions concluded by the issuer				
	With shareholders with more than 5% of the initial capital of the issuer	With management and supervisory board members of the issuer	With senior management of the issuer	within the group the issuer belongs to or is its parent	
2013	Number of issuers having reported the transaction	4	3	1	3
	Average transaction value (in HRK)	2,391,022,419	22,005,241	71,944,839	669,129,984
2012	Number of issuers having reported the transaction	5	4	2	3
	Average transaction value (in HRK)	2,195,173,621	21,978,025	36,174,739	616,632,660
2011	Number of issuers having reported the transaction	3	3	1	3
	Average transaction value (in HRK)	3,499,375,157	22,910,909	71,689,663	683,295,318

Source: Questionnaire

- As in the previous years, during the year 2013, the highest transaction value by far was related to transactions concluded by issuers with shareholders owning more than 5% of the initial capital of the issuer.

2.3.4 Conflicts of interest

- In 2013, five issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (as in 2012 and 2011). The internal regulations contained the following basic provisions relating to conflicts of interest: transparency of business operations, prevention of conflicts between private and public interests, principle of non-discrimination and consistent reporting procedures.
- As in 2012, no conflicts of interest were reported by issuers in 2013.

2.4 Audit and control

2.4.1 Internal audit and control

- In 2013, six out of 12 issuers reported having an internal control system in place.
- Five out of 12 issuers reported having an internal audit system in place.

2.4.2 Managing company risks

- In 2013, five issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- Five issuers reported having appointed persons in charge for risk management. These persons performed the function of internal auditor, management board member, director of logistics and security and environmental protection inspector.
- According to the issuers, the most frequent business risks were operational, interest rate, credit, currency and political risks.
- Five issuers (one fewer than in 2012) reported the liquidity (three issuers), currency (one issuer), credit (one issuer), or macroeconomic risk (one issuer) having materialised during 2013. According to the issuers, the following were the reasons for the risks having materialised: lack of liquid assets, decrease in economic activity in the country, problems in the collection of receivables, liabilities for foreign currency loans and recession.

2.4.3 External audit

- In 2013, a total of 12 corporate bond issuers used services of nine different external auditors. Three issuers had the same external auditor.
- At the end of 2013, the average length of the time period during which issuers used services of the same external audit firm was 6.08 years (5.86 years in 2012 and 5.36 years in 2011).
- At the end of 2013, the average length of the time period during which issuers used services of the same certified auditor in the same audit firm was 4.75 years (4.46 years in 2012 and 4.21 years in 2011).
- A total of 12 issuers reported the gross amount paid to the external audit firm for auditing services provided in 2013. The amounts ranged from HRK 50 thousand to HRK 1.87m. External auditors were paid an average of HRK 376 thousand by issuers for auditing services provided in 2013.
- Six issuers reported the gross amount paid to the external audit firm for other services provided in 2013. The amounts ranged between HRK 2.2 thousand and HRK 530.6 thousand. The following were the services other than auditing services provided in 2013: consulting, translation services, financial advice, professional training services, preparatory activities for pre-bankruptcy settlement proceedings and seminars.
- None of the corporate bond issuers reported relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

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