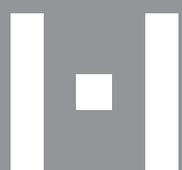


ANNUAL REPORT ON
CORPORATE GOVERNANCE

2014

CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



HANFA

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Contents

Introduction	4
1. Annual Report on Corporate Governance of Share Issuers	5
1.1. Introduction	5
1.2. Capital and origin of capital	9
1.2.1. Initial capital	9
1.2.2. Ownership structure	9
1.2.3. Origin of issuers' capital	12
1.3. Issuers' governing bodies	15
1.3.1. Management board	15
1.3.2. Supervisory board	22
1.3.3. Remuneration	29
1.3.4. Remuneration of management board members of share issuers	30
1.3.5. Remuneration of supervisory board members of share issuers	34
1.3.6. Remuneration of the senior management of share issuers	35
1.3.7. Related party transactions	35
1.3.8. Conflicts of interest	36
1.3.9. General meeting	37
1.4. Audit and control	39
1.4.1. Internal audit and control	39
1.4.2. Managing company risks	41
1.4.3. External audit	42
1.5. Investor relations	44
1.5.1. Website of the issuer	44
1.5.2. Dividend payments	44
2. Annual Report on Corporate Governance of Corporate Bond Issuers	32
2.1. Capital and origin of capital of bond issuers	45
Initial capital	45
2.1.1. Ownership structure of bond issuers	46
2.1.2. Ownership structure of bondholders	48
2.2. Issuers' governing bodies	48
2.2.1. Management board	49
2.2.2. Supervisory board	52
2.3. Remuneration	55
2.3.1. Remuneration of management board members	55
2.3.2. Remuneration of supervisory board members	57
2.3.3. Related party transactions	57
2.3.4. Conflicts of interest	58
2.4. Audit and control	58
2.4.1. Internal audit and control	58
2.4.2. Managing company risks	59
2.4.3. External audit	59
List of Tables	60
List of Charts	61

Introduction

For the fifth consecutive year, 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 fifth 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 depozitarno društvo d.d. (Central Depository and Clearing Company, hereinafter: CDCC) and from the register of companies.

The questionnaire for the preparation of the 2014 Annual Report on Corporate Governance (hereinafter: the Questionnaire) was intended for all issuers whose shares and/or bonds were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2014. 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 Governance, internal and external control, risks, conflicts of interest, dividend payments, etc.

Pursuant to the Ordinance on information that needs to be submitted to the Croatian Financial Services Supervisory Agency by issuers whose securities are admitted to trading on a regulated market in the Republic of Croatia, and on the form, time limits and manner of its submission (Official Gazette, No 66/14), the deadline for the submission of the Questionnaire was 30 June 2015.

2014 Capital Market

In 2014, there were no significant changes on the capital market. The total trading volume on the Zagreb Stock Exchange amounted to HRK 3.9bn, increasing slightly (2.4%) compared to 2013, mostly due to the increase in trading in bonds within the order book and block trades in shares. The total market capitalisation of all financial instruments recorded a larger increase (by 10.0%, reaching HRK 202.1bn), primarily due to the increase in the market capitalisation of bonds. Market capitalisation is concentrated in a small number of shares, so the five largest shares account for 58.3% of market value, while 46% of total market capitalisation is concentrated in the first five shares with the largest free float capitalisation. The most liquid share in 2014

1 The Code was drawn up by the Zagreb Stock Exchange and Hanfa, for the purpose of setting up 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

was the share of Hrvatski telekom d.d., with 23% of total turnover. Market indicators showed different trends: CROBEX decreased by 2.7%, although during the year it reached the level of more than 1,900 points, which was an increase of nearly 6% compared to the end of 2013, while CROBEX10 increased by 1.2%. The year 2014 saw the introduction of a new stock index, CROBEXtr, which includes in its calculation the information on dividend payment and which recorded a slight increase (0.6%) over the year.

1 Annual Report on Corporate Governance of Share Issuers

1.1. Introduction

Out of 152 issuers whose shares were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2014, 141 completed and submitted the Questionnaire. The total market capitalisation of issuers that submitted their data amounted to HRK 121bn or 99.83% of the market capitalisation of all listed issuers. As at 31 December 2014, four issuers undergoing bankruptcy proceedings, one was undergoing winding-up proceedings, and 12 were undergoing pre-bankruptcy settlement proceedings.

Number of issuers and number of shares

In 2014, the number of issuers on the regulated market continued its downward trend.

As at 31 December 2014, the number of issuers totalled 152, falling by 7.88% compared to the previous year, when there were 165 issuers admitted to trading (13 more), or by 17.39% in comparison with 31 December 2012, when there were 184 issuers admitted to trading.

Out of a total of 152 issuers admitted to trading as at 31 December 2014, 22 issuers were admitted to trading on the official market and 130 on the regular market. 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.

In the course of 2014, the number of admitted ordinary shares declined by 15 compared to 31 December 2013. The number of admitted preference shares decreased by 7 compared to 31 December 2013, when 15 preference shares were admitted to trading.

Shares not traded yet

By 31 December 2014, eight admitted shares of eight different issuers had not been traded on the Zagreb Stock Exchange. Those were the shares of the following issuers: ordinary share of 3. MAJ BRODOGRADILIŠTE d.d. (3MAJ-R-A), ordinary share of Dalma d.d. (DALR-R-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. (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 six relative to 31 December 2013, due to the conversion of shares of the issuer Croatia Airlines d.d. CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3 i CRAL-P-A4 u CRAL-R-A and the transaction in preference shares of Umag d.d.

Admissions

In 2011, 2012 and 2013 there were no admissions of shares of new issuers either on the official or on the regular market of the Zagreb Stock Exchange. In 2014, the shares of one issuer (Hoteli Zlatni Rat d.d.) were admitted for the first time on the regular market, and the shares of another issuer (Valamar Riviera d.d.) were admitted on the official market of the Zagreb Stock Exchange.

In 2014, 16 issuers withdrew their shares from the regular and none from the official market; in 2013, 18 issuers withdrew their shares from the regular and one from the official market, while in 2012, 21 issuers withdrew their shares from the regular and none from the official market. In the course of 2014, no issuers transferred from the regular to the official market or vice versa.

Sector division

a) Classification into the financial and non-financial sector

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

At the end of 2014, out of a total of 152 share issuers, there were 20 (13.16%) issuers from the financial and 132 (86.84%) issuers from the non-financial sector. At the end of 2013, out of a total of 165 share issuers, there were 22 (13.33%) issuers from the financial and 143 (86.67%) issuers from 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

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 2012, 2013 and 2014.

Table 1.1 Issuers by groups of activities as at 31 December 2012, 2013 and 2014.

Group of activities	Number of issuers			
	2012	2013	2014	Change 2013/2014
FINANCIAL SECTOR				
Banks	14	13	11	-2
Insurance	6	5	5	0
Closed-ended investment funds	7	4	4	0
NON-FINANCIAL SECTOR				
Agriculture	7	5	5	0
Industry				0
a. Shipbuilding	4	4	4	0
b. Wood industry	3	3	2	-1
c. Energy	1	1	1	0
d. Pharmaceuticals	3	3	3	0
e. Food, beverage and tobacco	22	20	20	0
f. Chemical industry	5	5	4	-1
g. Metalworking industry	8	6	6	0
h. Textile industry	5	4	4	0
i. Other industries	1	0	0	0
Construction industry	12	11	10	-1
Property	4	6	4	-2
Telecommunications	5	5	4	-1
Transport	10	10	8	-2
Trade	19	18	18	0
Tourism	44	38	35	-3
Other activities	4	4	4	0
TOTAL	184	165	152	-13

Source: Hanfa, Zagreb Stock Exchange

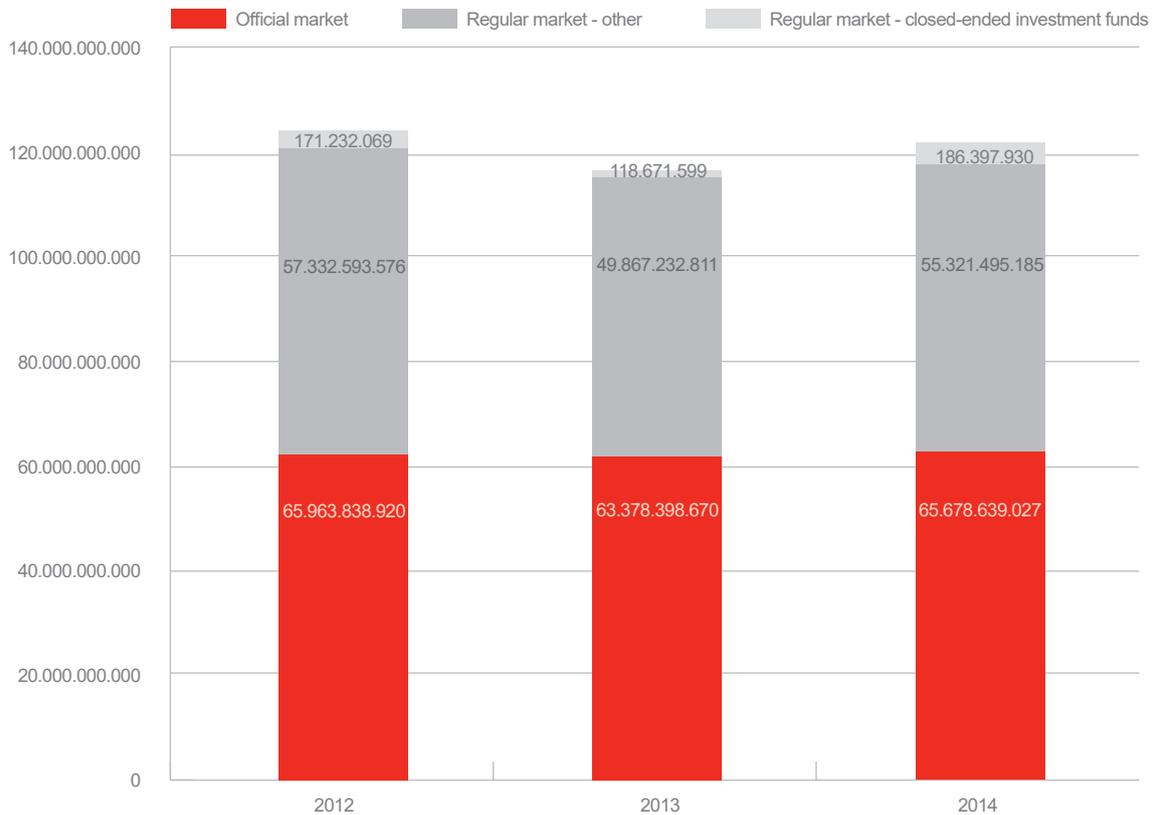
At the end of 2014, the largest number of issuers belonged to the tourism industry, followed by issuers from the food industry and from trade.

Out of 13 issuers that removed their shares from trading on the regulated market in 2014, two belonged to the financial, and 11 to the non-financial sector. The removals were mostly due to the decision of the general assembly (seven issuers). Three 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. Shares of two issuers were removed from the regulated market due to the merger of issuers with other companies, and one issuer made a conversion of preference shares into ordinary shares.

Market capitalisation

Chart 1.1 shows changes in market capitalisation by types of market at the end of 2012, 2013 and 2014.

Chart 1.1 Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2012, 2013 and 2014



Izvor: Zagrebačka burza

- During 2014, the total market capitalisation of the official market increased by 3.63%, reaching HRK 65.7bn as at 31 December 2014, while the total market capitalisation of the regular market increased by 11.05%, reaching HRK 55.5bn as at 31 December 2014.
- Market capitalisation of issuers which submitted their 2014 Questionnaires (141 issuers) stood at HRK 121bn as at 31 December 2014

1.2. Capital and the 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 in the Republic of Croatia 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-2014, the initial capital of 152 share issuers totalled HRK 58.6bn, while at end-2013, 165 issuers recorded their initial capital in the amount of HRK 60.4bn or 3.1% more. In comparison with 2012, when there were 32 admitted issuers more, the initial capital fell by HRK 7.8bn.

The amount of share issuers' initial capital ranged between HRK 15.2m and HRK 9bn.

According to the data from the register of companies, a total of 16 issuers (two less than in 2013) increased their initial capital in 2014, while 16 issuers (three more than in 2013) reduced the initial capital

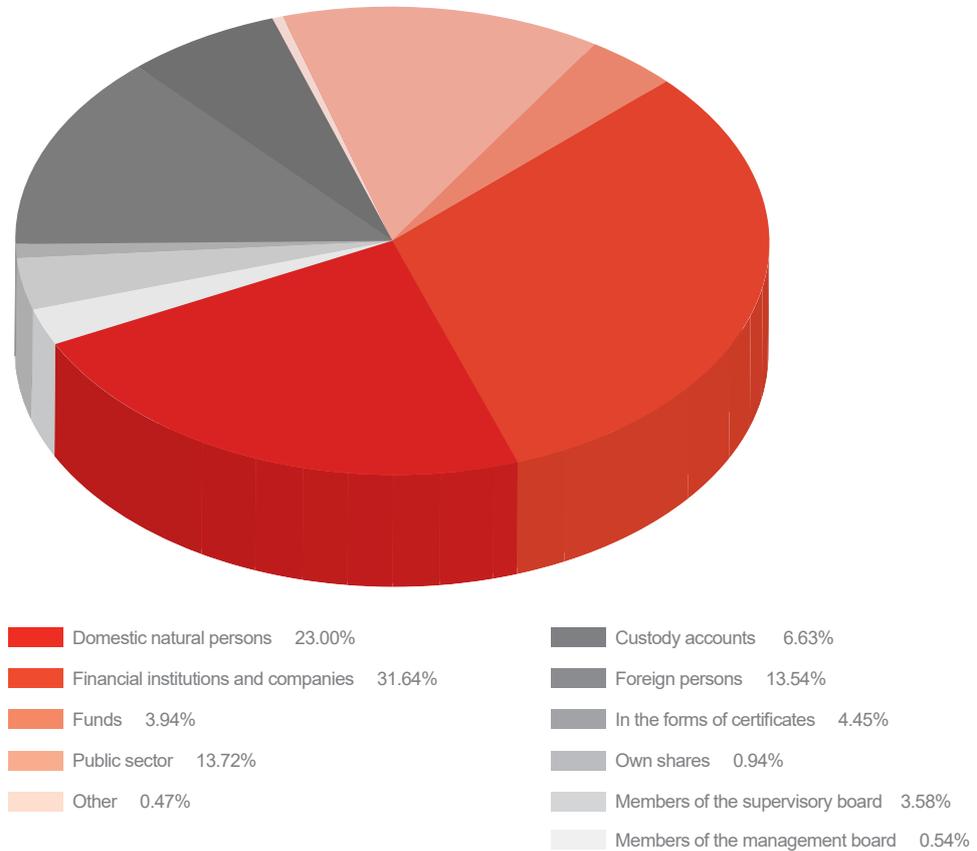
1.2.2. Ownership structure

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 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 1.2 presents the ownership structure of share issuers as at 31 December 2014 by the above-mentioned groups.

Chart 1.2 Ownership structure of share issuers as at 31 December 2014



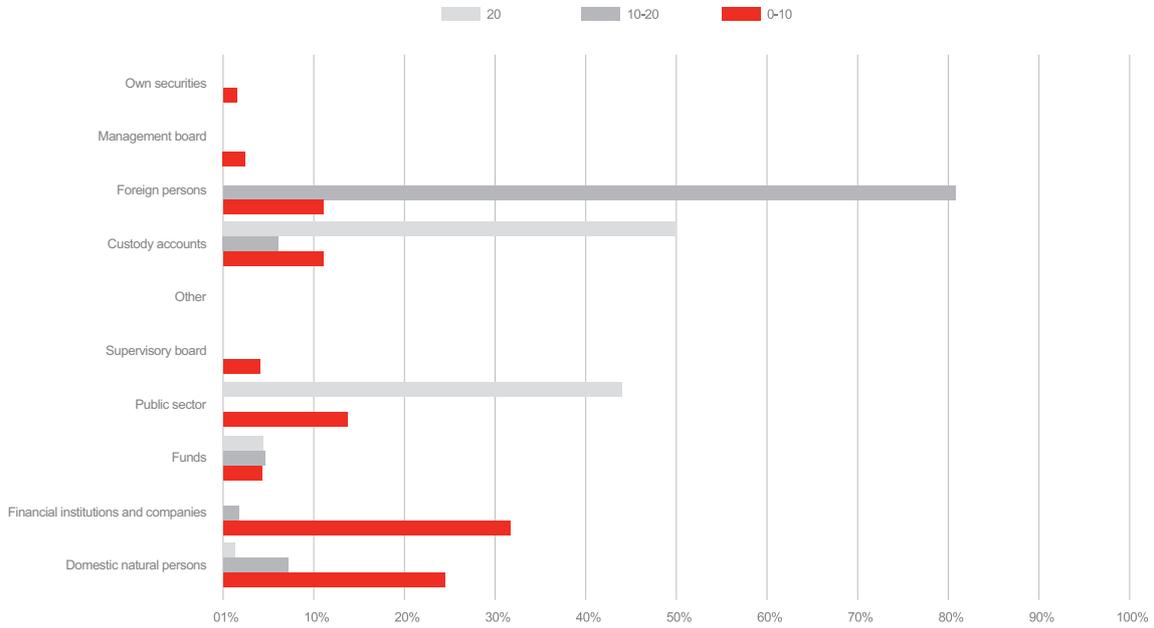
Source: CDCC

- The ownership structure of share issuers as at 31 December 2014 was dominated by financial institutions and companies with a 31.64% share (32.77% in 2013) and domestic natural persons with a 23% share (37.09% in 2013). The public sector i.e. the Republic of Croatia increased its share from 9.53% to 13.72%, relative to 2013. Foreign persons slightly reduced their share compared to 2013, i.e. from 13.57% to 13.54%, while funds increased their share from 1.22% to 3.94%.



Chart 1.3 shows the ownership structure of share issuers as at 31 December 2014 in relation to market capitalisation.

Chart 1.3 Ownership structure of share issuers as at 31 December 2014 in relation to market capitalisation (in HRK billion)

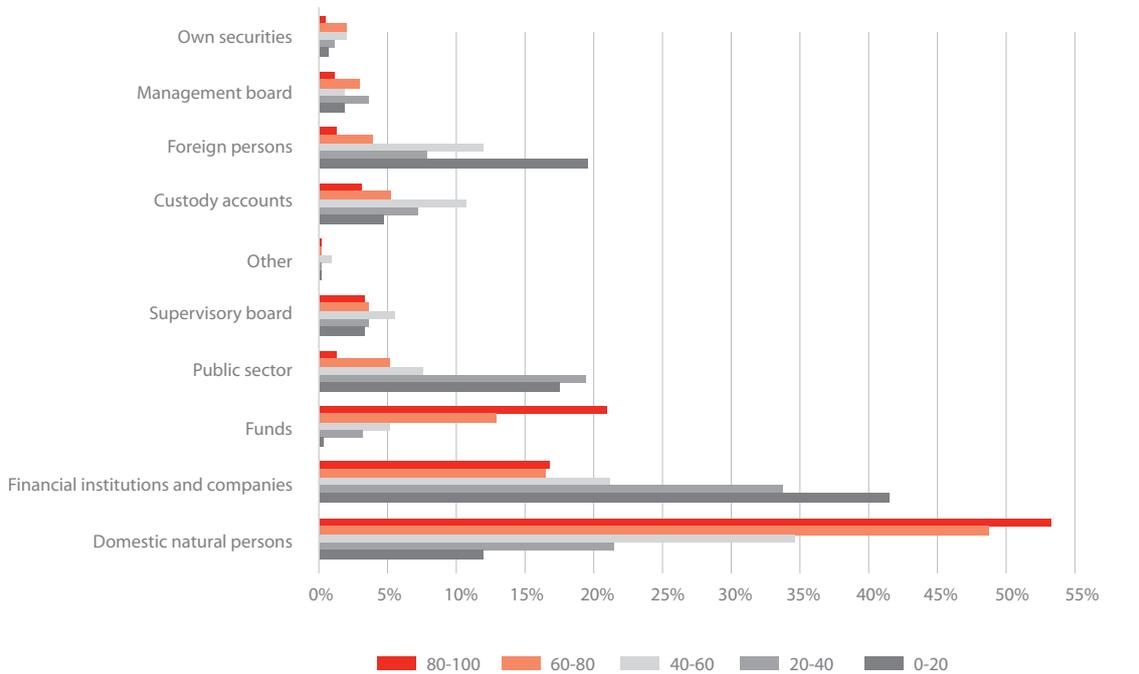


Source: CDCC

- Foreign persons had the highest share in market capitalisation issuers between HRK 10bn and 20bn (81.8%), public sector had the highest share in market capitalisation issuers over HRK 20bn (44.84%), while domestic natural persons had the highest share in market capitalisation issuers under HRK 10bn (24.74%).

Chart 1.4 shows the ownership structure of share issuers as at 31 December 2014 in relation to free float.

Chart 1.4 Ownership structure of share issuers as at 31 December 2014 in relation to free float



Source: SKDD

- Issuers with free float between 80% and 100% had the ownership structure dominated by domestic natural persons (52.6%), while issuers who had free float up to 20% had the ownership structure dominated by financial institutions and companies (40.98%). Domestic natural persons had only 11.81% of ownership in those issuers. Foreign persons dominated the ownership structure of issuers with free float up to 20% (19.38%).

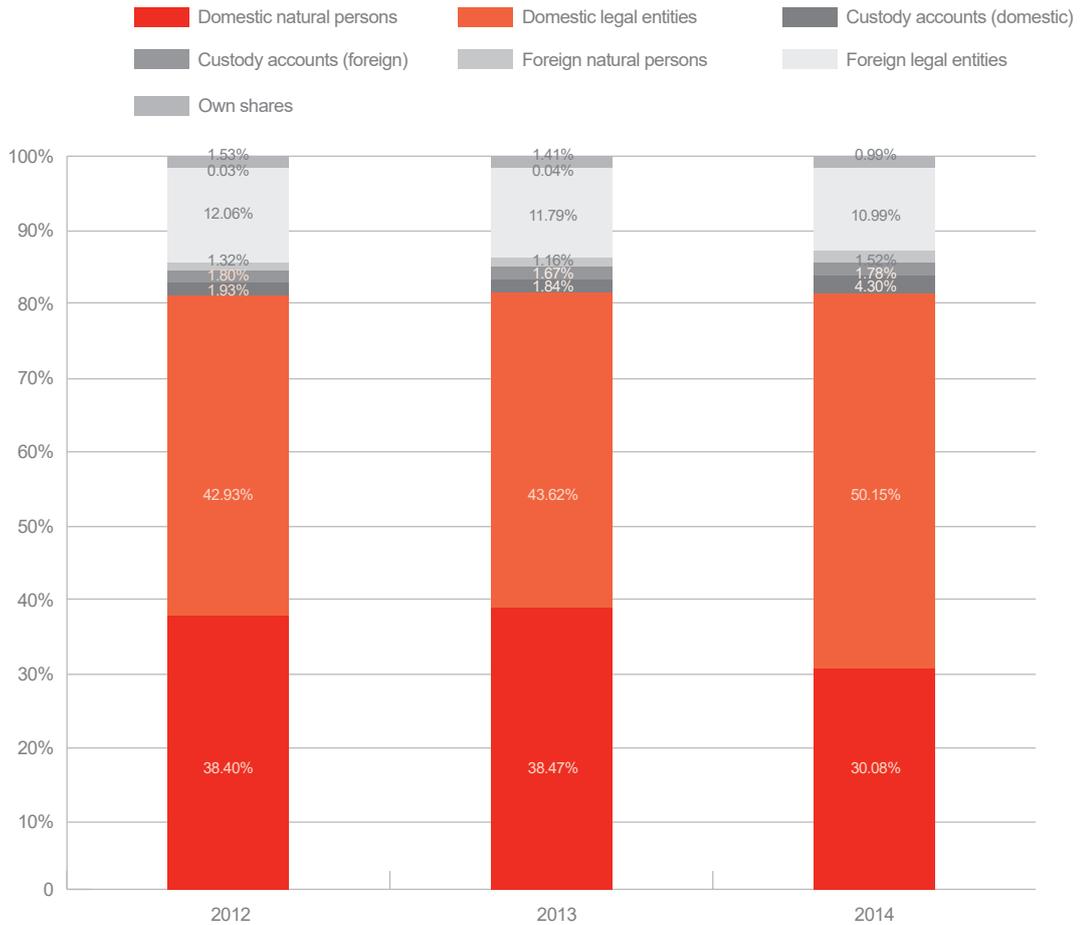
1.2.3. Origin of issuers' capital

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

Chart 1.5 shows the ownership of individual shares by the following categories:

- Domestic natural persons,
- Domestic legal entities,
- Custody accounts (domestic),
- Custody accounts (foreign),
- Foreign natural persons,
- Foreign legal entities,
- Own shares,
- other

Chart 1.5 Origin of issuers' capital as at 31 December 2012, 2013 and 2014

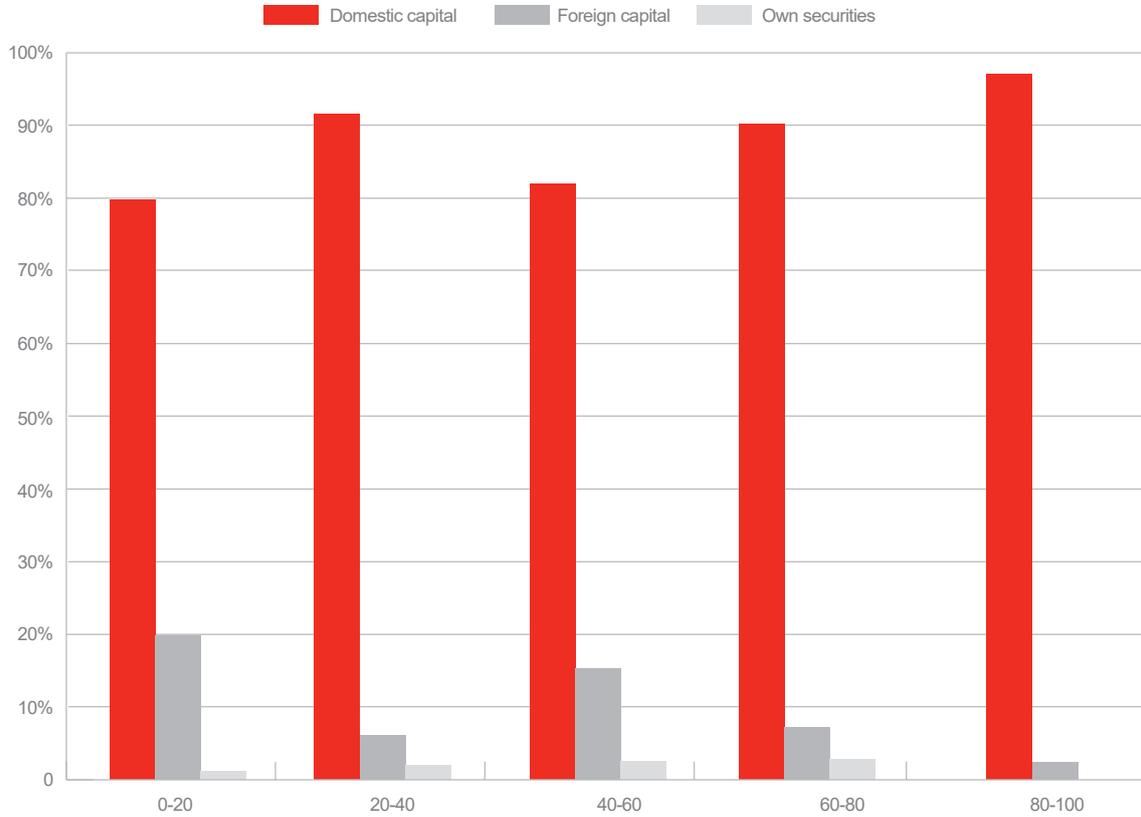


Source: SKDD

- The largest share in the share ownership was still accounted for by domestic legal entities with a 50.15% share (43.62% and 42.93% in 2013 and 2012 respectively). The share of domestic natural persons as at 31 December 2014 was 30.08% (38.47% and 38.40% in 2013 and 2012 respectively).
- The share of domestic capital as at 31 December 2014 was 84.53% (83.75% in 2013 and 83.13% in 2012), while the share of foreign capital was 14.29% (14.79% in 2013 and 15.31% in 2012).

Chart 1.6 shows the share of domestic and foreign capital in share issuers as at 31 December 2014 in relation to free float.

Chart 1.6 Share of domestic and foreign capital in share issuers as at 31 December 2014 in relation to free float



Source: CDCC

1.3. Issuers' governing bodies

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

1.3.1. Management board²

The function of a management board in a two-tier governance system is the management and representation of the company, and members are appointed by the supervisory board. In a one-tier governance system, executive directors of the company, appointed by the general meeting, perform this function. As at 31 December 2014, out of the total number of issuers (152), two had a one-tier and 150 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 statute of the issuer stipulates the number of management board members. The Companies Act (Official Gazette, No 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 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.

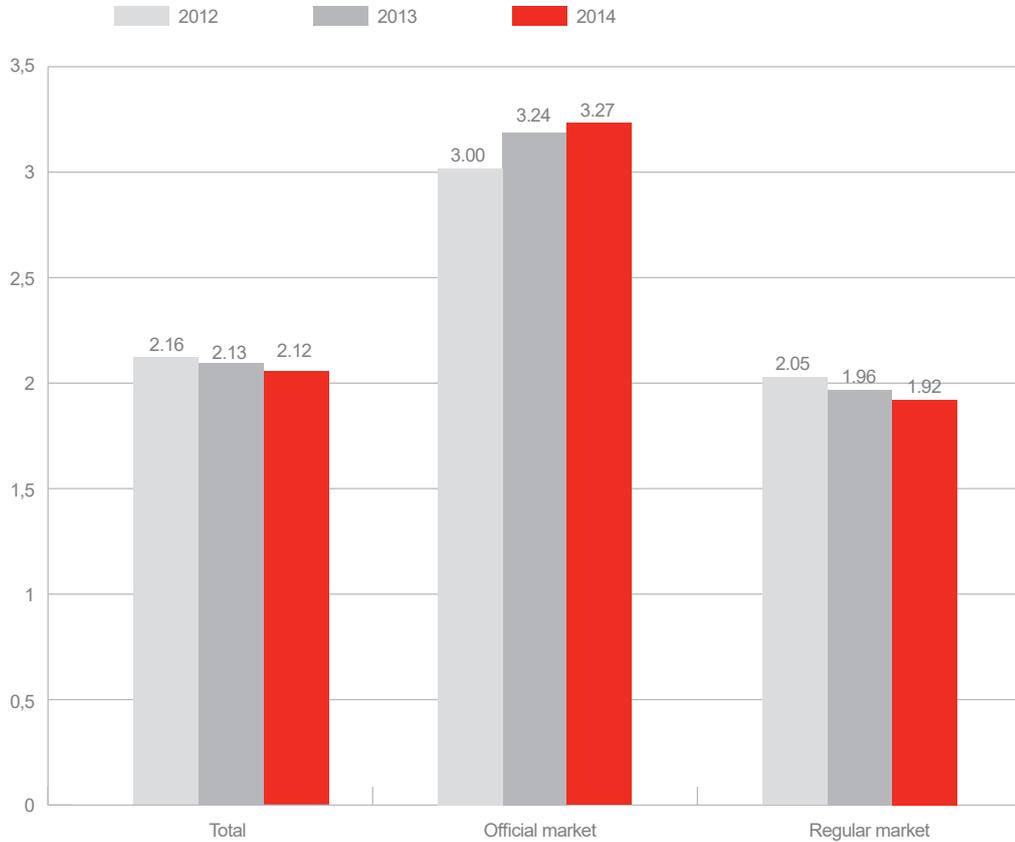
The analysis comprised all issuers of shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2012, 2013 and 2014, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies. The 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 2014, there were a total of 312 management board members in 147 analysed issuers (an average of 2.12 management board members per issuer). The average number of management board members as at 31 December 2013 was 2.13, while as at 31 December 2012 it was 2.16
- As at 31 December 2014, a total of 67 issuers (45.57%) had a single management board member. A single management member was reported by 73 issuers (46.50%) as at 31 December 2012 and 77 issuers as at 31 December 2012.
- As at 31 December 2014, the maximum number of management board members totalled eight (one more than in 2013 and 2012).

² Data on the number and gender (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.

Chart 1.7 shows the average number of management board members as at 31 December 2012, 2013 and 2014 with respect to the type of market.

Chart 1.7 Average number of management board members by the type of market as at 31 December 2012, 2013 and 2014

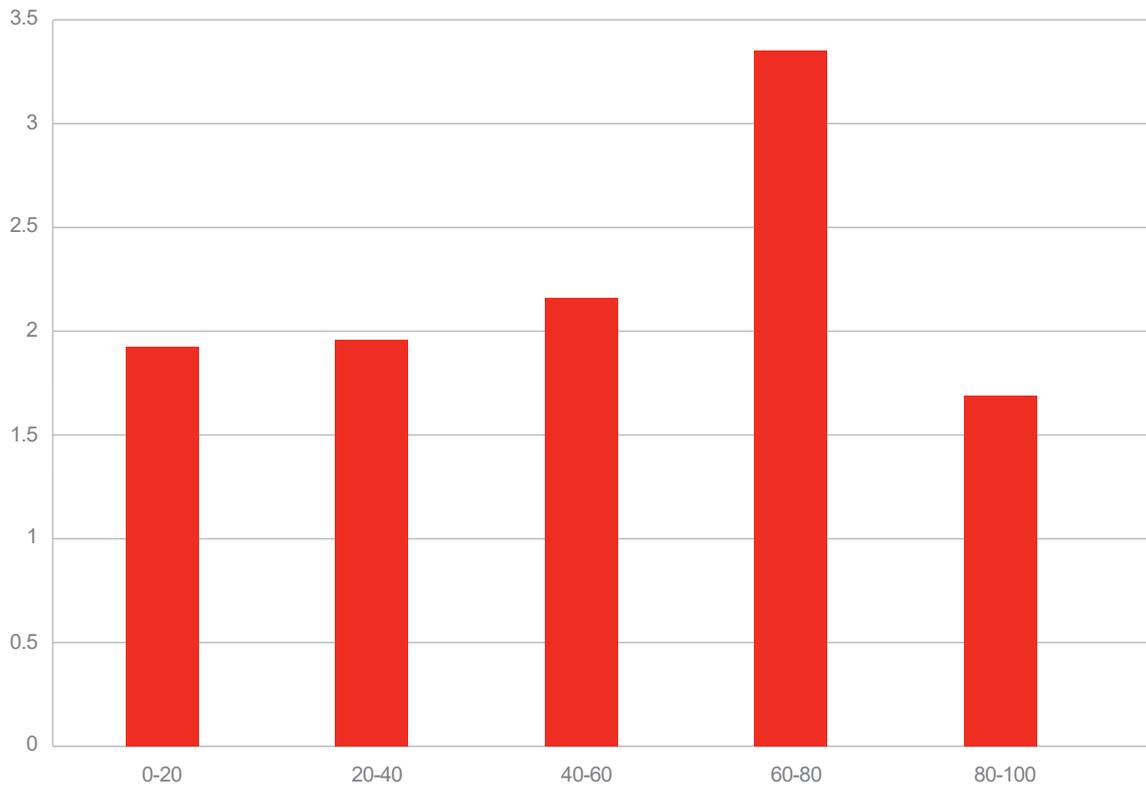


Source: register of companies, Zagreb Stock Exchange

- As at 31 December 2014, the average number of management board members totalled 2.12, whereas as at 31 December 2013, it amounted to 2.13. The number of management board members on the official market rose by 5.88% relative to 31 December 2012, while it dropped by 9.77% on the regular market.

Chart 1.8 shows the average number of management board members as at 31 December 2014 in relation to free float.

Chart 1.8 Average number of management board members as at 31 December 2014 in relation to free float

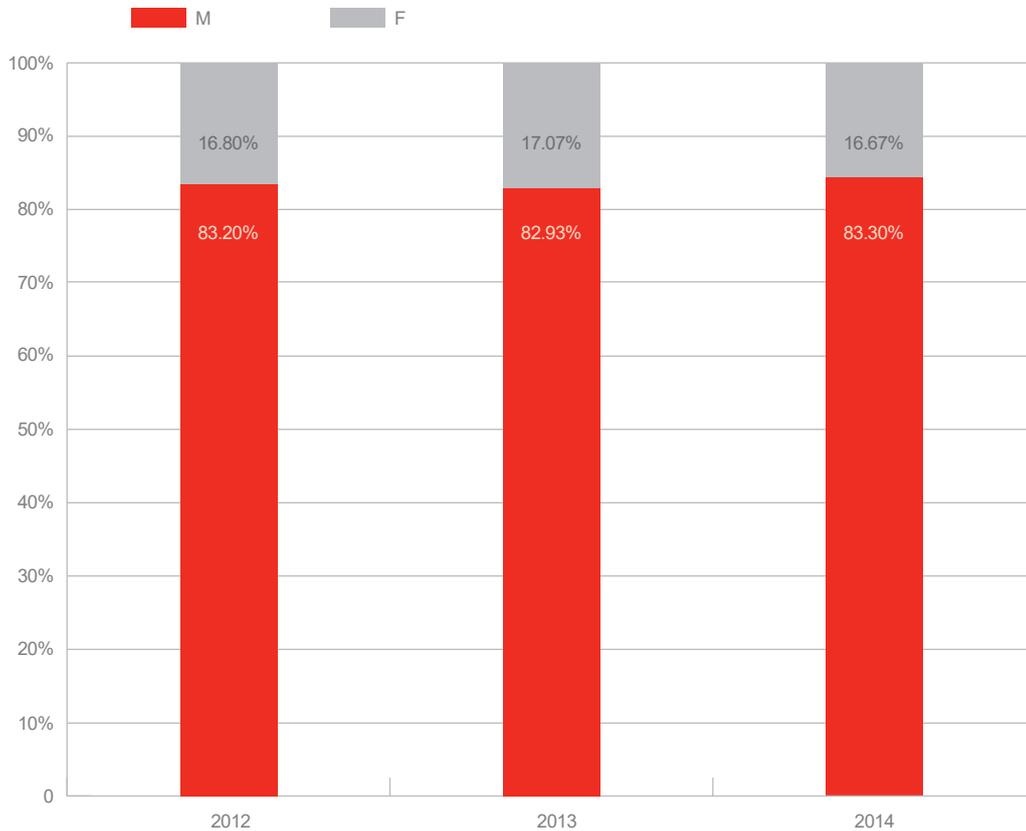


Source: register of companies, CDCC

Structure of management board members by gender, age and professional qualifications

Chart 1.9 presents the proportion of men to women on management boards of issuers as at 31 December 2012, 2013 and 2014.

Chart 1.9 Proportion of men to women on management boards as at 31 December 2012, 2013 and 2014.



Source: register of companies

- As at 31 December 2014, majority of management board members (34.3%) were between 45 and 55 years old, 33.01% were between 35 and 45 years old, 26.92% were over 55 years of age and 5.77% of management board members were younger than 35 years of age.
- Most board members under 35 came from issuers from the tourism industry and from the property and funds industry (four issuers in each sector). Majority of management board members over 55 years of age came from the tourism industry (17).
- As at 31 December 2014, most management board members had a university degree (283 management board members or 90.71%), 12 of them (3.84%) had a PhD, 11 (3.53%) had higher expertise, five (1.6%) had a secondary school degree and only one member had a lower level of education.

The following text presents the analysis of the data delivered in the 2014 Questionnaire.

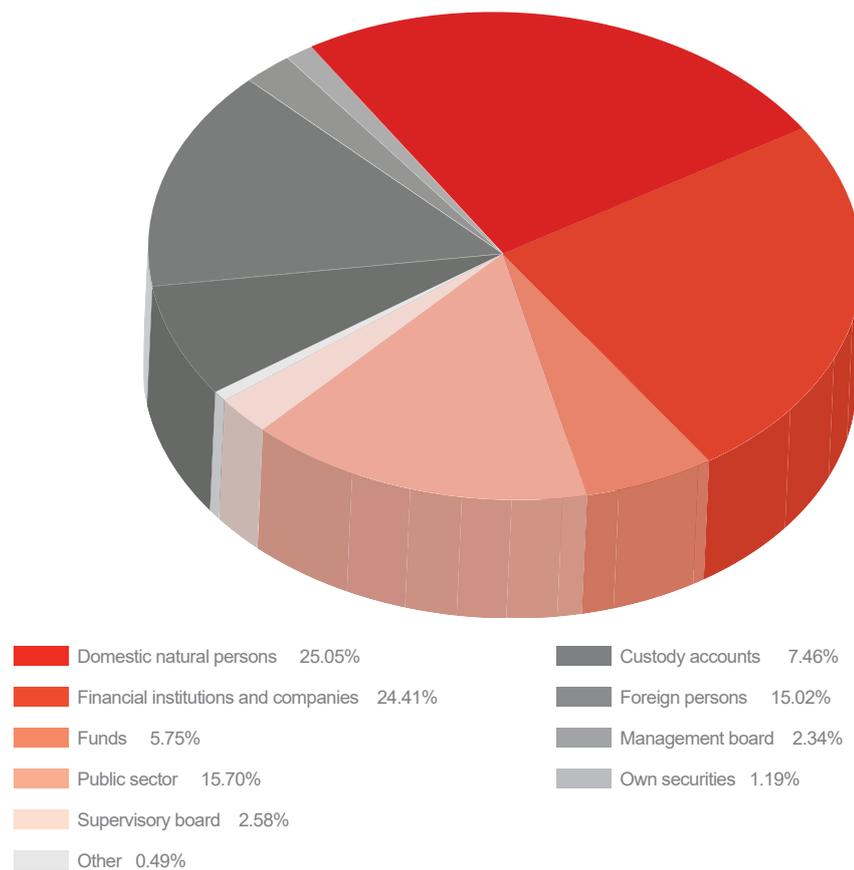
Rules of Procedure of the Management Board

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 the supervisory board has not adopted it 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 2014, a total of 61 issuers reported having an internal regulation on management board activities (rules of procedure of the management board).

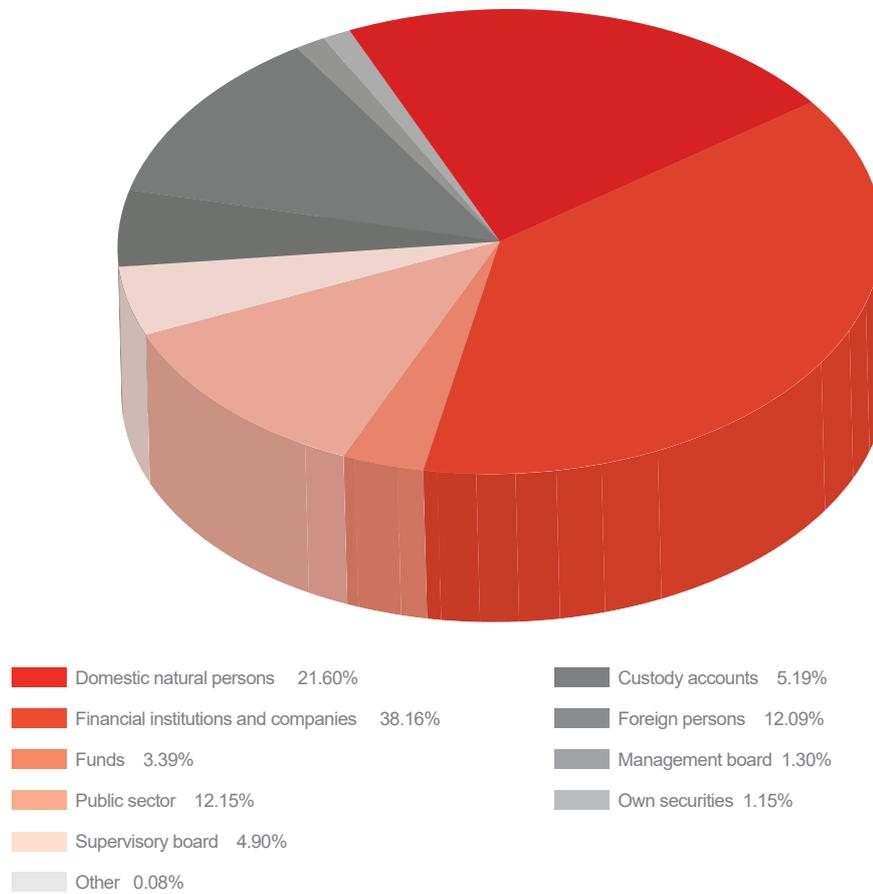
Chart 1.10 shows the ownership structure of share issuers having an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2014, and Chart 1.1 shows the ownership structure of share issuers without an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2014.

Chart 1.10 Ownership structure of share issuers having an internal regulation on management board activities as at 31 December 2014.



Source: CDCC, Questionnaire

Chart 1.11 Ownership structure of share issuers without an internal regulation on management board activities as at 31 December 2014



Source: CDCC, Questionnaire

- Domestic natural persons (25.05%) dominated the ownership structure of issuers with an internal regulation on management board activities as at 31 December 2014.
- Financial institutions and companies (38.16%) dominated the ownership structure of issuers without an internal regulation on management board activities

Meetings of the Management Board

- A total of 76 issuers submitted their data on the number of management board meetings held in 2014. The number ranged between 1 and 246, with the average number totalling 37.
- A total of 33 issuers reported having a schedule of meetings of the management board in 2014.
- A total of 10 issuers reported having mechanisms for proxy voting at management board meetings in 2014

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 2014 (same as in 2013).

Term of office and duration of the management board membership

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

- At the end of 2014, the average duration of management board membership was 5.64 years (at the end of 2013 it was 5.33 years, and at the end of 2012 it was 5.75 years).
- The average number of terms of office of management board members was 2.05 as at 31 December 2014 (it totalled an average of 1.97 in 2013 and 2.01 in 2012). In 2014, the largest number of consecutive terms of office (10) was reported by one management board member (issuer from the tourism industry).

Resignation of management board members

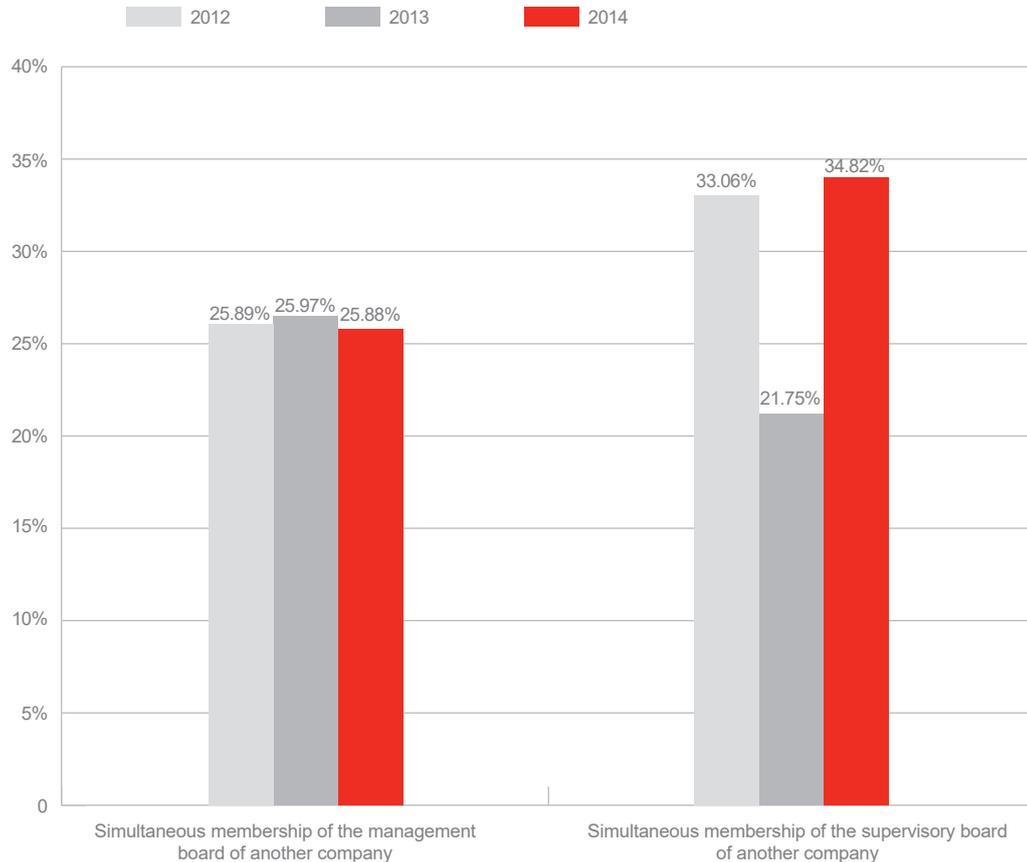
Resignation is one of the commonest ways of terminating a function in a governing body of an issuer. Resignation of the management board member is submitted to the supervisory board in writing.

- In the course of 2014, a total of 24 management board members resigned before their terms of office expired. In 2013, there were 24 management board members who resigned, while in 2012 26 management board members submitted resignations. 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 the banking sector and telecommunications (four resignations in each sector), followed by the tourism sector (three) and industry - other (three).

Multiple management/supervisory board memberships

Chart 1.12 shows changes in the number of management board members who were at the same time members of management/supervisory boards of other companies.

Chart 1.12 Number of management board members who were at the same time members of management/supervisory boards of other companies in 2012, 2013 and 2014.



Source: Questionnaire

1.3.2. Supervisory board³

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, No 93/14).

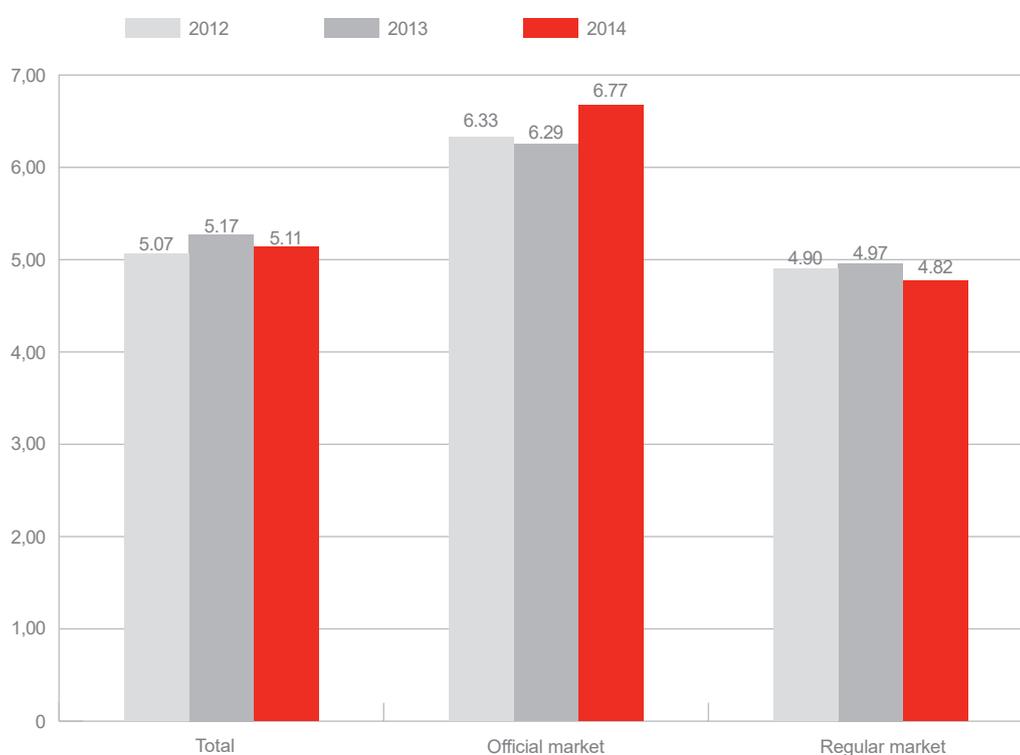
The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2012, 2013 and 2014, except issuers undergoing bankruptcy or winding-up proceedings on that date according to the data from the register of companies.

³ Data on the number and gender 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.

- As at 31 December 2014, the average number of supervisory board members was 5.11 (it was 5.17 on 31 December 2013 and 5.07 on 31 December 2012).
- The minimum number of supervisory board members (3) was reported by 27 issuers as at 31 December 2014, by 30 issuers as at 31 December 2013 and by 40 issuers as at 31 December 2012.
- The maximum number of supervisory board members as at 31 December 2014 was 11, as reported by three issuers.

Chart 1.13 shows the average number of supervisory board members as at 31 December 2012, 2013 and 2014 with respect to the type of market.

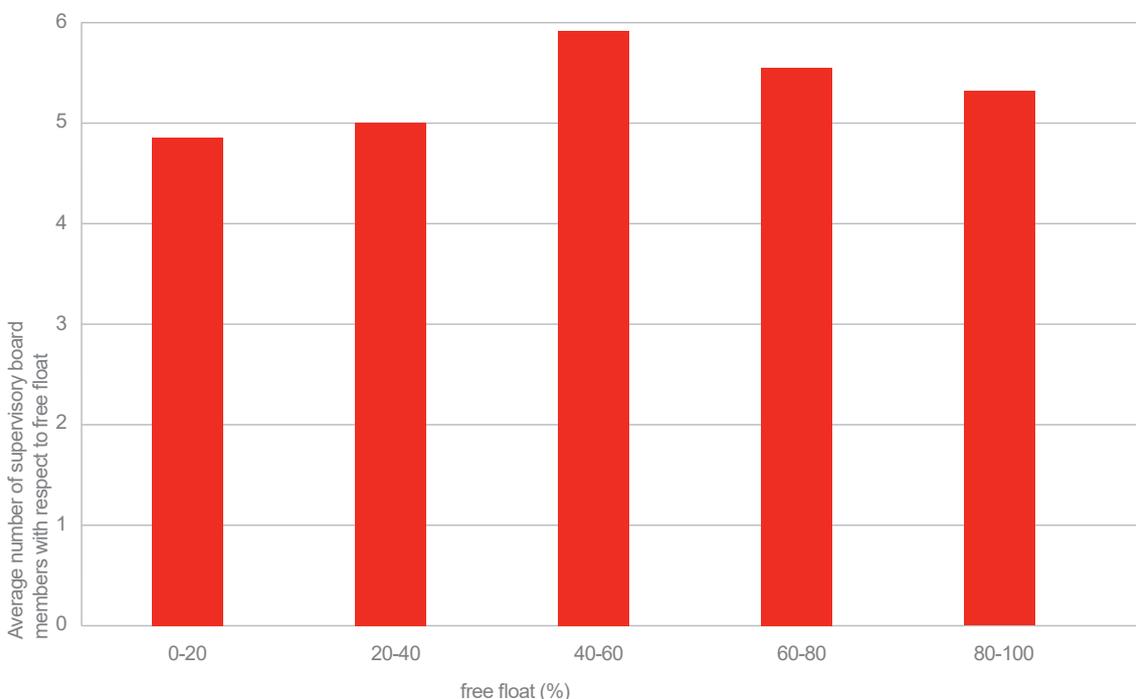
Chart 1.13 Average number of supervisory board members by the type of market as at 31 December 2012, 2013 and 2014.



Source: register of companies, Zagreb Stock Exchange

Chart 1.14 shows the average number of supervisory board members as at 31 December 2014 with respect to free float.

Chart 1.14 Average number of supervisory board members as at 31 December 2014 with respect to free float



Source: register of companies, CDCC

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, although 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.

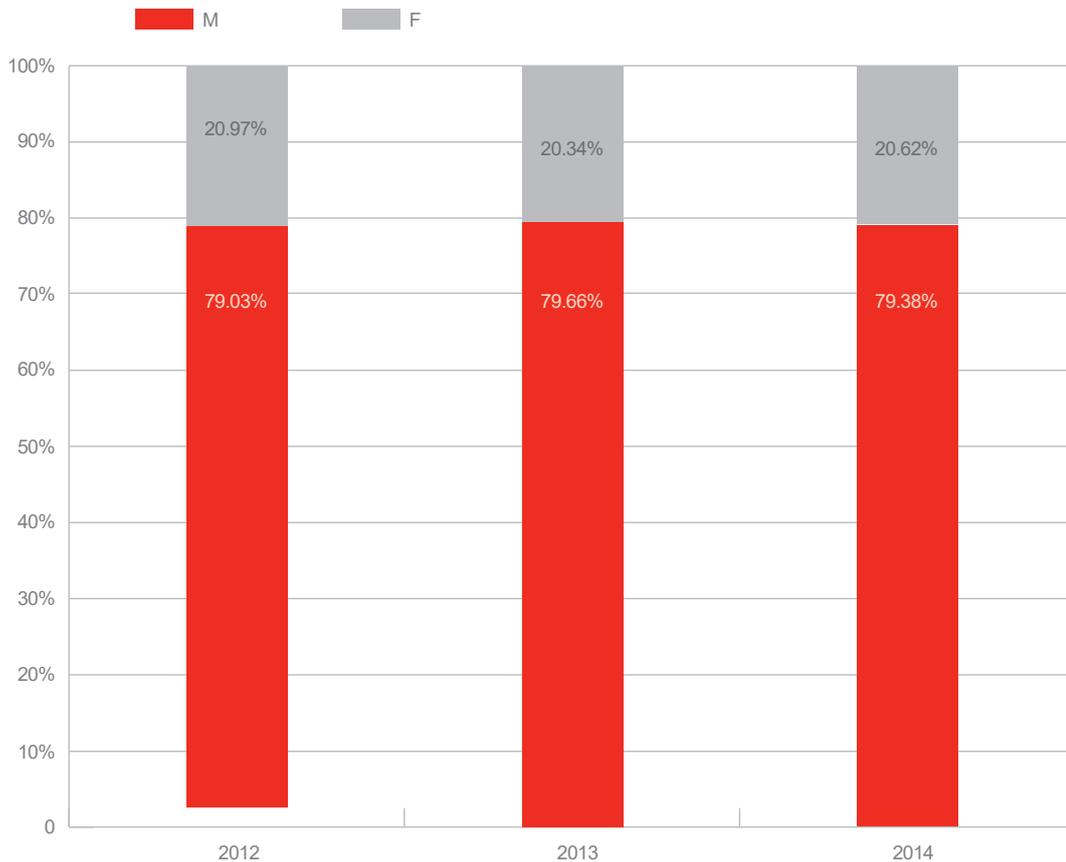
The right to appoint supervisory board members may only be granted to certain shareholders or servient holders of certain shares (the representative of significant shareholder/group of shareholders). Holders of certain shares may be granted the right by the statute to appoint supervisory board members 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 2014 Questionnaire, independent supervisory board members accounted for a 41.63% share in the total number of members of share issuers' supervisory boards (the share declined compared to 2013, when it totalled 42.82%). Employee/trade union representatives made up a 12.45% share (11.86% in 2013), whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 45.22% (45.32% in 2013) of the total number of all supervisory board members.
- Of the total of 301 independent supervisory board members, most (52) were on supervisory boards of the issuers from the food industry, 43 of them were on supervisory boards of issuers from the tourism industry, 29 on the supervisory boards of issuers from the construction industry and 21 were on supervisory boards from the property and fund industry

Supervisory board member structure by gender, age and professional qualifications

Chart 1.15 shows the proportion of men to women on supervisory boards of issuers in 2012, 2013 and 2014.

Chart 1.15 Proportion of men to women on supervisory boards of issuers in 2012, 2013 and 2014



Source: register of companies

- In 2014, out of 776 analysed supervisory board members, 160 were women, who made up a 20.62% share. The average share of women on supervisory boards totalled 20.64% in all the three analysed years.

- In 2014, the share of women on supervisory boards was by 23.82% larger than the share of women on management boards.
- As at 31 December 2014, majority of supervisory board members (42.38%) were over 55 years old, 27.7% were between 45 and 55 years old, 24.24% were between 35 and 45 years old and only 5.82% of supervisory board members were younger than 35 years of age.
- The majority of supervisory board members younger than 35 years of age came from the tourism sector (14), followed by the food industry (eight) and the property and fund industry (four).
- As at 31 December 2014, most supervisory board members had a university degree (78.95%), 12.05% of them had a high school degree, 8.17% had a PhD, and only 0.83 % had lower level of education.

The following text presents the analysis of the data delivered in the 2014 Questionnaire.

Meetings of the supervisory board

- In 2014, a total of 46 issuers reported having a schedule of meetings of the supervisory board.
- A total of 50 issuers reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 95 issuers (67.38% of issuers that submitted their Questionnaires) reported having an internal regulation on supervisory board activities. In 2013, 63.70% of issuers that submitted their Questionnaires reported having such a regulation.
- In 2014, supervisory boards held an average of 8.36 meetings, with the number of the meetings ranging from 0 to 95. Supervisory boards of three issuers that submitted the Questionnaire did not hold any meetings in 2014.

Term of office and duration of the supervisory board membership⁴

- At end-2013, the average duration of supervisory board membership totalled 5.31 years, in 2013 it was 5.4 years while in 2012 it was 5.22 years.
- The average number of terms of office of supervisory board members as at 31 December 2014 totalled 2.02 (it was 2.06 in 2013 and 1.98 in 2012). In 2014, 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 2014, a total of 34 supervisory board members resigned before their terms of office expired. Reasons for the resignations were mostly linked to personal issues or assumption of another role.

⁴ The following analysis presents the data on supervisory board members according to the data from 141 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.

Supervisory board committees

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

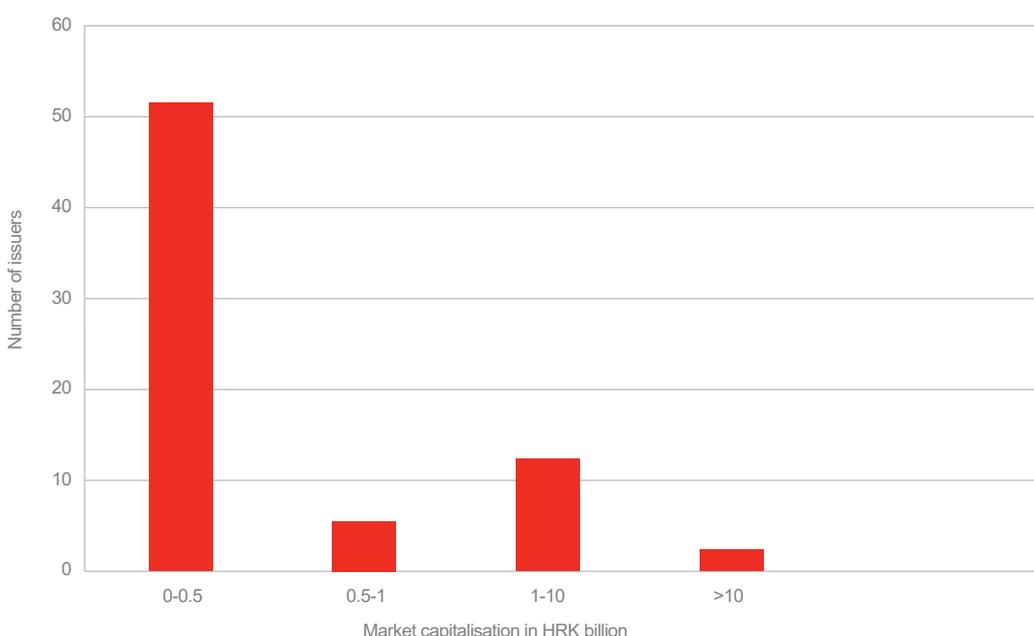
- Audit committee (Audit board)
- Nomination Committee and
- Remuneration Committee.

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 (75 issuers or 53.19% of the issuers that submitted their 2014 Questionnaire; 57.03% of the issuers in 2013 and 50.33% of the issuers in 2012). In 2014, the remuneration committee was established by 12 issuers and the nomination committee by 9 issuers.
- Internal working procedures were established by 43 audit committees (57.33%), ten remuneration committees (83.33%) and eight nomination committees (88.89%).
- Apart from having established the said committees, 13 issuers reported having set up another committee (they were: investments committee, property committee, corporate governance committee, sustainability committee, risk committee, strategic development committee, committee for loan proposal supervision and committee for monitoring synergistic effects).
- During 2014, a total of 22 issuers reported being in the process of preparing a report on the work of committees, whereas six issuers made their committee reports publicly available.

Chart 1.16 shows the number of issuers with an established audit committee as at 31 December 2014 in relation to market capitalisation of issuers.

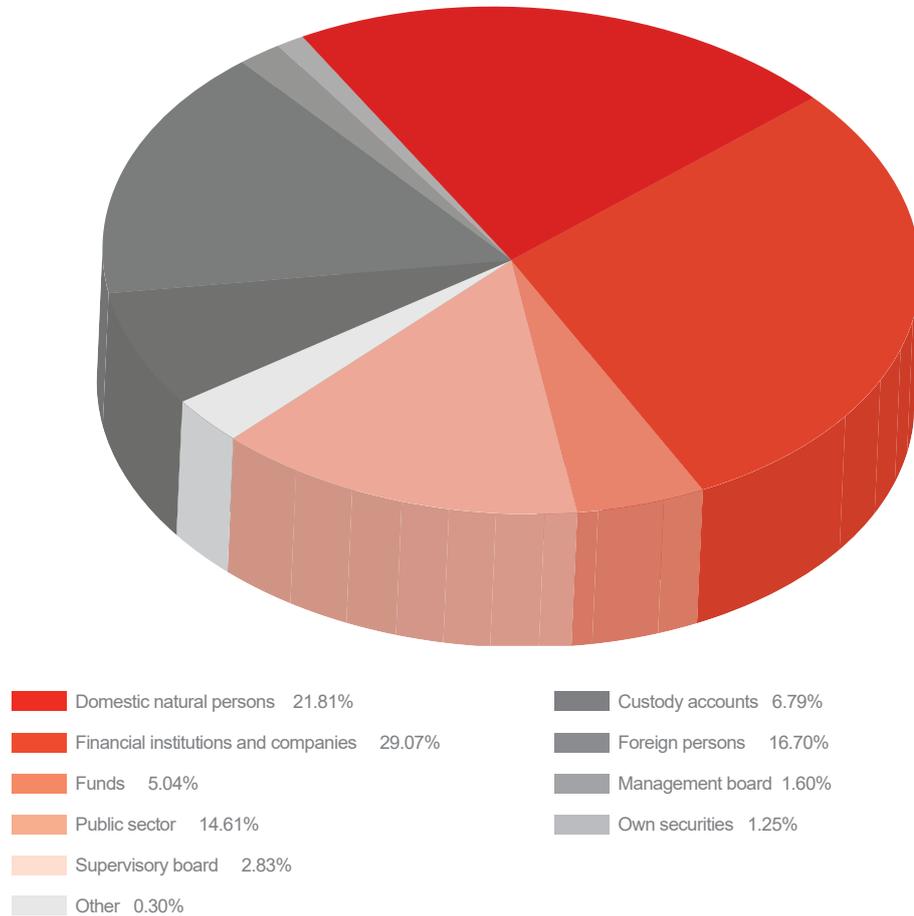
Chart 1.16 Number of issuers with an established audit committee as at 31 December 2014 in relation to market capitalisation of issuers.



Source: Questionnaire, Zagreb Stock Exchange

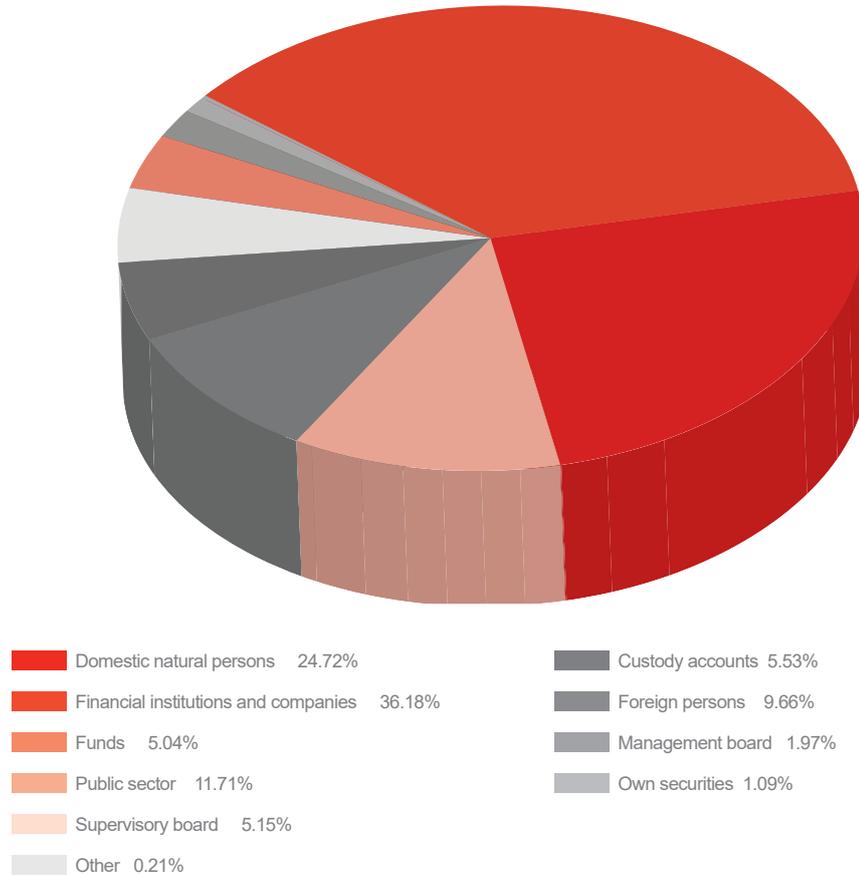
Chart 1.17 shows the ownership structure of issuers with an established audit committee as at 31 December 2014, and the chart 1.18 shows the ownership structure of issuers without an established audit committee as at 31 December 2014.

Chart 1.17 Ownership structure of issuers with an established audit committee as at 31 December 2014.



Source: Questionnaire, CDCC

Chart 1.18 Ownership structure of issuers without an established audit committee as at 31 December 2014.



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established audit committee as at 31 December 2014, as well as the ownership structure of issuers without an established audit committee (29.07% and 36.18% respectively).

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 amounts of remuneration of management board members are determined by the supervisory board. In accordance with Article 247(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.

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 and the average value of options held by management board members, as well as the respective amounts in 2014, 2013 and 2012. The amounts shown in Table 1.2 are average amounts paid to the entire management board (not to a single management board member).

Tablica 1.2 Amount of remuneration of management board members of share issuers in 2014, 2013 and 2012 (in HRK)

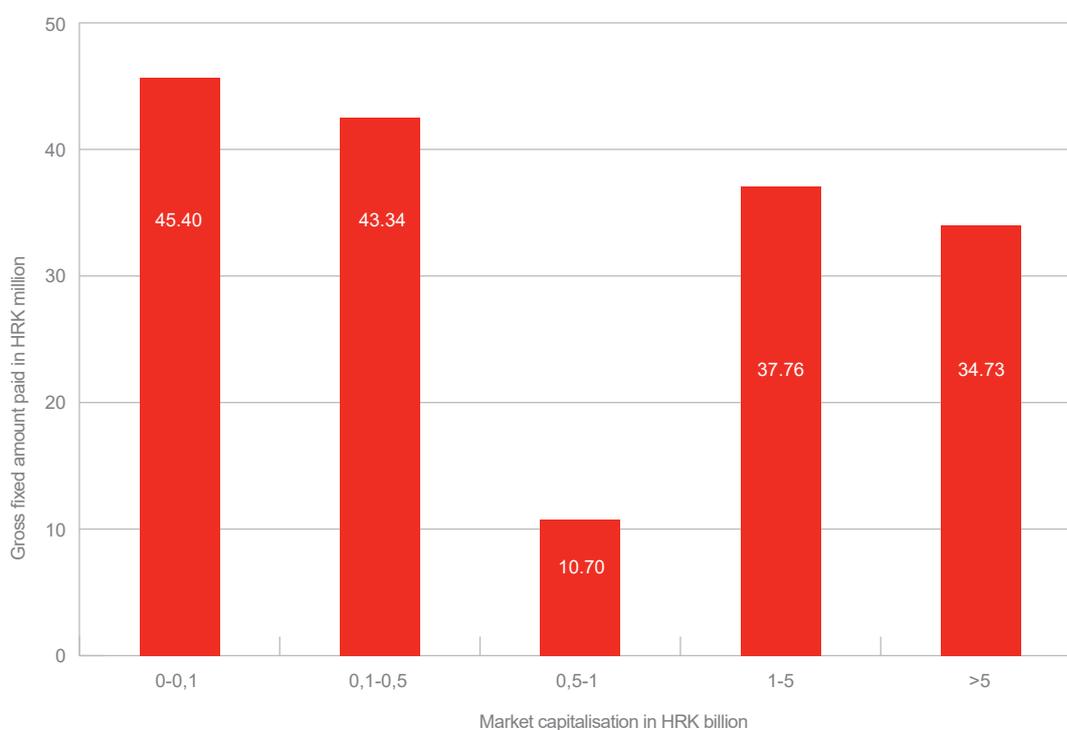
		Average gross amount paid to management board members during the year		Average amount of other benefits paid to management board members	Average value of options held by management board members
		Fixed amount	Variable amount		
2014	Number of issuers	94	14	8	4
	Amount	1.840.885	1.969.520	712.865	8.615.272
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	3881.929

Source: Questionnaire

- As in the previous year, in 2014 the highest nominal fixed amounts of remuneration (gross) were paid to management board members of issuers from the banking sector, followed by telecommunications and chemical industry. The lowest nominal fixed amounts of remuneration (gross) were paid to management board members of issuers from the transport sector (shipping), the property and fund industry and the trade sector.

- In 2014, gross amounts of variable remuneration paid to management board members ranged between HRK 25.1 thousand and HRK 8.3m. 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 construction industry.
- In the course of 2014, the total value of options held by management board members ranged from HRK 40 thousand (an issuer from property and funds industry) to HRK 19.7 million (an issuer from the banking sector).
- The total amount of other benefits paid to management board members ranged between HRK 29.7 thousand and HRK 2.3m.
- A total of 16 issuers reported having submitted the annual remuneration policy statement relating to management board members to the general meeting in 2014.

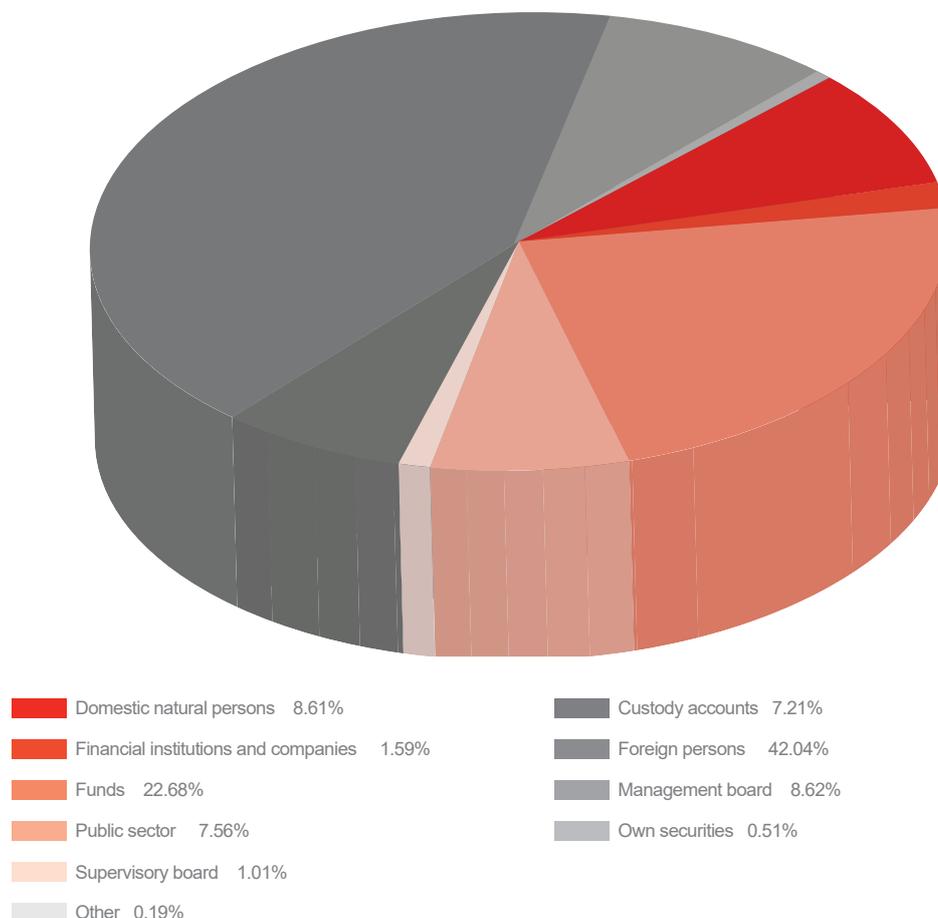
Chart 1.19 Total gross amount of fixed remuneration paid to management board members in 2014 in relation to market capitalisation (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

In 2014, issuers with a market capitalisation totalling HRK 0-0.1bn paid to their management board members an average gross fixed amount reaching HRK 890 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 1.7m; issuers with a market capitalisation totalling HRK 0.5-1bn paid to their management board members an average gross fixed amount reaching HRK 1.8m; issuers with a market capitalisation totalling HRK 1-5bn paid to their management board members an average gross fixed amount reaching HRK 4.7m, and issuers with a market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount reaching HRK 11.6m.

Chart 1.20 Ownership structure of share issuers that paid a gross fixed amount to management board members in the amount over HRK 5m in the course of 2014



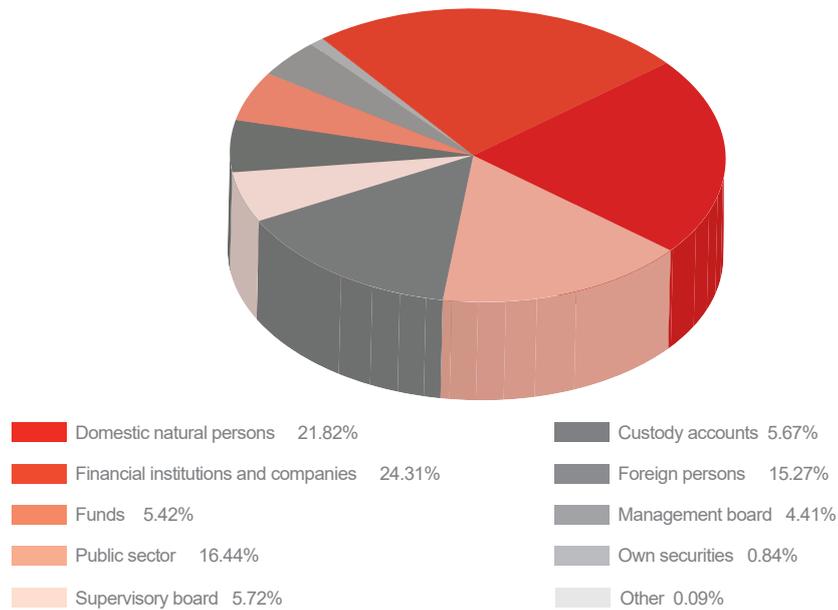
- The ownership structure of issuers that paid a gross fixed amount to their management board members in the amount over HRK 5m in the course of 2014 is dominated by foreign persons (42.02%) and funds (22.68%).

Management board remuneration policy

According to the Code on Corporate Governance (section 6.3 Remuneration), an issuer should publish a statement on the remuneration policy of the management board and supervisory board as a part of its annual report. The remuneration policy statement must be permanently available on the website of the issuer.

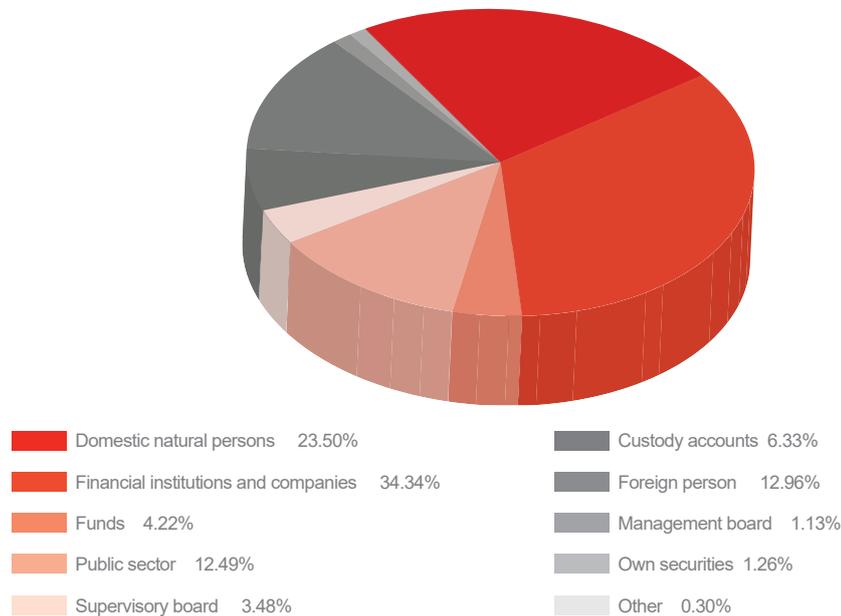
- A total of 27 issuers reported having a remuneration policy for management board members in place for 2014. 28 and 27 issuers reported such a remuneration policy for 2013 and 2012 respectively.
- A total of 23 issuers that reported having a remuneration policy for management board members in place 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).

Chart 1.21 Ownership structure of share issuers with an established remuneration policy for management board members in place as at 31 December 2014



Source: Questionnaire, CDCC

Chart 1.22 Ownership structure of share issuers without an established remuneration policy for management board members in place as at 31 December 2014



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established remuneration policy for management board members as at 31 December 2014, as well as the ownership structure of issuers without such policy (24.31% and 34.34% respectively).

Severance pay

- A total of 13 issuers reported total amounts of severance pay for management board members defined in contracts in 2014, which ranged from HRK 40 thousand to HRK 19.72m.
- Six issuers reported total amounts of severance pay given to management board members in 2014, which ranged from HRK 210 thousand to HRK 8.86m.
- In 2014, the highest total amount of gross severance pay was given to management board members of two issuers from the telecommunications industry, followed by an issuer from the insurance sector and another issuer from the chemical industry

1.3.5. Remuneration of management 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 2014, a total of 25 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 78 issuers reported the level of supervisory board member remuneration being determined by the decision of the general meeting. Other issuers did not respond, or they reported that the amount of remuneration of supervisory board members was determined in some other way.

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 2014, 2013 and 2012. 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 2014 2013 and 2012 (in HRK)

		Average gross amount paid to supervisory board members during the year		Average amount of other remuneration paid to supervisory board members
		Fixed amount	Variable amount	
2014	Number of issuers	96	6	0
	Amount	391.127	479.791	0
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

Source: Questionnaire

- A total of 96 issuers reported the total gross amount of fixed remuneration paid to supervisory board members in 2014, which ranged from HRK 3.6 thousand to HRK 2m.
- Six issuers reported the total gross amount of variable remuneration paid to supervisory board members, which ranged from HRK 60 thousand to HRK 1.9m.
- 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 2014 was reported by 76 issuers, with the amounts ranging between HRK 115 thousand (an issuer from the tourism industry) and HRK 33m (an issuer from the banking sector).
- The total gross amount of variable remuneration paid to the senior management was reported by nine issuers, with the amounts ranging between HRK 222.4 thousand and HRK 14.4m.
- The total value of options held by the senior management was reported by only two issuers (as in 2013), with the values ranging from HRK 342.8 thousand to HRK 9.7m.
- The total gross amount of severance pay agreed with the senior management in 2014 was reported by nine issuers, with the amounts ranging from HRK 75 thousand to HRK 15.9m.
- The total gross amount of severance pay given to the senior management in 2014 was reported by seven issuers, with the amounts ranging from HRK 171 thousand to HRK 1.96m.
- The total amount of other benefits paid to the senior management was reported by eight issuers, with the amounts ranging from HRK 14 thousand to HRK 1.4m.

1.3.7. Transactions with related parties

In 2014, a total of 26 issuers reported having an internal regulation in place for cases of related party transactions. Such regulation was reported by 31 and 32 issuers in 2013 and 2012 respectively.

Table 1.4 sets out the average value of reported transactions during 2012, 2013 and 2014, 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 2012, 2013 and 2014 (in HRK)

		Average gross amount of operations (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 its parent
2014	Number of issuers having reported the transaction	39	18	9	49
	Transaction amount	299.218.739	5.201.024	9.171.700	395.999.671
2013	Number of issuers	38	16	10	48
	Amount	208.065.812	3.575.421	6.222.242	315.786.981
2012	Number of issuers	49	19	13	61
	Amount	359.391.905	2.511.358	4.794.418	439.989.719

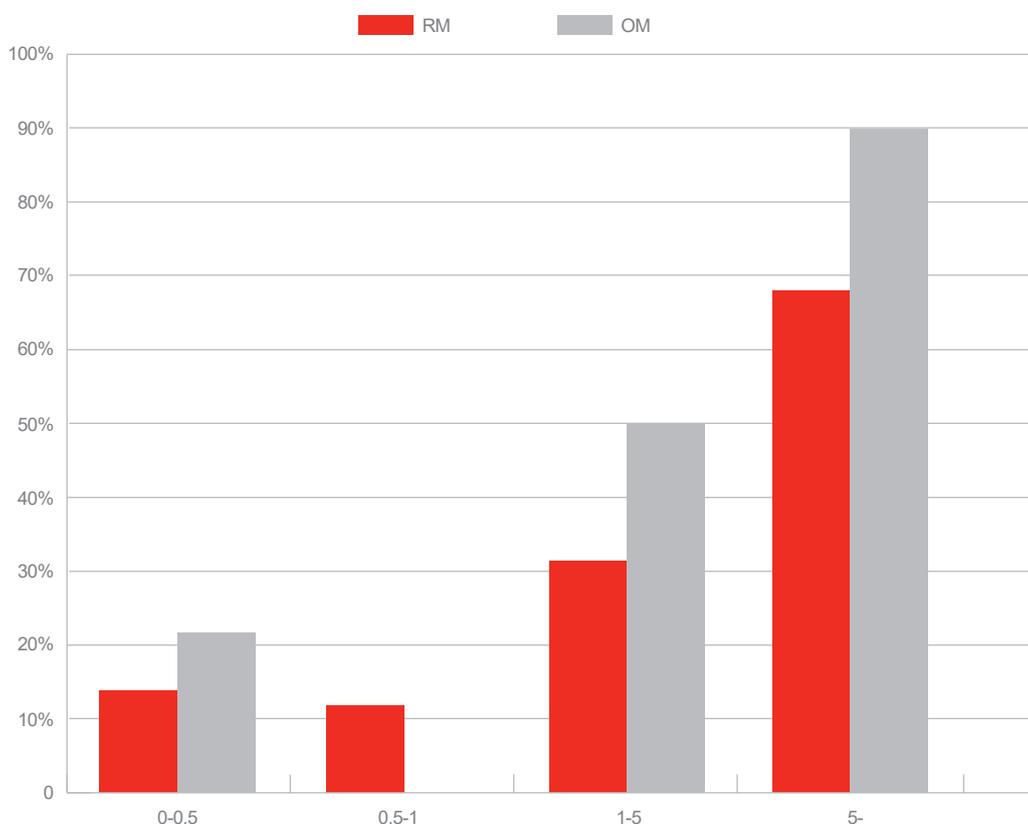
Source: Questionnaire

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 2014, a total of 29 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, protecting investors through the prevention of use of inside information, monitoring transactions by relevant persons, ensuring that interests of issuers' clients come before the interests of issuers and their employees, preventing bribery and corruption.
- The majority of 29 issuers that reported having an internal regulation in place to identify, prevent and report conflicts of interest at the end of 2014 came from the banking sector (seven), followed by the property and fund industry (three) and tourism industry (three).
- In 2014, a total of two cases of conflicts of interest were reported by one issuer, whereas other issuers did not report any conflicts of interest. These reported cases of conflicts of interest involved persons who failed to abstain from voting on entering related party transactions.

Chart 1.23 Share of issuers with an established internal regulation to identify, prevent and report conflicts of interest in relation to market capitalisation of issuers (in HRK billion) and market where shares are admitted



Source: Questionnaire, Zagreb Stock Exchange

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 141 completed Questionnaires, two issuers did not hold the general meeting in 2014. According to the data from 135 Questionnaires completed in 2013, two issuers did not hold the general meeting, whereas six issuers reported not having held the general meeting in 2012 pursuant to the data from 151 completed Questionnaires.
- As a reason for not having held a general meeting in 2014, one issuer reported undergoing pre-bankruptcy settlement proceedings, while another issuer stated that the decision on not holding a general meeting was taken by the supervisory board.
- According to the data from 141 completed Questionnaires, a total of 105 issuers reported having held only one general meeting, 27 issuers held two general meetings, six issuers held three general meetings, while one issuer held four general meetings in the course of 2014.

- Out of a total of 181 general meetings held during 2014, there were 142 regular and 39 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 six general meetings held by four issuers in 2014.

Internal rules of procedure of the general meeting

- A total of 60 issuers reported having rules of procedure of the general meeting in place for 2014, of which six issuers reported changes in their rules of procedure during the year.
- A total of 28 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 inalienable 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 general meetings. Chart 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.

- General meetings held in 2014 were attended by an average of 32 shareholders (maximum 575 shareholders, minimum one shareholder).
- In 2014, no shareholder voted remotely in general meetings (e.g. by electronic means).

Voting limitations, attendance conditions and decision making

In general, shareholders cannot 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 nine general meetings of nine issuers held in 2014. In most of those cases, voting rights were restricted due to the reason referred to in Article 293(1) of the ZTD (issuance of clearance to members of management or supervisory boards or boards of directors). Pursuant to the said provision of the ZTD, voting rights may not be exercised by any person on their 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.

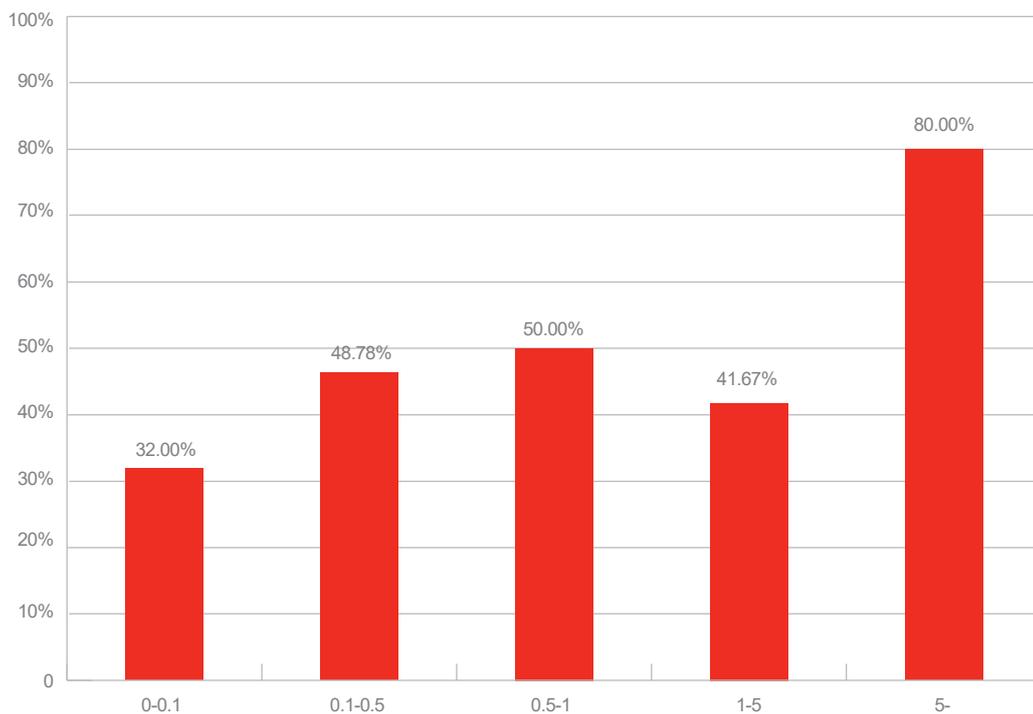
1.4.1. Internal audit and control

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.

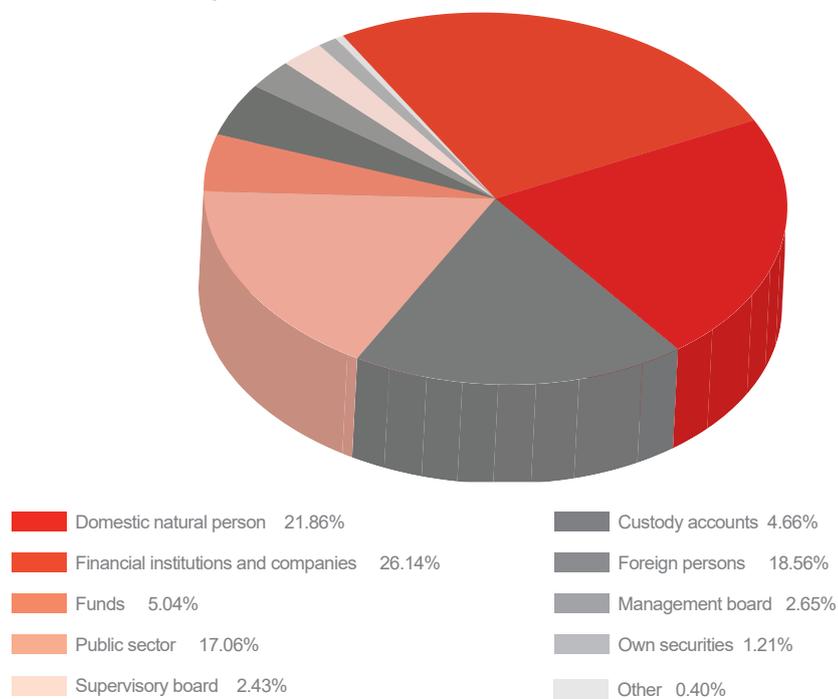
- A total of 57 or 40.43% of the issuers that submitted the 2014 Questionnaire reported having an internal audit system in place (A total of 40.74% and 41.06% of the issuers that submitted the Questionnaire for 2013 and 2012 respectively reported having an internal audit system in place).
- As at 31 December 2014, a total of 57 issuers with an internal audit system in place had a total market capitalisation of HRK 87.2bn (the total market capitalisation of 141 issuers that submitted their 2014 Questionnaires reached HRK 121bn as at 31 December 2014).
- Most of the issuers with an internal audit system in place belonged to the banking sector and food industry (10 issuers), followed by those from the tourism industry (nine issuers), and the insurance sector (five issuers).
- A total of 98 or 69.50% of the issuers that submitted the 2014 Questionnaire reported having an internal control system in place (67.41% in 2013 and 66.89% in 2012).
- Most of the issuers with an internal audit system in place belonged to the tourism industry (21), followed by those from the food industry (13), the banking sector (11) and the insurance sector (five).

Chart 1.24 Share of issuers having an internal audit system in place with respect to market capitalisation of issuers (in HRK billion)



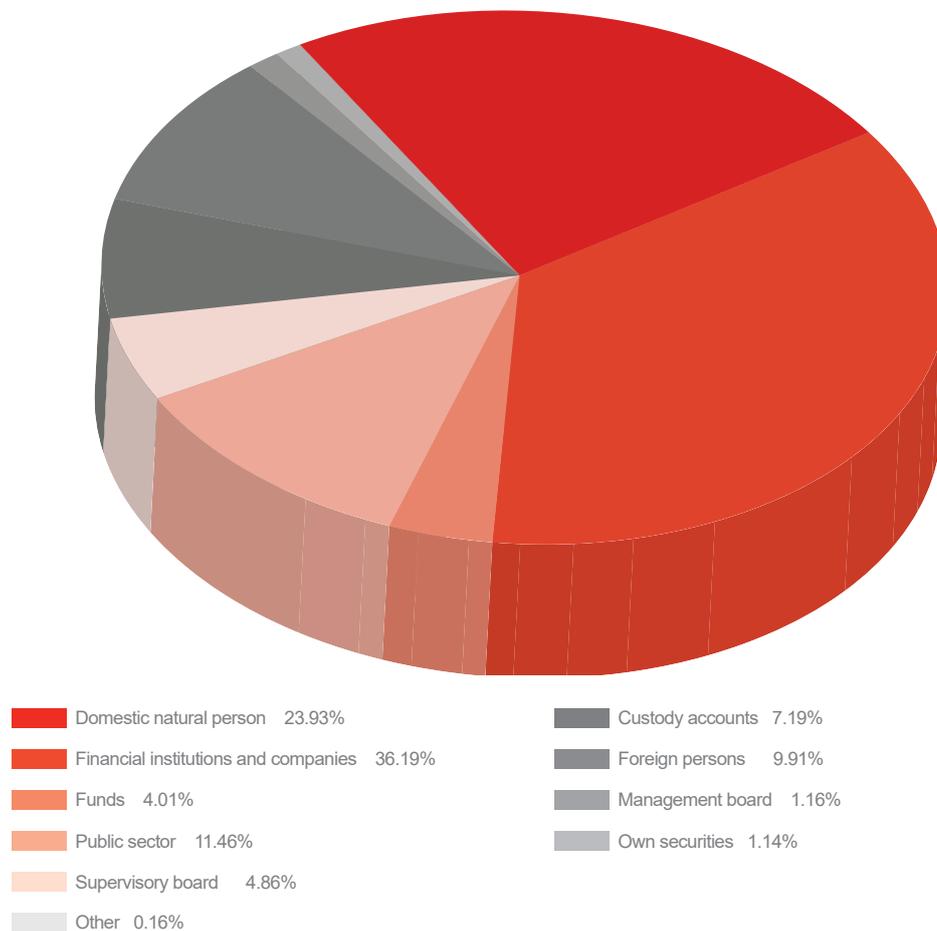
Source: Questionnaire, Zagreb Stock Exchange

Chart 1.25 Ownership structure of share issuers having an internal audit system in place as at 31 December 2014



Source: Questionnaire, CDCC

Chart 1.26 Ownership structure of share issuers without an internal audit system in place as at 31 December 2014



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established internal audit system as at 31 December 2014, as well as the ownership structure of issuers without an established internal audit system (26.14% and 36.19% respectively).

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.

- A total of 39 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. Majority of issuers that appointed a person to be in charge of risk management came from the banking sector (10), followed by the insurance sector (five) and the food industry, tourism and other activities (three issuers from each sector).
- The most common risks reported by issuers were liquidity risk and credit risk, followed by macroeconomic environment risk, operational risk, political risk and interest rate risk.
- A total of 51 issuers reported some risks having materialised during 2014, and 40 of them (78.43%) managed to control and manage those risks.
- The most common materialised risks were liquidity risk, market risk and credit risk.
- According to the data submitted in the questionnaires, the risks were mostly reported by issuers from the food industry (nine), the banking sector (seven) and the tourism industry (five).

1.4.3. External audit

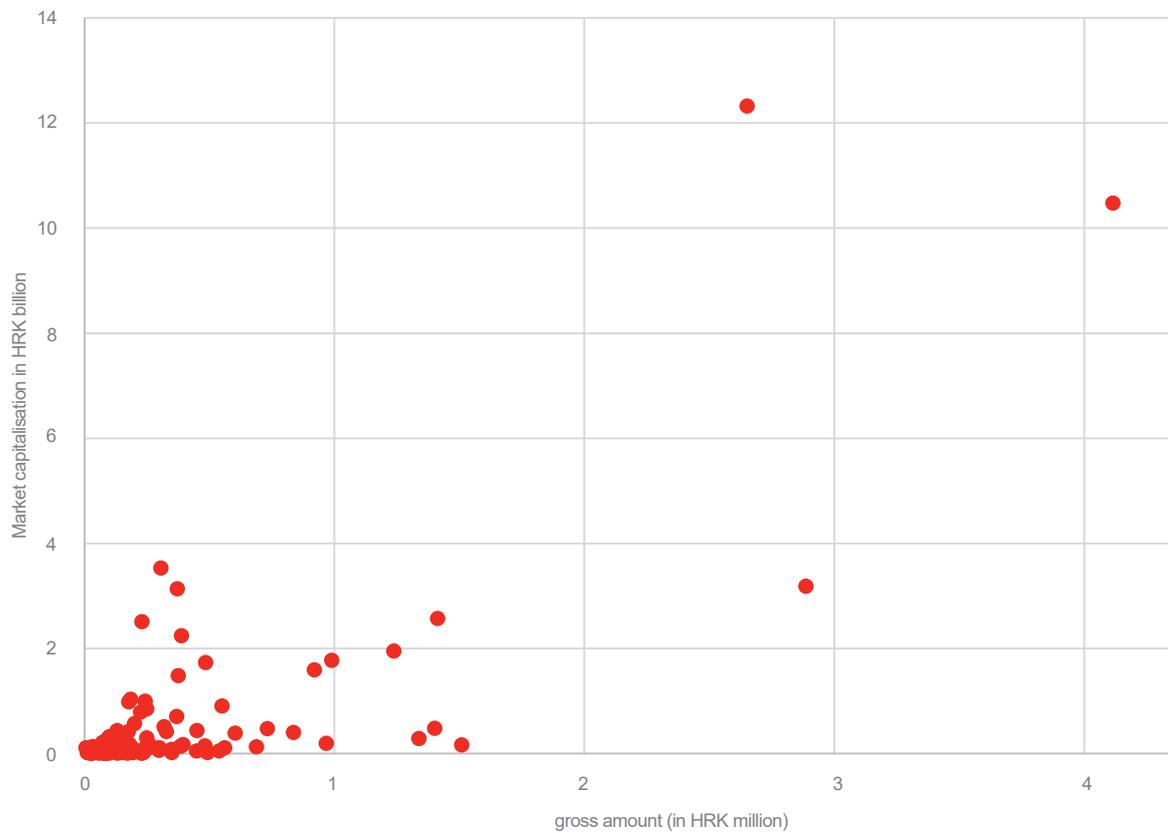
Pursuant to the Corporate Governance Code, companies must have independent external auditors, who represent an important corporate governance tool. The main function of an external auditor is to ensure that financial statements of the company adequately reflect the current financial position of the company 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 41 different audit firms were reported in the 141 Questionnaires submitted for 2014. The largest number of issuers using services of the same audit firm was 21 (in 2013, nine issuers used services of the same audit firm).
- A total of 59 issuers used services of the largest audit firms (the Big Four). The majority of issuers using services of the mentioned audit firms come from the banking sector and tourism industry (seven issuers from each sector), followed by the food industry and industry - other (six issuers in each sector) and the insurance sector (five issuers).
- The market capitalisation of issuers using services of the largest audit firms amounted to HRK 106bn, or 87.6% of the total market capitalisation of issuer that submitted the 2014 Questionnaire.
- 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 5.3 years.
- A total of 129 issuers reported the gross amount paid to an external audit firm for auditing services provided in 2014. The amount totalled an average of HRK 326.6 thousand, ranging from HRK 5.7 thousand to almost HRK 4.1m. The average gross amount paid to an external audit firm in 2013 reached HRK 272 thousand.

- A total of 21 issuers reported having paid an external audit firm for services other than auditing services provided in 2014. The average gross amount totalled HRK 299 thousand, ranging from HRK 2.4 thousand to almost HRK 1.7m. The following were the services other than auditing services provided in 2014: legal advice, due diligence, tax advice, as-is analysis, seminars 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.

Chart 1.27 Gross amount (in HRK million) paid to external audit firms for audit services provided during 2014 in relation to market capitalisation (in HRK billion) of issuers



Source: Questionnaire, Zagreb Stock Exchange

1.5. Investor relations

Pursuant to the Code of Corporate Governance, 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 Code of Corporate Governance, 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 141 Questionnaires submitted in 2014, all issuers reported having their website in Croatian, and 91 issuers (64.54%) reported having their website in English, as well.
- A total of 43 issuers (32.62%) 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 (eight issuers) and banking sector (six issuers).
- A total of 44 issuers (31.21%) reported having published the calendar of significant events on their website. In 2013, a total of 33.33% of the issuers provided the same answer.
- A total of 18 issuers reported having held one or more press conferences during 2014. The largest number of press conferences held by one issuer was 25 (issuer from the banking sector), while the average number of press conferences was 4.17. The most common reasons for convening a press conference were: presentations of business results (including financial data) and significant activities, presentations of products, promotions, announcements of investments and events, sponsorships, informing the public about the restructuring process or the pre-bankruptcy settlement proceedings 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, the management board may, subject to the consent of the supervisory board, adopt a decision on advance dividend payment.

- According to the data from 141 Questionnaires submitted, 29 issuers (20.57%) adopted a decision on dividend payment in 2014.
- The average amount of dividend per share in 2014 totalled HRK 160.06 (it was 110.59 in 2013).
- Same as in 2013, most of the issuers that adopted a decision on dividend payment in 2014 belonged to the tourism industry (seven issuers), followed by food industry, other activities and banking sector (three issuers from each of the sectors).

- The total market capitalisation of issuers that adopted a decision on dividend payment in 2014 reached HRK 64.55bn. Among these issuers, the largest market capitalisation was reported by an issuer from the telecommunications industry (HRK 12.32bn), and the smallest by an issuer from other activities (HRK 25.59m).

2. Annual Report on Corporate Governance of Corporate Bond Issuers

- At the end of 2014, a total of 13 corporate bonds were issued by 12 different issuers. All of them completed and submitted the Questionnaire for 2014.
- The interest rate ranged between 4.500% and 9.7500% and totalled an average of 7.0038% (at the end of 2013, it amounted to an average of 7.6593%).
- Three issuers removed their corporate bonds from the official market (bonds of two issuers came due in the course of 2014, and one issuer redeemed bonds early and issued new bonds, which were not listed on the regulated market). On the basis of pre-bankruptcy settlement proceedings, corporate bonds of one issuer were converted into debt securities with multiple maturities with the outstanding principal in the nominal amount of HRK 0.30 per one bond.
- In 2014, one issuer issued new corporate bonds, which were listed on the regular market of the Zagreb Stock Exchange.
- At the end of 2014, two bond issuers came from the financial sector, and other 10 from the non-financial sector. Regarding the non-financial sector, issuers came from telecommunications industry, construction industry and trade (two issuers from each of the sectors), as well as from transport industry, energy sector, pharmaceutical industry and other activities (one issuers from each of the sectors).
- As at 31 December 2014, none of the corporate bond issuers was undergoing bankruptcy proceedings, but one issuer was 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 bond issuers as at 31 December 2012, 2013 and 2014

Bond issuers	Number of issuers				2012	2013	2014
	2012	2013	2014				
with admitted shares	3	3	3	Initial capital	494.276.000	552.162.200	385.428.710
				Market capitalisation	236.244.592	231.691.297	171.500.273
without admitted shares	11	11	9	Initial capital	22.882.547.500	23.076.060.547	23.190.111.948
				Market capitalisation	1.434.075.625	2.508.359.591	2.471.273.177
TOTAL	14	14	12	Initial capital	23.376.823.500	23.628.222.747	23.575.540.658
				Market capitalisation	1.670.320.218	2.740.050.888	2.642.773.449

Source: register of companies, Zagreb Stock Exchange

- At the end of 2014, out of 12 corporate bond issuers, three also had their shares on the regulated market of the Zagreb Stock Exchange.
- At the end of 2014, the total initial capital of all corporate bond issuers decreased by 0.22%, however, the number of issuers also decreased by two. The initial capital of corporate bond issuers with admitted shares decreased by 30.19% in relation to the previous year, with the number of issuers also having decreased by one. The initial capital of corporate bond issuers without admitted share 0.49%, even though the number of issuers decreased by two.
- The total market capitalisation of all corporate bonds issuers decreased by 3.55% relative to the previous year. At the end of 2014, the total market capitalisation of corporate bond issuers with admitted shares fell by 25.98%, whereas a 1.48% decrease in market capitalisation was reported by corporate bond issuers without admitted shares.

2.1.1. Ownership structure of corporate 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 (10 issuers).

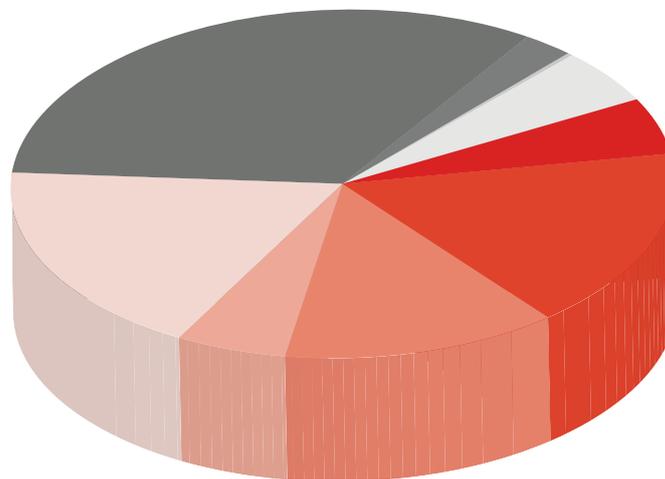
The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

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 members of the management and supervisory board),
- Foreign persons (except 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 2014 by the above mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31 December 2014



■ Funds	5.29%	■ Foreign persons	32.97%
■ Public sector	16.71%	■ Custody accounts	2.48%
■ Members of the management board	13.43%	■ Other	0.02%
■ Members of the supervisory board	5.42%	■ Own shares	0.24%
■ Domestic natural persons	18.27%	■ Financial institutions and companies	5.19%

Source: CDCC

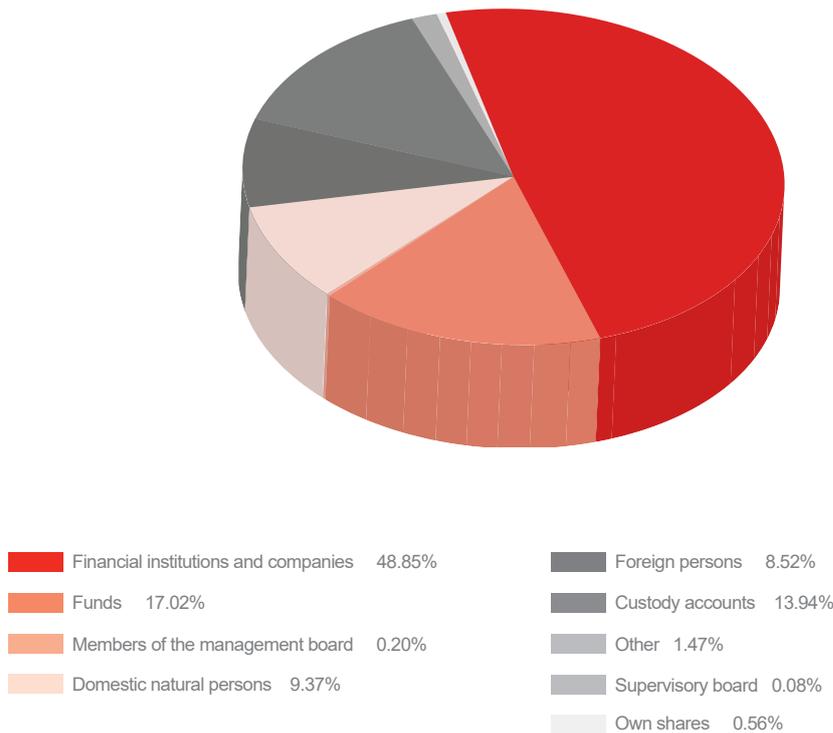
- As opposed to the previous year, the ownership structure of corporate bond issuers established as joint-stock companies was dominated by foreign persons (32.97%). The public sector, which ranked first with a share of 23.28% in 2013, took third place with a share of 16.71%, behind domestic natural persons (18.27%).

2.1.2. Ownership structure of corporate bond holders

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” category, 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 2014 by the defined categories.

Chart 2.2 Structure of holders of corporate bonds as at 31 December 2014



Source: CDCC

- As in 2013, financial institutions and companies were holders of corporate bonds accounting for the largest share (48.85%) 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 2012, 2013 and 2014.

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.

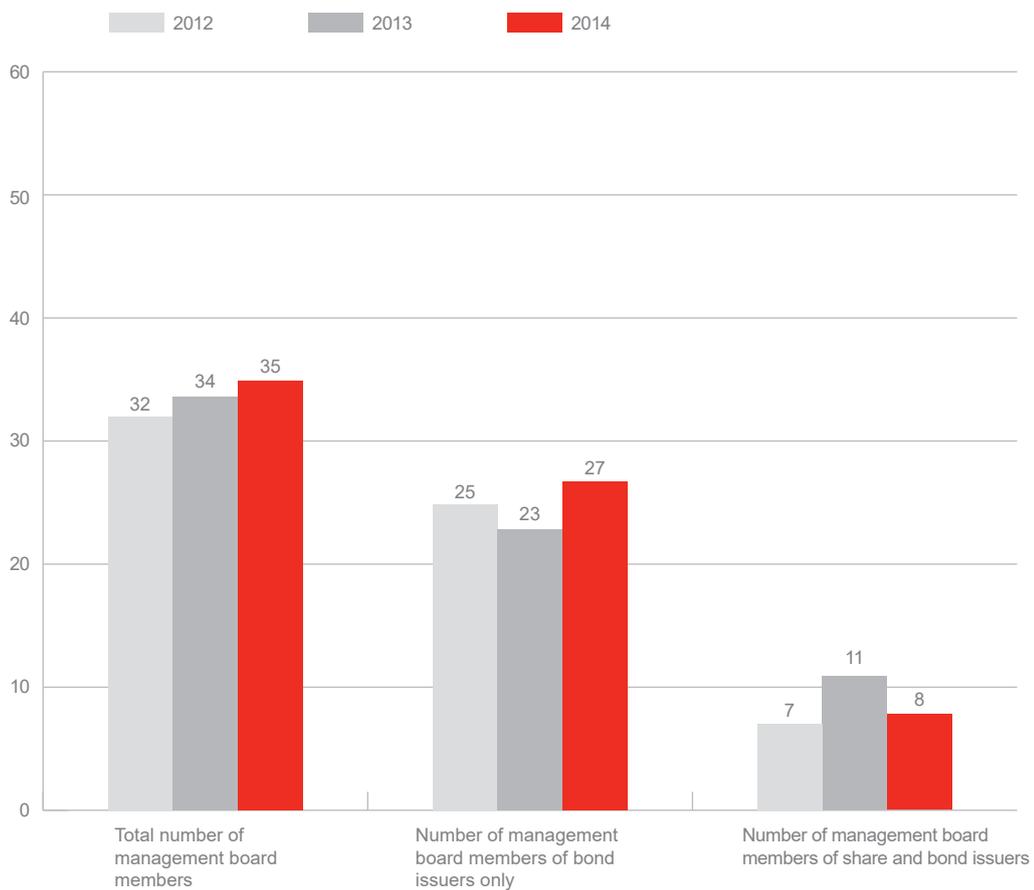
Only natural persons with full legal capacity may be appointed members of the management board.

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 (10 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 2012, 2013 and 2014.

Chart 2.3 Total number of management board members as at 31 December 2012, 2013 and 2014

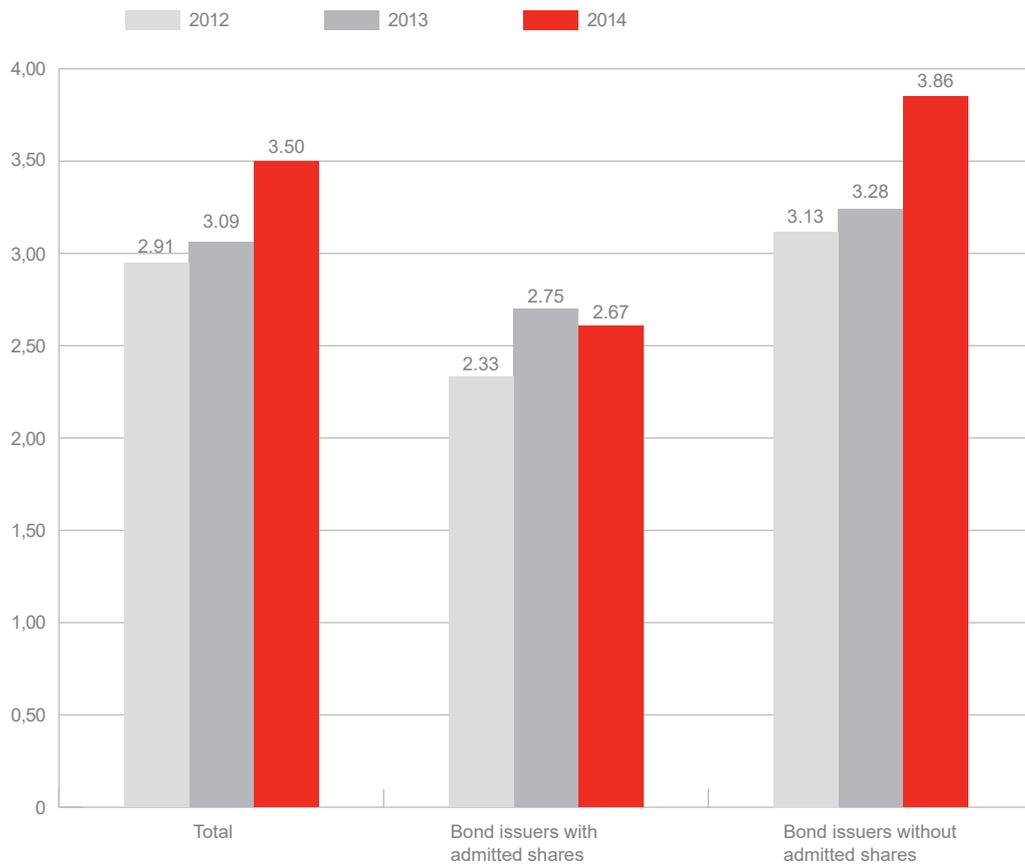


Source: register of companies, Hanfa

- As at 31 December 2014, the maximum number of management board members was six, which was the number of management board members reported by one bond issuer only. One issuer had five management board members, three issuers had four i.e. three board members, one issuer had two, and one issuer had only one member of the management board.

Chart 2.4 shows the average number of management board members of corporate bond issuers as at 31 December 2012, 2013 and 2014.

Chart 2.4 The average number of management board members of bond issuers as at 31 December 2012, 2013 and 2014



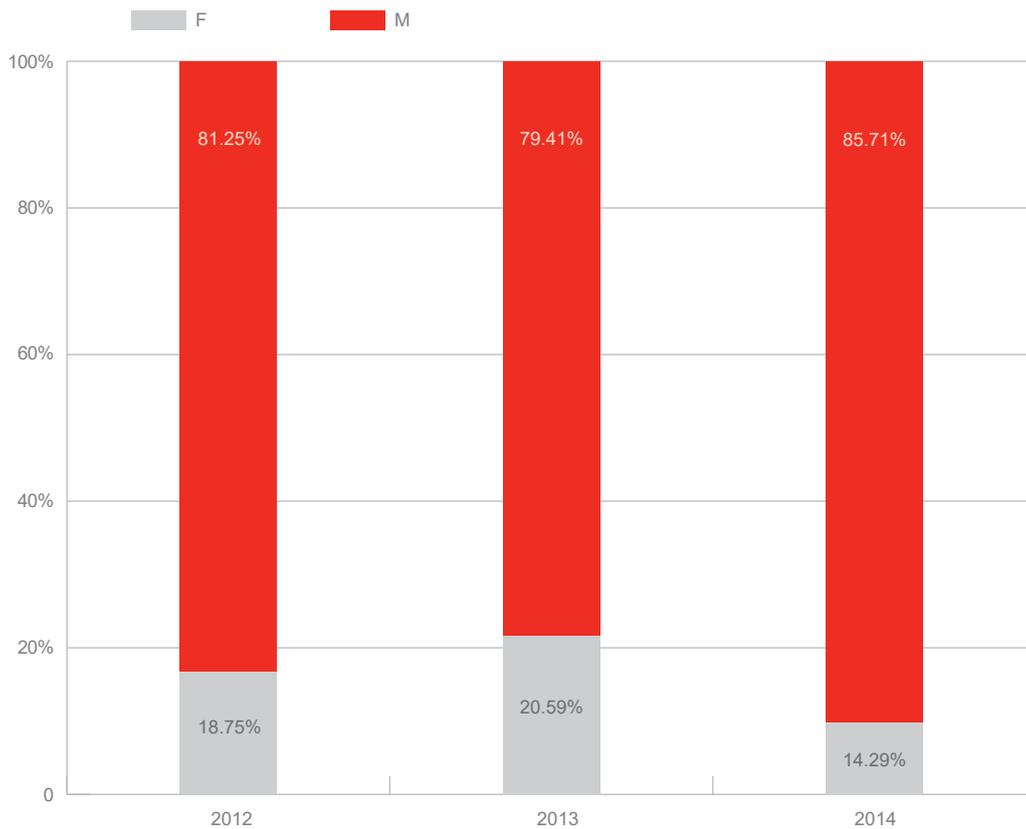
Source: register of companies, Hanfa

Structure of management board members according to gender, age and professional qualifications

- As at 31 December 2014, five women sat on management boards of corporate bond issuers. Four corporate bond issuers had a woman on their management board as at 31 December 2014.
- As at 31 December 2014, most management board members of corporate bond issuers (44.74%) were between 45 and 55 years old, 39.47% were 35 to 45 years old, 10.53% were older than 55 years of age, and only 5.26% were younger than 35 years of age.
- As regards the formal qualifications of management board members of corporate bond issuers, as many as 89.47% had a university degree, and 10.53% had a PhD.

Chart 2.5 shows the proportion of men to women on management boards of corporate bond issuers as at 31 December 2012, 2013 and 2014.

Chart 2.5 Proportion of men to women on management boards of corporate bond issuers as at 31 December 2012, 2013 and 2014



Source: register of companies, Hanfa

Rules of Procedure of the Management Board

- Nine corporate bond issuers reported having an internal regulation on management board activities (rules of procedure of the management board) for the year 2014, of which one issuer reported changes in this regulation occurring during the year. The reason for the change of internal regulation of management board activities as reported by this issuer was a change of management board members' authority.

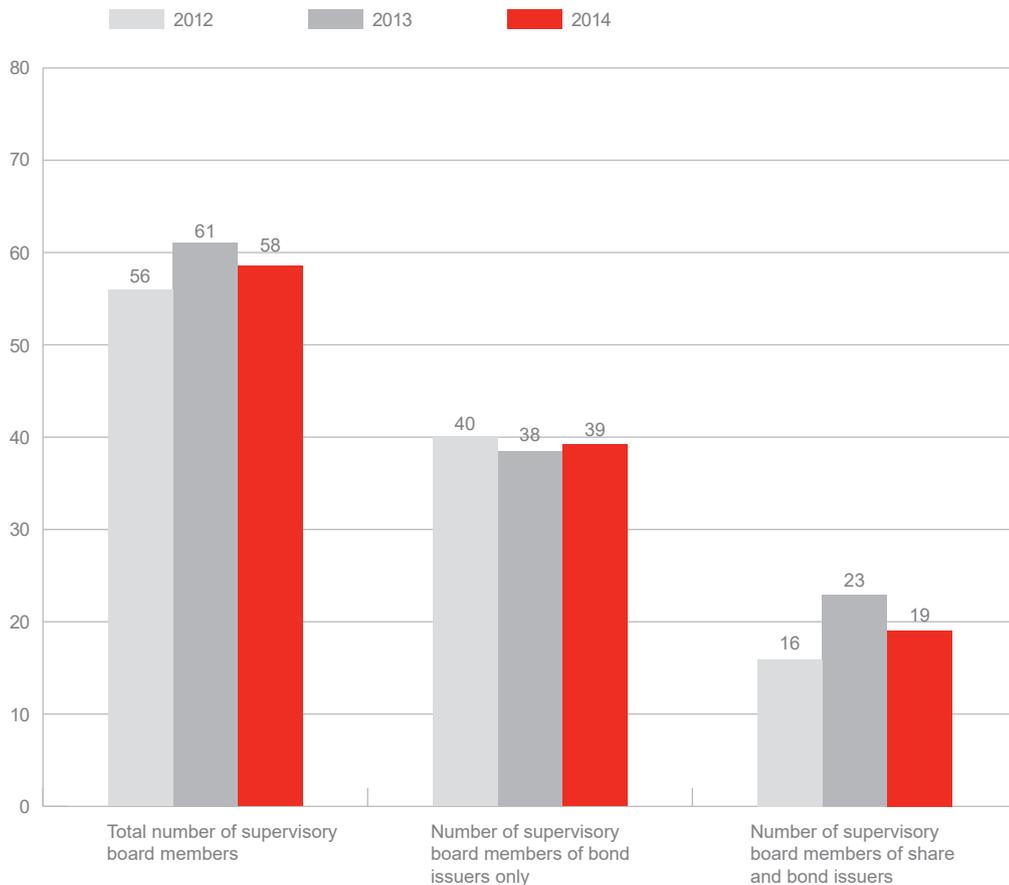
Meetings of the Management Board

- In 2014, seven corporate bond issuers reported having a schedule of meetings of the management board, while two issuers reported having mechanisms for proxy voting at management board meetings.
- The average number of management board meetings was 31.9 (the maximum number of meetings held was 65, and the minimum number was two).

2.2.2. Supervisory board

Chart 2.6 presents the total number of supervisory board members of corporate bond issuers at the end of 2012, 2013 and 2014.

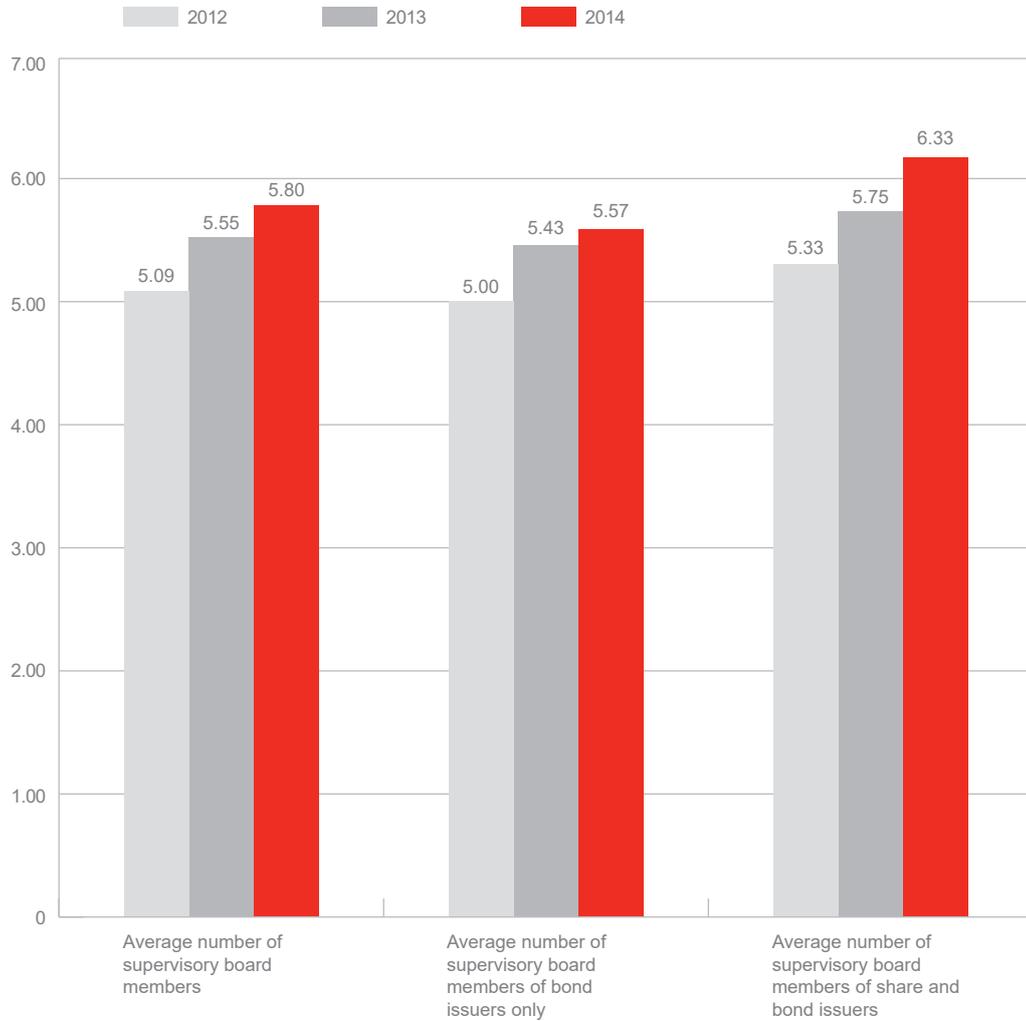
Chart 2.6 Total number of supervisory board members as at 31 December 2012, 2013 and 2014



Source: register of companies

Chart 2.7 shows the average number of supervisory board members of corporate bond issuers as at 31 December 2012, 2013 and 2014.

Chart 2.7 Average number of supervisory board members of corporate bond issuers as at 31 December 2012, 2013 and 2014



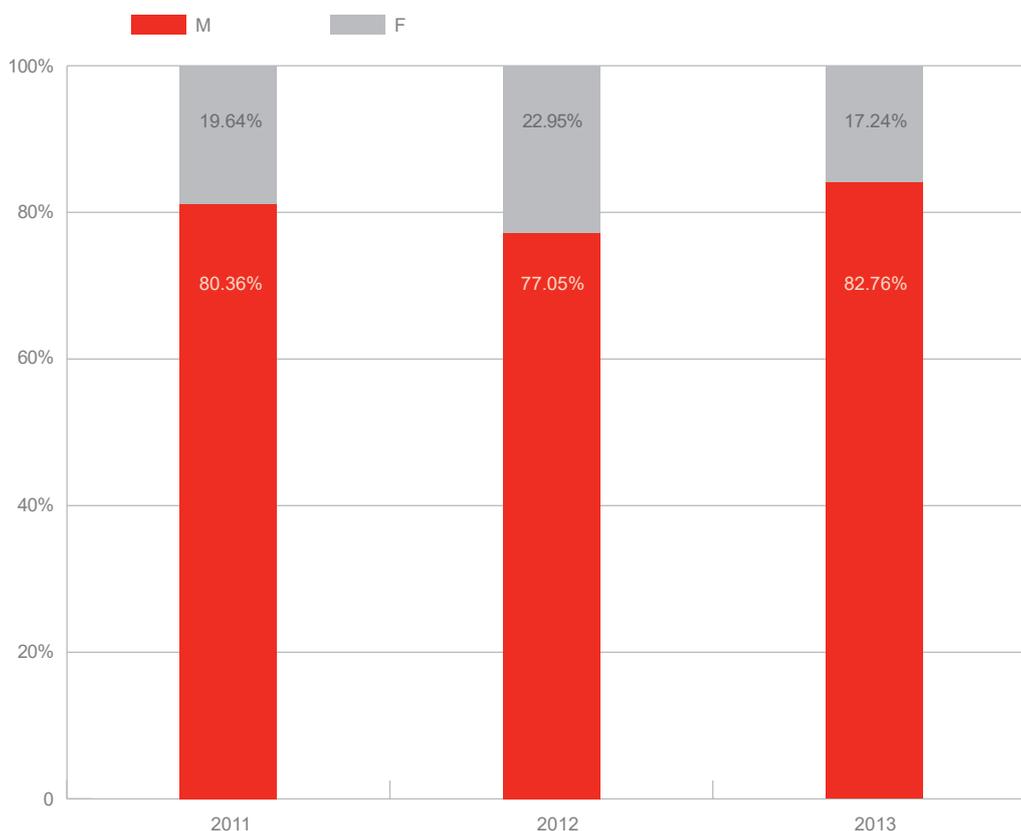
Source: register of companies

- The average number of supervisory board members of corporate bond issuers rose in 2014 in all observed categories.

Supervisory board member structure by gender, age and professional qualifications

Chart 2.8 shows the proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2012, 2013 and 2014.

Chart 2.8 Proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2012, 2013 and 2014



Source: register of companies

- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 17.24%, exceeding the average number of women on management boards of corporate bond issuers in the same period (14.29%), but still being far from the defined gender-balanced representation.
- As at 31 December 2014, most supervisory board members of corporate bond issuers (41.54%) were older than 55 years of age, 26.15% were between 45 to 55 years old, 21.54% were 35 to 45 years old, while 10.77% were younger than 35 years of age.
- As regards the formal qualifications of supervisory board members of corporate bond issuers, the majority (69.23%) had a university degree, 13.85% had higher expertise, 10.77% had a PhD and 6.15% had a secondary school degree.

Supervisory board committees

- Eight issuers reported having the audit committee and two corporate bond issuers reported having the remuneration committee and the nomination committee each in place in 2014

Internal working procedures of the committees

- Five out of eight issuers that had the audit committee in place in 2014 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.
- Two issuers reported the preparation of reports on the work of committees, with reports of one issuer being available to the public.

Meetings

- Seven out of eight issuers that had the audit committee in place in reported the committee meetings having been held in 2014. The average number of audit committee meetings during the year was 2.42.
- Two issuers reported three meetings of the remuneration committee and three meetings of the nomination committee having been held in 2014.

Other committees

- In 2014, two issuers reported having set up another committee. Their names were a risk committee and a corporate governance committee.

2.3. Remuneration

2.3.1. Remuneration of management board members

In 2014, six corporate bond issuers reported having a remuneration policy for management board members, whereas five and four issuers reported having such a policy in 2013 and 2012 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 2014, 2013 and 2012.

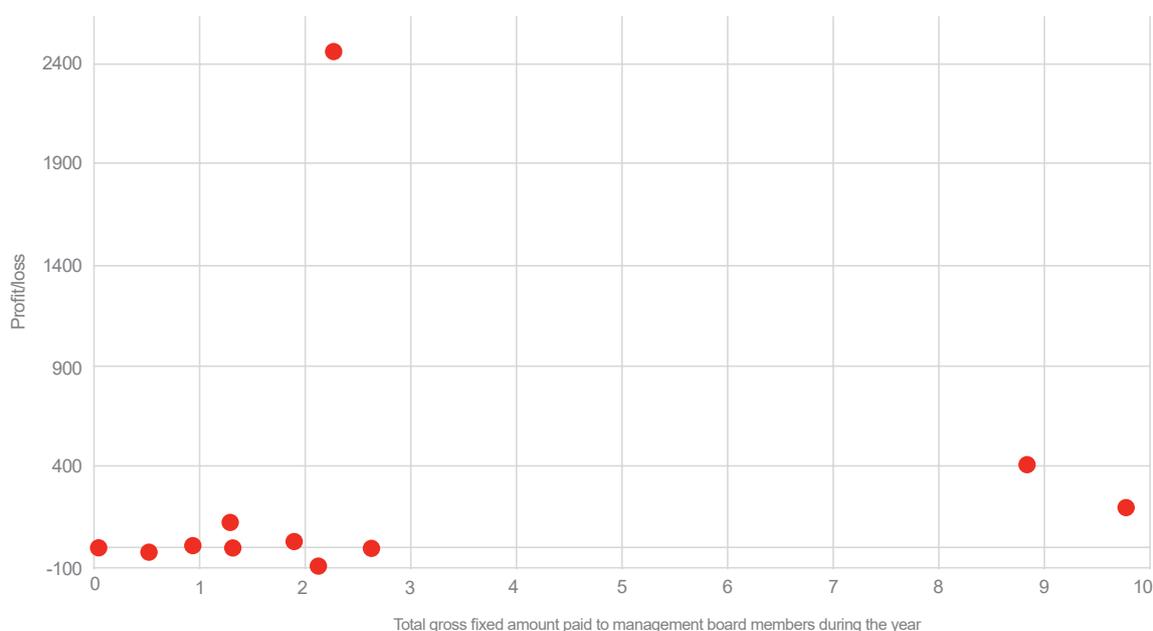
Table 2.2 Amount of remuneration of management board members of corporate bond issuers in 2014, 2013 and 2012.

		Average gross amount paid to management board members during the year		Average amount of other remuneration paid to management board members during the year	Average value of options held by management board members
		Fixed amount	Variable amount		
2014	Number of issuers	11	4	1	2
	Iznos	2.858.047	1.222.545	2.304.000	85.187.595
2013	Number of issuers	11	2	1	2
	Iznos	2.992.909	2.090.242	230.400	66.964.225
2012	Number of issuers	13	2	1	2
	Iznos	2.674.849	2.069.916	5.892.847	46.896.957

Source: Questionnaire

- Compared to 2013 there was a slight decline in average gross fixed amount paid to management board members, while the average gross variable amount paid to management board members almost halved relative to 2013.
- 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 170m, and the other HRK 375,190.

Chart 2.9 Total gross fixed amount (in HRK million) paid to management board members in 2014 in relation to consolidated financial statements of issuers (in HRK million)



Source: Questionnaire, Zagreb Stock Exchange

2.3.2. Remuneration of supervisory board members

- In 2014, 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. 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 2014, 2013 and 2012.

Table 2.3 Amount of remuneration of supervisory board members of corporate bond issuers in 2014, 2013 and 2012

		Average gross amount paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed amount	Variable amount	
2014	Number of issuers	9	0	1
	Amount	493.758	0	126.951
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

Source: Questionnaire

- As in the previous period, corporate bond issuers did not pay any variable remuneration to supervisory board members, while one issuer paid other benefits to its supervisory board members in the amount of HRK 126,951.
- Three issuers reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting in 2014.

2.3.3. Related party transactions

- In 2014, four issuers reported having an internal regulation in place for cases of related party transactions (in 2013, two issuers had such regulation in place).

Table 2.4 sets out the value of reported transactions during 2012, 2013 and 2014, 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 2012, 2013 and 2014

		Gross value of related party transactions concluded by the issuer			
		with shareholders owning 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
2014	Number of issuers having reported the transaction	3	2	1	2
	Average transaction value (in HRK)	3.100.146.394	39.994.278	65.746.601	867.586.358
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

Izvor: Upitnik

- As in the previous years, during the year 2014, 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 2014, six issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (one more than in 2013 and 2012). 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, information control, principle of non-discrimination, fight against corruption.
- As in 2012 and 2013, no conflicts of interest were reported by issuers in 2014.

2.4. Audit and control

2.4.1. Internal audit and control

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

2.4.2. Managing company risks

- In 2014, six issuers (five issuers in 2013) reported having an internal regulation in place for the identification, management and prevention of risks.
- Nine issuers (five issuers in 2013) reported having appointed persons in charge for risk management. These persons performed the function of internal auditor, CFO, management board member, director of logistics and security and environmental protection inspector.
- Five issuers (same as in 2013) reported some of the following risks having materialised in 2014: currency risk (two issuers), macroeconomic risk (two issuers) and credit risk (one issuer). According to the issuers, the following were the reasons for the risks having materialised: liabilities for foreign currency loans, decrease in economic activity in the country, overall economic situation and the complexity of business operations.
- All issuers that reported some of the risks having materialised were able to control and manage those risks.

2.4.3. External audit

- In 2014, a total of 12 corporate bond issuers used services of six different external auditors. A total of seven issuers used services of the largest audit firms (the Big Four).
- The largest number of issuers using services of the same audit firm was five.
- All three corporate bond issuers which are, at the same time, bond issuers used services of the same auditing firm, from the group of largest audit firms.
- At the end of 2014, the average length of the time period during which issuers used services of the same external audit firm was 5.08 years (6.08 years in 2013 and 5.86 years in 2012).
- At the end of 2014, the average length of the time period during which issuers used services of the same external audit firm was 3.82 years (4.75 years in 2013 and 4.46 years in 2012).
- 12 issuers reported the gross amount paid to the external audit firm for other services provided in 2014, in the amount ranged from HRK 114.5 thousand to HRK 709 thousand. External auditors were paid on average HRK 328 thousand (HRK 376 thousand in 2013) for auditing services provided in 2014.
- Four issuers reported the gross amount paid to the external audit firm for other services provided in 2014, and the amount ranged from HRK 3.6 thousand to HRK 1m. The following were the services other than auditing services provided by external audit firms in 2014: seminars, financial counselling and professional training.
- 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.

List of Tables

Table	Name	Page
	1 Annual Report on Corporate Governance of Share Issuers	
1.1.	Issuers by groups of activities as at 31 December 2012, 2013 and 2014	7
1.2.	Amount of remuneration of management board members of share issuers in 2014, 2013 and 2012	30
1.3.	Amount of remuneration of supervisory board members of share issuers in 2014, 2013 and 2012 (in HRK)	34
1.4.	Average value of reported related party transactions in 2012, 2013 and 2014 (in HRK)	36
	2. Annual Report on Corporate Governance of Corporate Bond Issuers	
2.1.	Initial capital of corporate bond issuers as at 31 December 2012, 2013 and 2014	46
2.2.	Amount of remuneration of management board members of corporate bond issuers in 2014, 2013 and 2012	56
2.3.	Amount of remuneration of supervisory board members of corporate bond issuers in 2014, 2013 and 2012	57
2.4.	Average value of reported related party transactions in 2012, 2013 and 2014	58

List of Charts

Chart	Name	Page
	1. Annual Report on Corporate Governance of Share Issuers	
1.1.	Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2012, 2013 and 2014	8
1.2.	Ownership structure of share issuers as at 31 December 2014	10
1.3.	Ownership structure of share issuers as at 31 December 2014 in relation to market capitalisation (in HRK billion)	11
1.4.	Ownership structure of share issuers as at 31 December 2014 in relation to free float	12
1.5.	Origin of issuers' capital as at 31 December 2012, 2013 and 2014	13
1.6.	Share of domestic and foreign capital in share issuers as at 31 December 2014 in relation to free float	14
1.7.	Average number of management board members by the type of market as at 31 December 2012, 2013 and 2014	16
1.8.	Average number of management board members as at 31 December 2014 in relation to free float	17
1.9.	Proportion of men to women on management boards as at 31 December 2012, 2013 and 2014	18
1.10.	Ownership structure of share issuers having an internal regulation on management board activities as at 31 December 2014	19
1.11.	Ownership structure of share issuers without an internal regulation on management board activities as at 31 December 2014	20
1.12.	Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2012, 2013 and 2014	22
1.13.	Average number of supervisory board members by the type of market as at 31 December 2012, 2013 and 2014	23
1.14.	Average number of supervisory board members as at 31 December 2014 with respect to free float	24
1.15.	Proportion of men to women on supervisory boards of issuers in 2012, 2013 and 2014	25
1.16.	Number of issuers with an established audit committee as at 31 December 2014 in relation to market capitalisation of issuers	27
1.17.	Ownership structure of issuers with an established audit committee as at 31 December 2014	28
1.18.	Ownership structure of issuers without an established audit committee as at 31 December 2014	29
1.19.	Total gross amount of fixed remuneration paid to management board members in 2014 in relation to market capitalisation (in HRK billion)	31
1.20.	Ownership structure of share issuers that paid a gross fixed amount to management board members in the amount over HRK 5m in the course of 2014	32
1.21.	Ownership structure of share issuers with an established remuneration policy for management board members in place as at 31 December 2014	33
1.22.	Ownership structure of share issuers without an established remuneration policy for management board members in place as at 31 December 2014	33
1.23.	Issuers having an internal regulation to identify, prevent and report conflicts of interest in relation to market capitalisation of issuers (in HRK billion) and market where shares are admitted as at 31 December 2014	37
1.24.	Share of issuers having an internal audit system in place with respect to market capitalisation of issuers (in HRK billion)	40
1.25.	Ownership structure of share issuers having an internal audit system in place as at 31 December 2014	40

1.26.	Ownership structure of share issuers without an internal audit system in place as at 31 December 2014	41
1.27.	Gross amount (in HRK million) paid to external audit firms for audit services provided during 2014 in relation to market capitalisation (in HRK billion) of issuers	43
2. Annual Report on Corporate Governance of Corporate Bond Issuers		
2.1.	Ownership structure of corporate bond issuers as at 31 December 2014	47
2.2.	Structure of holders of corporate bonds as at 31 December 2014	48
2.3.	Total number of management board members as at 31 December 2012, 2013 and 2014	49
2.4.	Average number of management board members of bond issuers as at 31 December 2012, 2013 and 2014	50
2.5.	Proportion of men to women on management boards of corporate bond issuers as at 31 December 2012, 2013 and 2014	51
2.6.	Total number of supervisory board members as at 31 December 2012, 2013 and 2014	52
2.7.	Average number of supervisory board members of corporate bond issuers as at 31 December 2012, 2013 and 2014	53
2.8.	Proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2012, 2013 and 2014	54
2.9.	Total gross fixed amount (in HRK million) paid to management board members in 2014 in relation to consolidated financial statements of issuers (in HRK million)	56