

**ANNUAL REPORT ON
CORPORATE GOVERNANCE**

2017

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

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Introduction

The Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) has drawn up the eighth 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. Good corporate governance is more than just acting in accordance with laws and regulations. It requires dedication of all stakeholders (management board, supervisory board, managers, shareholders) in creating preconditions in which issuers can act in accordance with the highest ethical standards and standards of good corporate governance.

Sources of data

As in the previous years, the eighth 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 court register.

The questionnaire for the preparation of the 2017 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 2017. 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 2018.

2017 Capital market

The economic recovery in Croatia did not have any significant effect on investment activities, the growth of market indicators and capital market in general. In 2017, trading on the regulated market of the Zagreb Stock Exchange amounted to HRK 3.7bn, decreasing by 5.3% in comparison to 2016. Trading in shares within the order book amounted to HRK 2.6bn, an

increase of 37.3%, while trading in bonds within the order book amounted to HRK 0.4bn, a decrease of 16.1%. Block trade in shares amounted to HRK 0.6bn, decreasing by 51.3%, while block trade in bonds fell by 68.3%, amounting to HRK 0.08bn. The decline in total turnover was primarily impacted by the decrease in block trade in shares and bonds, while the turnover of shares within the order book grew significantly. OTC turnover reached HRK 19.9bn, falling by 23.3%. The main stock index CROBEX decreased by 7.6%, CROBEX10 decreased by 10%, while CROBEXtr decreased by 5%. The CROBIS bond index grew by 2%, while CROBIStr rose by 6.5%.

2017 was marked by problems in the Agrokor d.d. Company (the largest business entity in the Republic of Croatia) and the months-long suspension of trading in stocks of companies that were majority-owned by Agrokor d.d. This had a significant effect on the trade in shares and on the entire market.

In 2017, a corporate bond of Erste&Steiermarkische Bank d.d. was admitted on the official market of the Zagreb Stock Exchange, while a bond of the issuer Sunce koncern d.d. was admitted to the regulated market.

1. Annual report on corporate governance of share issuers

1.1. Introduction

Out of 131 issuers whose shares were admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2017, 102 completed and submitted the Questionnaire (77.86%). The total market capitalisation of issuers that submitted their data amounted to HRK 134.2bn or 97.03% of the market capitalisation of all listed issuers. As at 31 December 2017, three issuers were undergoing bankruptcy proceedings and one issuer was undergoing winding-up proceedings.

Number of issuers and number of shares

In 2017, the number of issuers on the regulated market continued its downward trend.

As at 31 December 2017, the number of issuers totalled 131, falling by 5.76% compared to the previous year, when there were eight issuers more (a total of 139), or by 9.03% in comparison with 31 December 2015, when there were 144 issuers admitted to trading.

Out of 131 issuers admitted to trading as at 31 December 2017, 26 issuers were admitted to trading on the official market and 105 on the regular market. Out of 139 issuers admitted to trading as at 31 December 2016, 27 issuers were admitted to trading on the official market and 112 on the regular market. Out of 144 issuers admitted to trading as at 31 December 2015, 26 issuers were admitted to trading on the official market and 118 on the regular market.

Shares not traded yet

By 31 December 2017, four shares admitted to trading of four different issuers had not been traded yet on the Zagreb Stock Exchange. Those were the shares of the following issuers: ordinary share of Dalma d.d. (DAL-S-R-A), preference share of Plava laguna d.d. (PLAG-P-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 one relative to 31 December 2016, due to removal from trading of ordinary shares of the issuer PAN-papirna industrija-trgopromet d.d. (PAN-R-A) during 2017.

Admissions and removals of shares

In 2017, the shares of one issuer were admitted for the first time on the regulated market of the Zagreb Stock Exchange. Ordinary shares of the issuer Sunce koncern d.d. were admitted to the regular market of the ZSE.

In 2017, nine issuers withdrew their shares from the regular and none from the official market; in 2016, six issuers withdrew their shares from the regular and one from the official market; while in 2015, ten issuers withdrew their shares from the regular and none from the official market. In 2017, shares of one issuer transferred from the official to the regular market.

The removals were mostly due to the decision of the general meeting (five 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. One issuer underwent the procedure of the squeeze-out of minority shareholders.

Sector division

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.

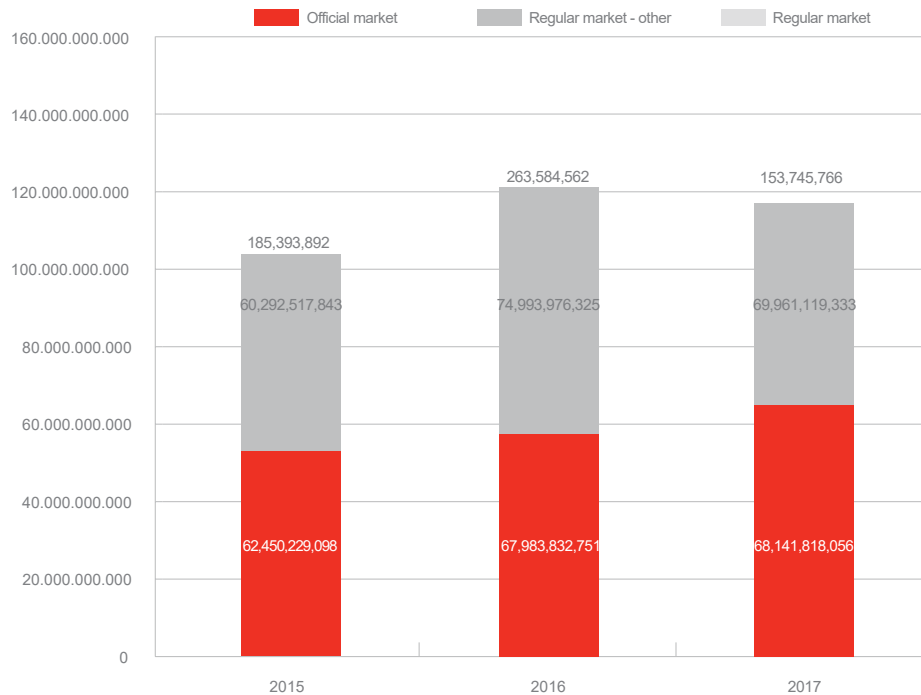
At the end of 2017, out of 131 share issuers, there were 14 (10.68%) issuers from the financial and 117 (89.32%) issuers from the non-financial sector. At the end of 2016, out of 139 share issuers, there were 15 (10.79%) issuers from the financial and 124 (89.21%) issuers from the non-financial sector.

Observed by subcategories, at the end of 2017, the largest number of issuers belonged to the tourism industry, followed by issuers from the food industry and from trade, same as in the previous year.

Market capitalisation

Chart 1.1 shows changes in market capitalisation by types of market at the end of 2015, 2016 and 2017.

Chart 1.1 Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31/12/2015, 2016 and 2017



Source: Zagreb Stock Exchange

- During 2017, the total market capitalisation of the official market increased by 0.23%, reaching HRK 68.1bn as at 31 December 2017.
- The total market capitalisation of the regular market increased by 6.83%, reaching HRK 70.1bn as at 31 December 2017.
- Market capitalisation of issuers which submitted their 2017 Questionnaires (102 issuers) amounted to HRK 134.2bn as at 31 December 2017.

1.2. Capital and origin of capital

The following text presents an analysis of the initial capital of issuers based on data from the court register, 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

At end-2017, the initial capital of 131 share issuers totalled HRK 60bn, while at end-2016, 139 issuers recorded their initial capital in the amount of HRK 60.5bn or 0.83% more. In comparison with 2015, when there were 13 admitted issuers more, the initial capital fell by HRK 1.4bn.

As in the previous year, the amount of share issuers' initial capital ranged between HRK 3.6m and HRK 9.8bn.

According to the data from the court register, a total of nine issuers (13 in 2016) increased their initial capital in 2017, while nine issuers (four more than in 2016) reduced the initial capital.

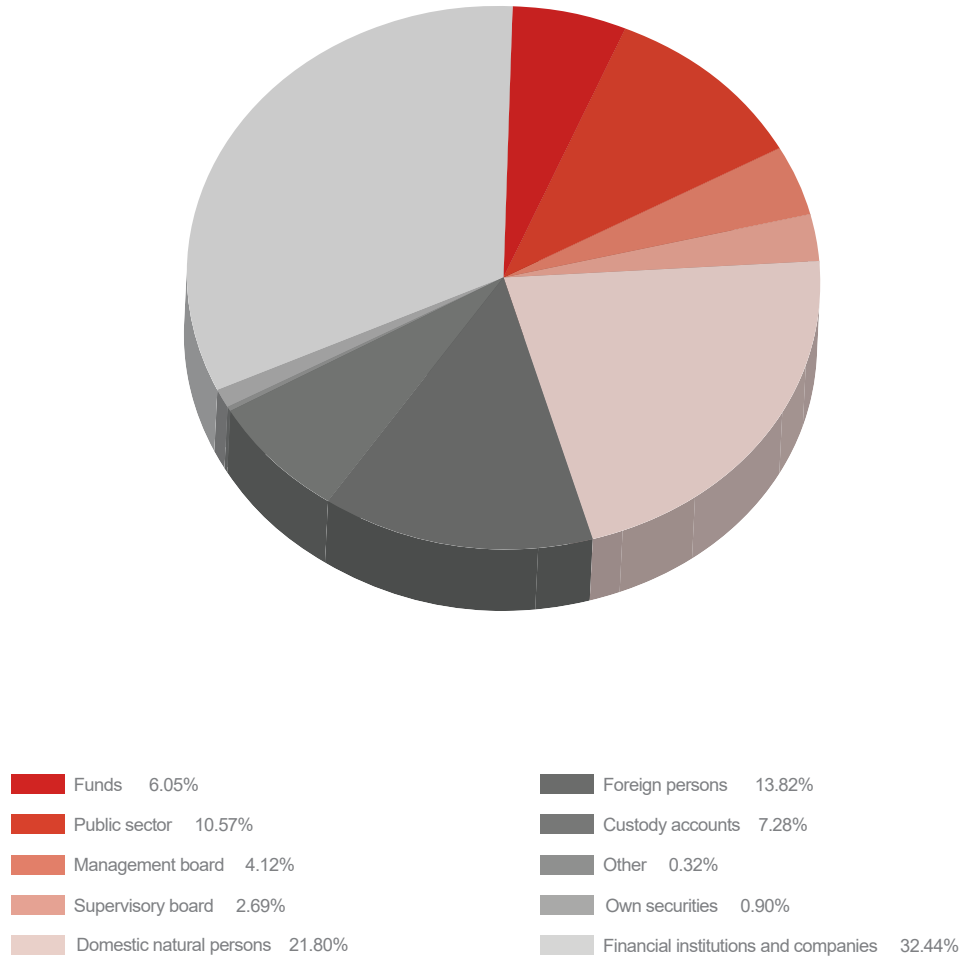
1.2.2. Ownership structure

Data on the ownership structure of share issuers have been provided based on 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 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 2017 by the above-mentioned groups.

Chart 1.2 Ownership structure of share issuers as at 31/12/2017

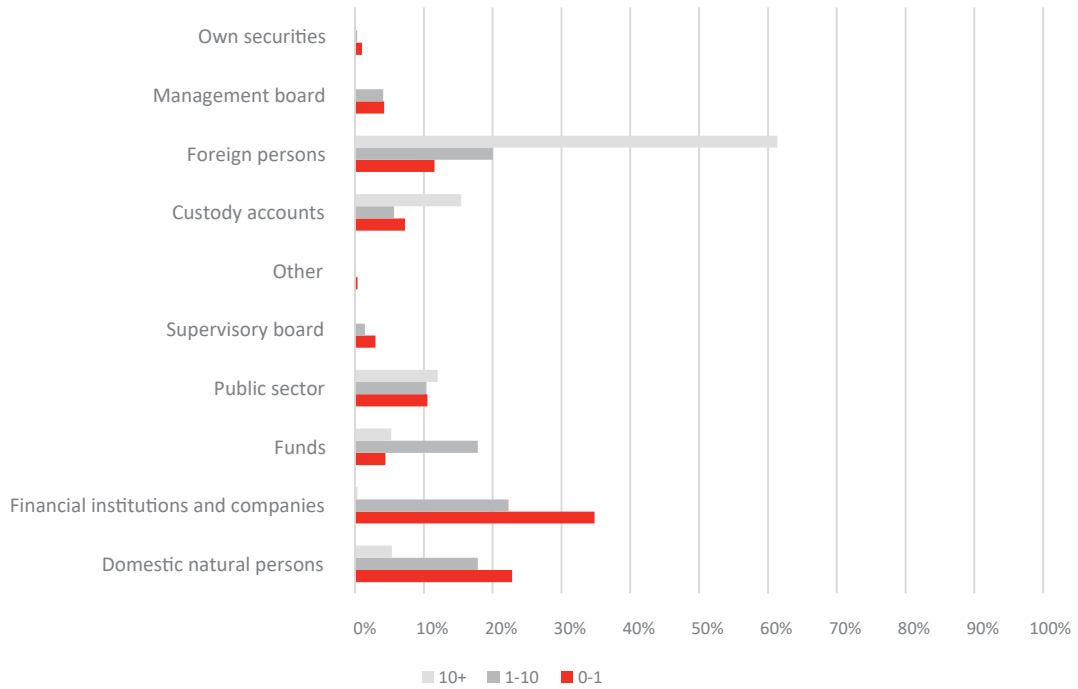


Source: CDCC

- The ownership structure of share issuers as at 31 December 2017 was dominated by financial institutions and companies with a proportion of 32.44% (32.84% in 2016) and domestic natural persons with a 21.8% proportion (22.68% in 2016). Public sector i.e. the Republic of Croatia continued to reduce its share which stood at 10.57% in 2017 (11.49% at end-2016). Funds increased their share from 2.52% to 6.05%.

Chart 1.3 shows the ownership structure of share issuers as at 31 December 2017 in relation to market capitalisation.

Chart 1.3 Ownership structure of share issuers as at 31/12/2017 in relation to market capitalisation (in HRK billion)

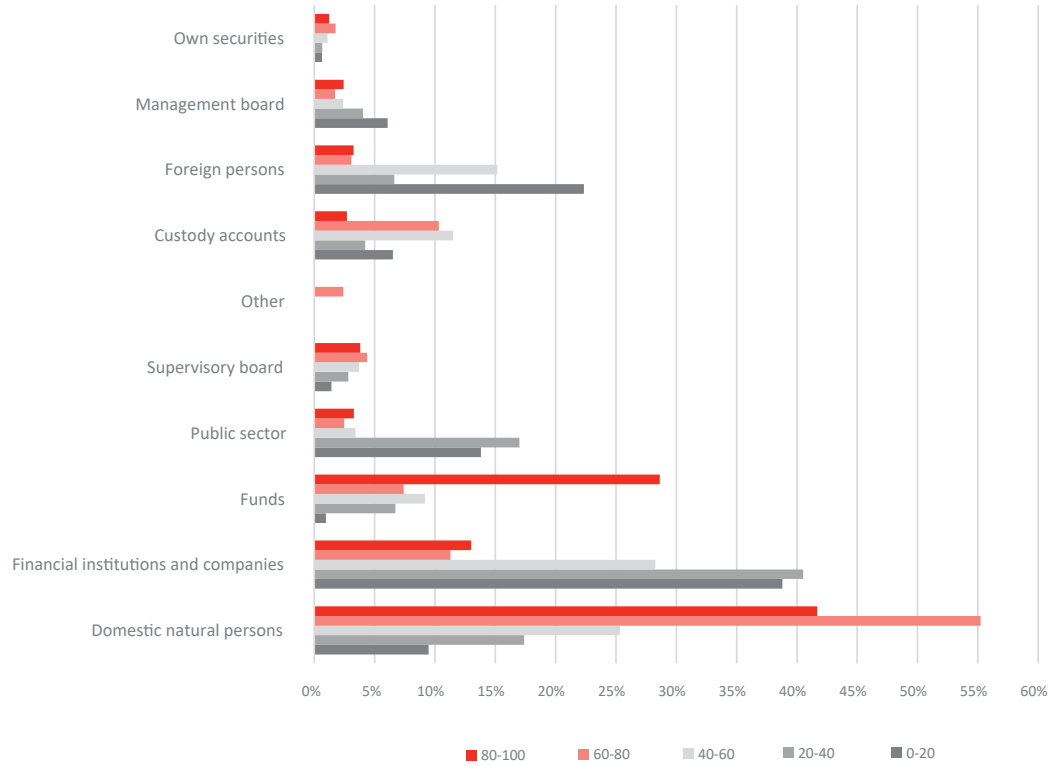


Source: CDCC

- Foreign persons had the highest proportion in market capitalisation issuers over HRK 10bn (61.39%), funds had the highest proportion in market capitalisation issuers between HRK 1bn and 10bn (17.82%), while domestic natural persons had the highest proportion in market capitalisation issuers under HRK 1bn (22.85%).

Chart 1.4. shows the ownership structure of share issuers as at 31 December 2017, in relation to free float.

Chart 1.4 Ownership structure of share issuers as at 31/12/2017 in relation to free float



Source: CDCC

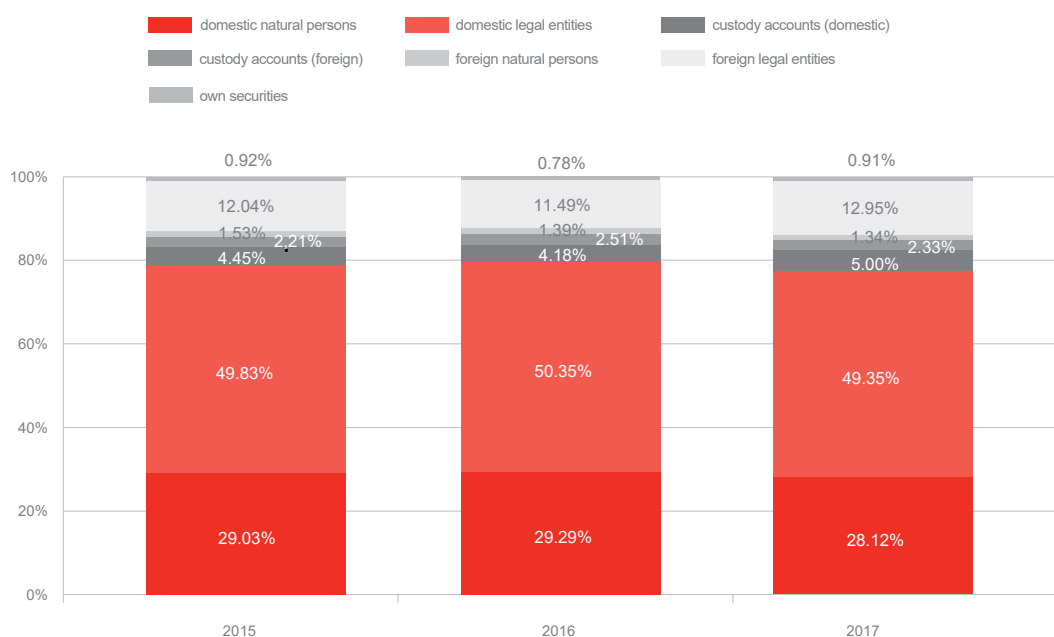
- Issuers with free float between 80% and 100% had the ownership structure dominated by domestic natural persons (41.69%), while issuers who had free float up to 20% had the ownership structure dominated by financial institutions and companies (38.78%). Domestic natural persons had only 9.48% of ownership in those issuers. Foreign persons dominated the ownership structure of issuers with free float up to 20% (22.33%).

1.2.3. Origin of issuers' capital

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.

Chart 1.5 Origin of issuers' capital as at 31/12/2015, 2016 and 2017

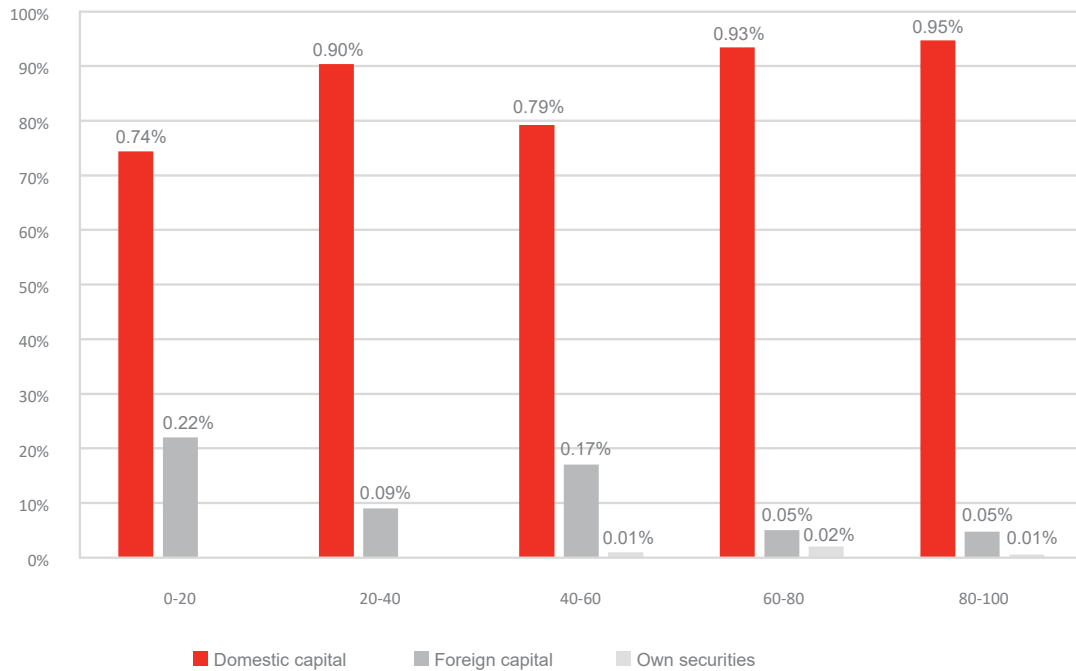


Source: CDCC

- The largest proportion in the share ownership was still accounted for by domestic legal entities with a 49.35% share (50.35% and 49.83% in 2016 and 2015 respectively). The proportion of domestic natural persons as at 31 December 2017 was 28.12% (29.29% and 29.03% in 2016 and 2015 respectively).
- The proportion of domestic capital as at 31 December 2017 was 82.47% (83.82% in 2016 and 83.31% in 2015), while the proportion of foreign capital was 16.62% (15.39% in 2016 and 15.78% in 2015).

Chart 1.6 shows the proportion of domestic and foreign capital in share issuers as at 31 December 2017, in relation to free float.

Chart 1.6 Proportion of domestic and foreign capital in share issuers as at 31/12/2017 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 a mandatory 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 board ¹

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, this function is performed by executive directors of the company, appointed by the general meeting. As at 31 December 2017, out of the total number of issuers (131), two had a one-tier and 129 issuers had a two-tier governance system. This chapter presents the analysis of the structure of share issuers' management and supervisory boards. Data relating to executive directors and the chief executive of issuers with a one-tier governance system are analysed along with data on management board members, while data relating to the board of directors, deputy chairman and chairman of the board of directors are analysed along with data on members of the supervisory board of issuers with a two-tier governance system. The management board may consist of one or more persons. The number of management board members is stipulated by the statute of the issuer. The Companies Act (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 and 110/15; hereinafter: ZTD) does not stipulate the minimum number of management board members. Only natural persons with full legal capacity may be appointed members of the management board.

The analysis comprises all issuers of shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2015, 2016 and 2017, except issuers undergoing bankruptcy or winding-up proceedings on that date according to the data from the court register. 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.

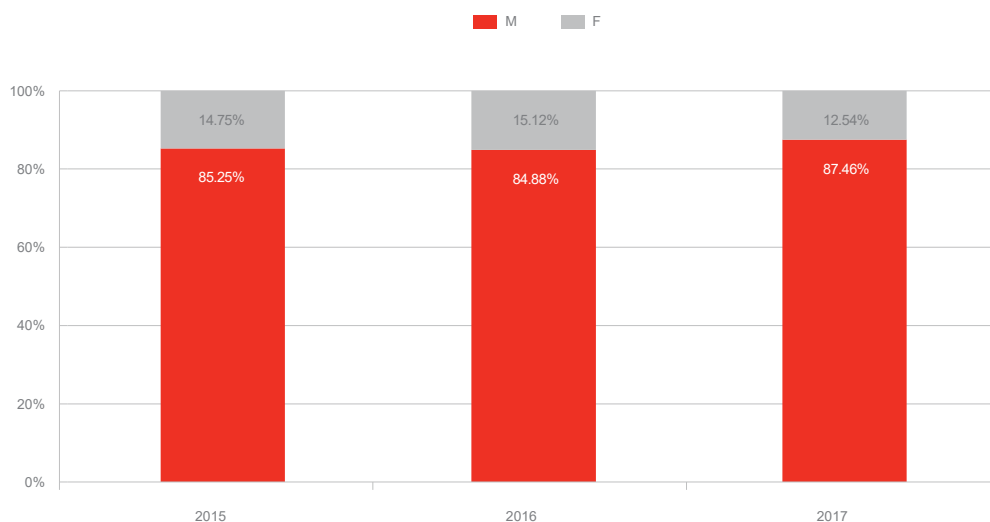
- As at 31 December 2017, there were a total of 279 management board members in 127 analysed issuers (an average of 2.20 management board members per issuer). As at 31 December 2016, the average number of management board members totalled 2.15, whereas as at 31 December 2015, it amounted to 2.18.
- As at 31 December 2017, a total of 56 issuers (44.09%) had a single management board member. A single management member was reported by 61 issuers (45.19%) as at 31 December 2016, and 60 issuers as at 31 December 2015 (42.85%).
- As at 31 December 2017, the maximum number of management board members totalled seven (at three issuers).

¹ Data on the number and gender of management board members have been analysed based on the data from the court register in order for all issuers to be encompassed by the analysis (including those that failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

Management board member structure by gender, age and professional qualifications

Chart 1.7 presents the proportion of men to women on management boards of issuers as at 31 December 2015, 2016 and 2017.

Chart 1.7 Proportion of men to women on management boards as at 31/12/2015, 2016 and 2017



Source: court register, CDCC

U nastavku su analizirani podaci prema dostavljenim odgovorima iz Upitnika za 2017. godinu.

- As at 31 December 2017, majority of management board members (37.13%) were between 45 and 55 years old, 35.87% were between 35 and 45 years old, 22.36% were over 55 years of age and 4.64% of management board members were younger than 35 years of age.
- Most board members under 35 came from issuers from the property and funds industry (two board members from two issuers). As in 2015, majority of management board members over 56 years of age came from the tourism industry (13 board members from 11 issuers).
- 3.22% of management board members had a PhD.

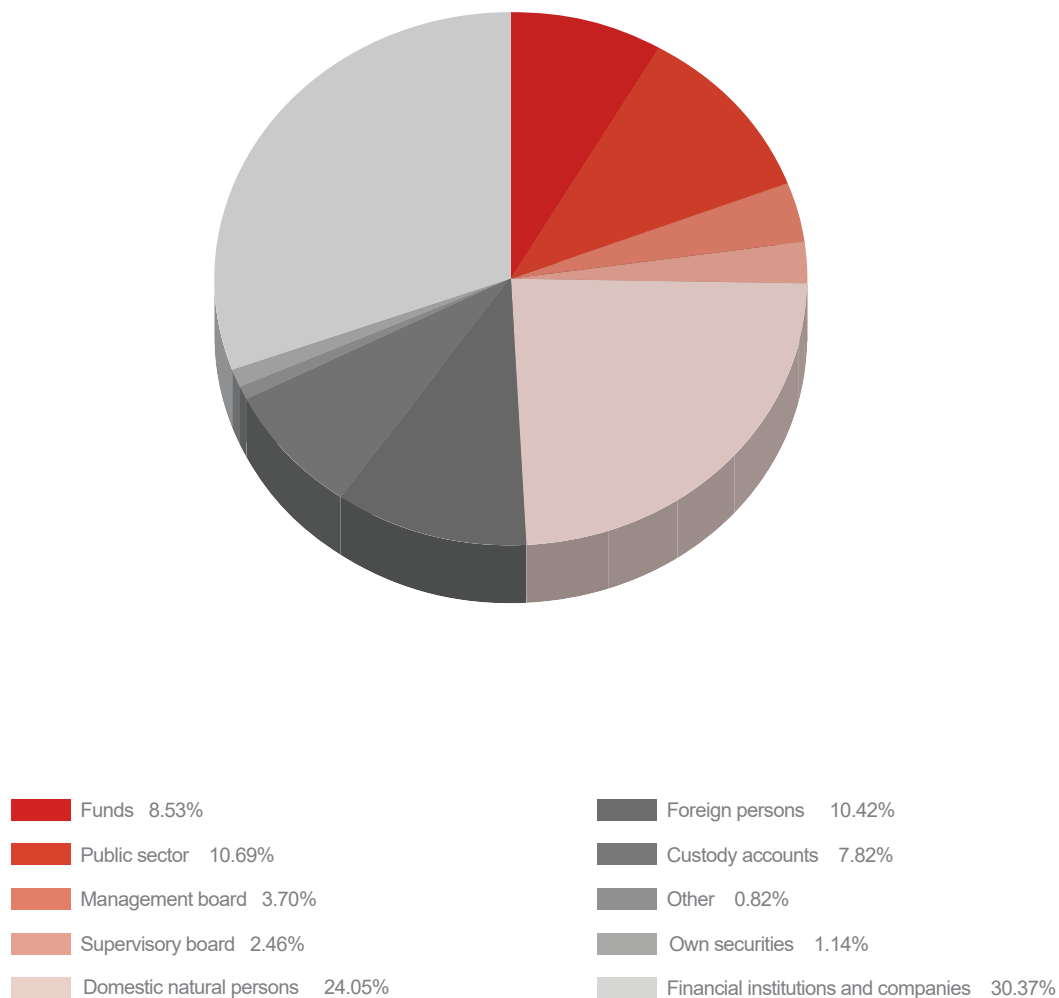
Rules of procedure of the management board

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

- In 2017, a total of 49 issuers (52 issuers in 2016) reported having an internal regulation on management board activities (rules of procedure of the management board).

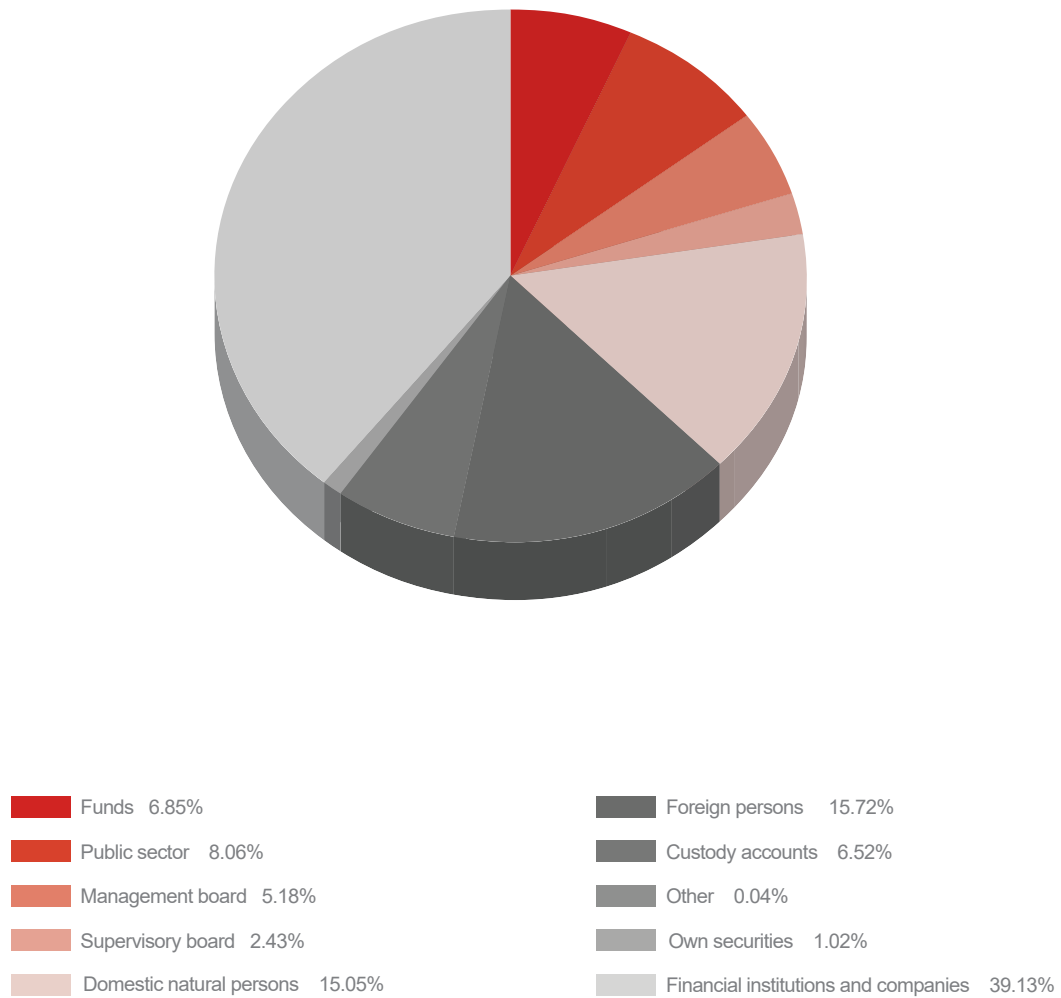
Chart 1.8 shows the ownership structure of share issuers having an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2017, and Chart 1.9 shows the ownership structure of share issuers without such regulation as at 31 December 2017.

Chart 1.8 Ownership structure of share issuers having an internal regulation on management board activities as at 31/12/2017



Source: CDCC, Questionnaire

Chart 1.9 Ownership structure of share issuers without an internal regulation on management board activities as at 31/12/2017



Source: CDCC, Questionnaire

- The ownership structure of issuers with an internal regulation on management board activities as at 31 December 2017 was dominated by financial institutions and companies (30.37%).
- The ownership structure of issuers without an internal regulation on management board activities was also dominated by financial institutions and companies (39.13%).

Meetings of the management board

- A total of 80 issuers reported the number of management board meetings held in 2017. The number ranged between 0 and 242, with the average number totalling 25.5.
- A total of 29 issuers reported having a schedule of meetings of the management board in 2017.
- Seven issuers (same as in 2016) reported having mechanisms for proxy voting at management board meetings in 2017.

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.

- Seven issuers reported having established a succession planning process in 2017 (one less than in 2016). Majority of issuers with an established succession planning process came from the banking sector (three).

Term of office and duration of the management board membership

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

- At the end of 2017, the average duration of management board membership was 6.29 years (at the end of 2016 it was 6.05 years, and at the end of 2015 it was 5.72 years).
- The average number of terms of office of management board members was 2.22 as at 31 December 2017 (it totalled an average of 2.23 in 2016, and 2.08 in 2015). In 2017, the largest number of consecutive terms of office (nine) 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. Resignation of the management board member is submitted to the supervisory board in writing.

- In the course of 2017, ten management board members resigned before their terms of office expired. In 2016, six management board members resigned before their terms of office expired. Reasons for the resignations were mostly linked to personal issues.

1.3.2. Supervisory board²

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, 127/17).

The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2015, 2016 and 2017, except issuers undergoing bankruptcy or winding-up proceedings on that date according to the data from the court register.

- As at 31 December 2017, the average number of supervisory board members was 5.11 (it was 5.16 on 31 December 2016, and 5.14 on 31 December 2015).
- The minimum number of supervisory board members (three) was reported by 29 issuers as at 31 December 2017, by 31 issuers as at 31 December 2016 and by 28 issuers as at 31 December 2015.
- As at 31 December 2017, the maximum number of supervisory board members was 11, as reported by two issuers, one from the food industry and one from the banking sector.

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.

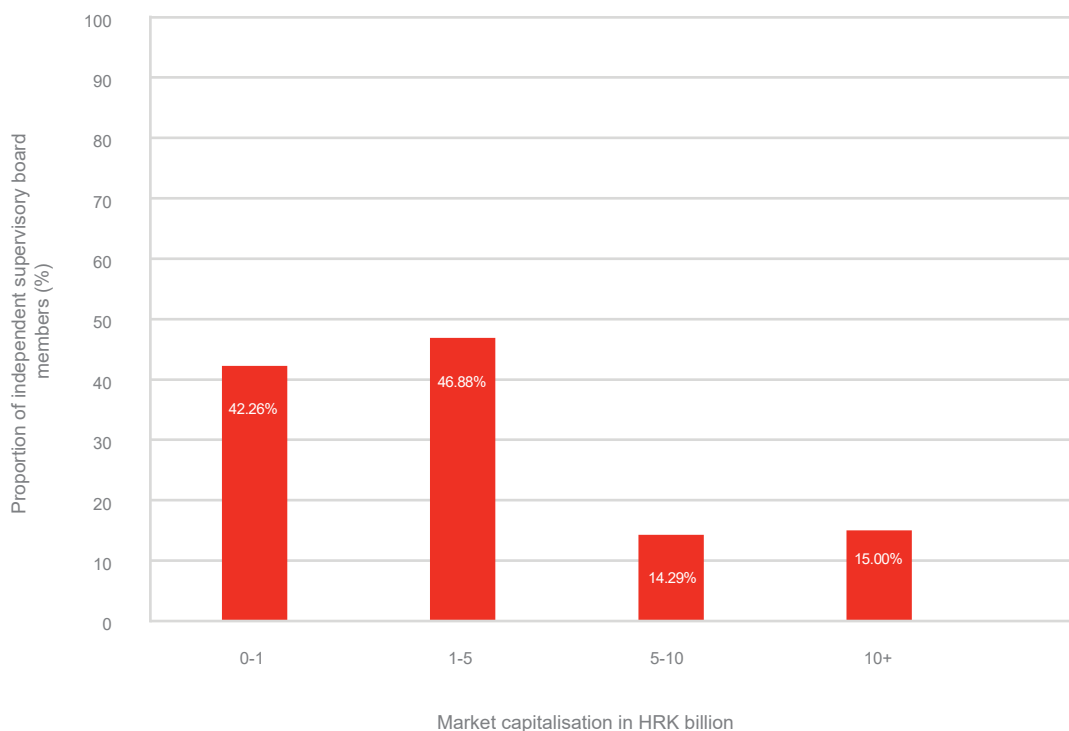
The right to appoint supervisory board members may only be granted to certain shareholders or servient holders of certain shares (the representative of significant shareholder/group of shareholders). Holders of certain shares may be granted the right by the statute to appoint supervisory board members 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.

² Data on the number and gender of supervisory board members have been analysed based on the data from the court register in order for all issuers to be encompassed by the analysis (including those that failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the court register in a timely manner.

- According to the data from the 2017 Questionnaire, independent supervisory board members accounted for 41.73% in the total number of members of share issuers' supervisory boards (38.56% with issuers on the official market, and 42.97% with issuers on the regular market). Employee/trade union representatives made up an 11.58% share, whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 46.6%.

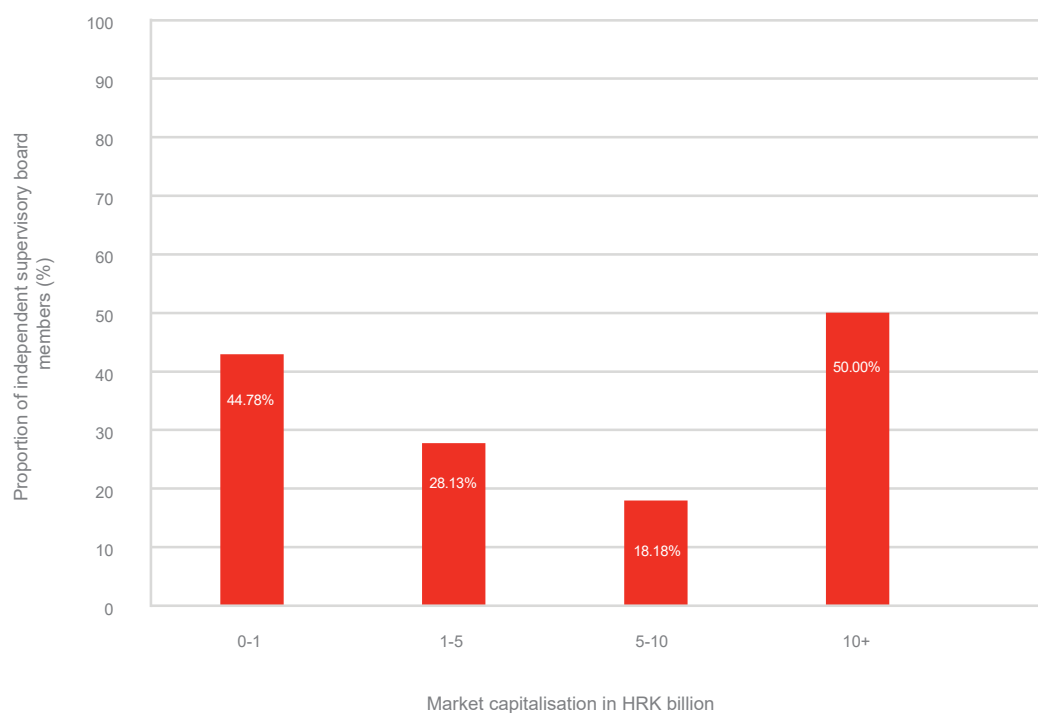
Chart 1.10 shows the proportion of independent supervisory board members with issuers on the official market in relation to the market capitalisation of those issuers, whereas Chart 1.11 shows the proportion of independent supervisory board members with issuers on the regular market in relation to the market capitalisation of those issuers.

Chart 1.10 Proportion of independent supervisory board members with issuers on the official market in relation to the total market capitalisation



Source: Questionnaire, Zagreb Stock Exchange

Chart 1.11 Proportion of independent supervisory board members with issuers on the regular market in relation to the total market capitalisation

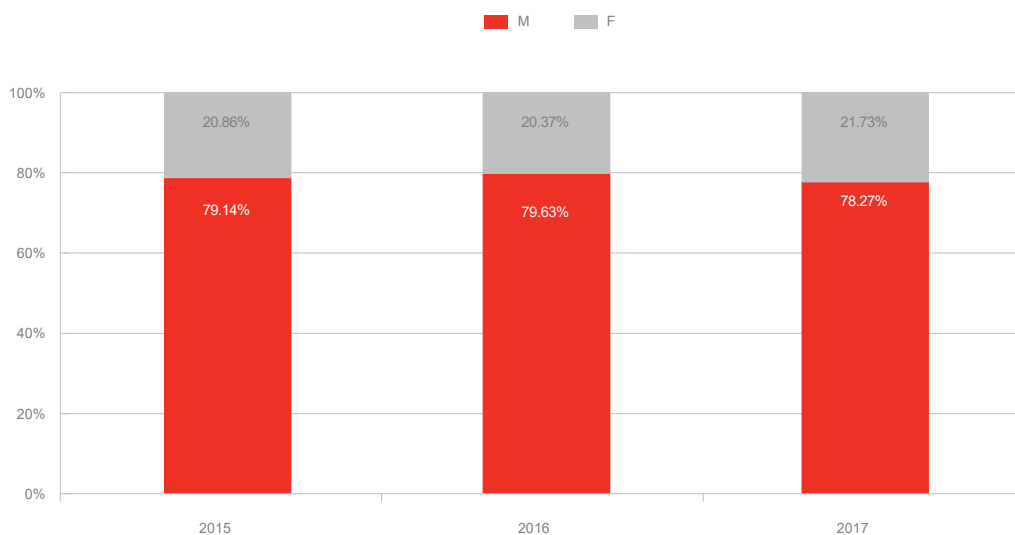


Source: Questionnaire, Zagreb Stock Exchange

Supervisory board member structure by gender, age and professional qualifications

Chart 1.12 shows the proportion of men to women on supervisory boards of issuers in 2015, 2016 and 2017.

Chart 1.12 Proportion of men to women on supervisory boards of issuers in 2015, 2016 and 2017



Source: court register

- In 2017, out of 649 analysed supervisory board members, 141 were women, making up 21.73% (20.37% in 2016). The average proportion of women on supervisory boards totalled 20.99% in all the three analysed years.
- In 2017, the proportion of women on supervisory boards was by 73.29% larger than the share of women on management boards.
- According to data from the Questionnaire, as at 31 December 2017, majority of supervisory board members (41.36%) were over 55 years old, 31.07% were between 45 and 55 years old, 22.79% were between 35 and 45 years old, and only 4.78% 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 industry (ten members from seven issuers) followed by the food industry (five members from four issuers) and the property and funds industry (four members from three issuers).
- As at 31 December 2017, most supervisory board members had a university degree (84.38%), 9.19% of them had a secondary school degree, 9.01% had a PhD, and only one member (0.18%) had lower level of education.

Meetings of the supervisory board

- In 2017, a total of 44 issuers reported having a schedule of meetings of the supervisory board.
- A total of 35 issuers reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 71 issuers (69.61% of issuers that submitted their Questionnaires) reported having an internal regulation on supervisory board activities. 65.45% of issuers that submitted the Questionnaire reported having such regulation in the previous year.
- In 2017, supervisory boards held an average of 8.63 meetings, with the number of the meetings ranging from one to 111.

Term of office and duration of the supervisory board membership³

- At end-2017, the average duration of management board membership was 5.76 years, in 2016 it was 5.56 years, while in 2015 it was 5.43 years.
- The average number of terms of office of supervisory board members as at 31 December 2017 totalled 2.14 (it was 2.11 in 2016, and 2.05 in 2015). In 2017, the largest number of consecutive terms of office (ten) was reported by one supervisory board member.

Resignation of supervisory board members

In the course of 2017, 26 supervisory board members resigned before their terms of office expired (12 in 2016). Reasons for the resignations were mostly linked to personal issues or assumption of another role incompatible with the supervisory board membership, while one supervisory board member resigned due to disagreement with the work of the management board and the supervisory board of which he was a member.

Supervisory board committees

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

- audit committee (audit board)
- nomination committee
- remuneration committee.

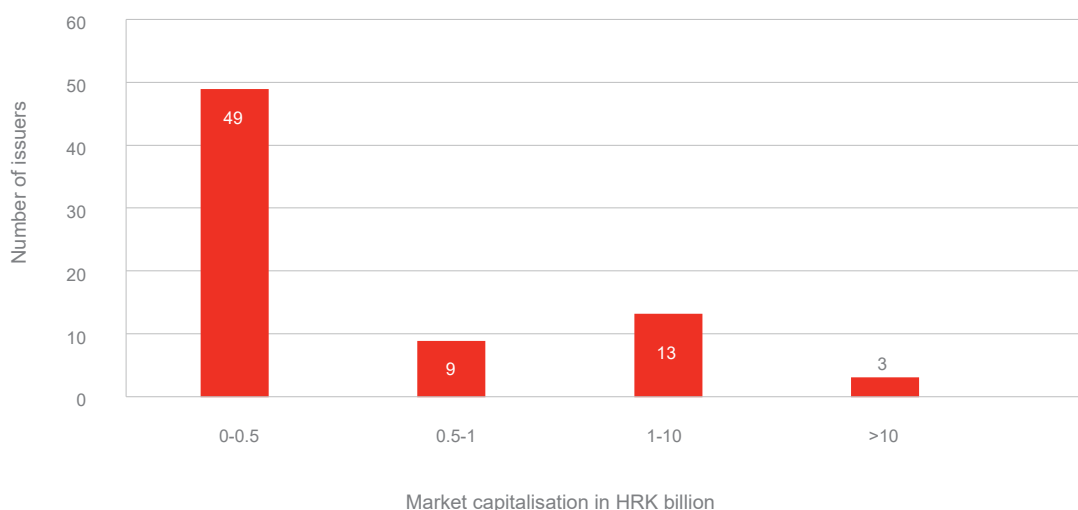
The majority of committee members must be selected from among independent supervisory board members. Each committee must have at least three members. The supervisory board must prescribe in detail the term of office and competence of the committees it has established.

³ The following analysis presents the data on supervisory board members according to the data from 102 Questionnaires submitted. Therefore, the total number of supervisory board members differs with respect to the data from the court register, which relates to all issuers.

- The audit committee was established by most of the issuers (74 issuers or 72.55% of the issuers that submitted their 2017 Questionnaire; 69.1% of the issuers in 2016 and 60.16% of the issuers in 2015). In 2017, the remuneration committee was established by eleven issuers and the nomination committee by eight issuers, same as in 2016.
- Internal working procedures were established by 38 audit committees (51.35%), seven remuneration committees (63.64%) and nine nomination committees (81.82%).
- Apart from having established these committees, nine issuers reported having set up another committee (they were investments committee, corporate governance committee, risk committee, committee for monitoring synergistic effects and legal advice committee).
- During 2017, a total of 20 issuers reported being in the process of preparing a report on the work of committees, whereas four issuers made their committee reports publicly available.

Chart 1.13 shows the number of issuers with an established audit committee as at 31 December 2017 in relation to market capitalisation of issuers.

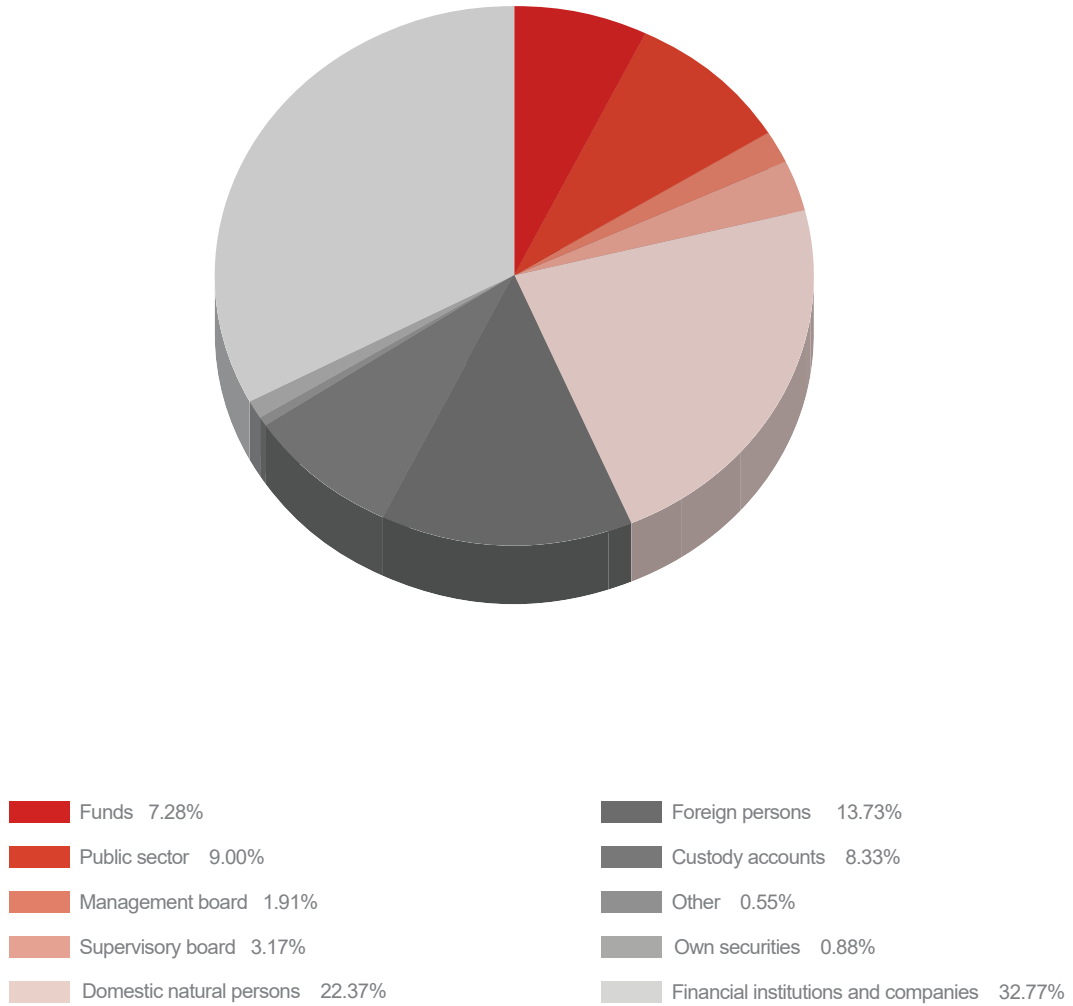
Chart 1.13 Number of issuers with an established audit committee as at 31/12/2017 in relation to market capitalisation of issuers



Source: Questionnaire, Zagreb Stock Exchange

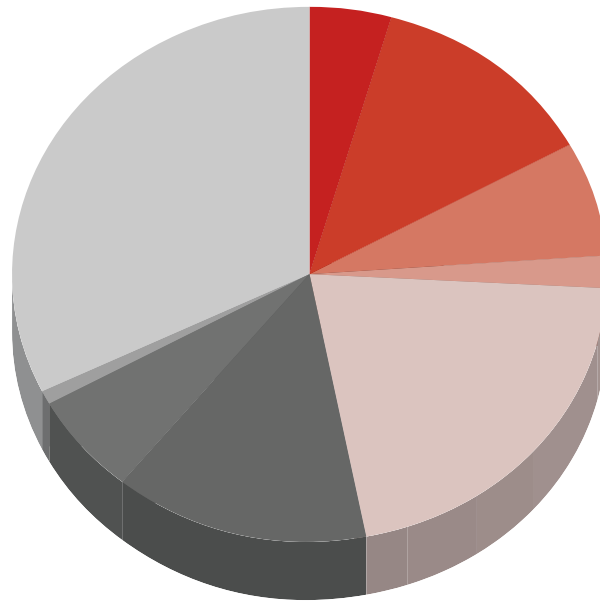
Chart 1.14 shows the ownership structure of issuers with an established audit committee as at 31 December 2017, and the Chart 1.15 shows the ownership structure of issuers without an established audit committee as at 31 December 2017.

Chart 1.14 Ownership structure of issuers with an established audit committee as at 31/12/2017



Source: Questionnaire, CDCC

Chart 1.15 Ownership structure of issuers without an established audit committee as at 31/12/2017



■ Funds 4.47%	■ Foreign persons 13.92%
■ Public sector 12.58%	■ Custody accounts 5.94%
■ Management board 6.97%	■ Other 0.03%
■ Supervisory board 2.08%	■ Own securities 0.93%
■ Domestic natural persons 21.07%	■ Financial institutions and companies 32.01%

Source: Questionnaire, CDCC

- Same as in previous years, financial institutions and companies dominated the ownership structure of issuers with an established audit committee as at 31 December 2017, as well as the ownership structure of issuers without an established audit committee (32.77% and 32.01% 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

The criteria and amounts of remuneration of management board members are determined by the supervisory board. Pursuant to 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

- 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 1.1 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 2017, 2016 and 2015. The amounts shown in Table 1.1 are average amounts paid to the entire management board (not to a single management board member).

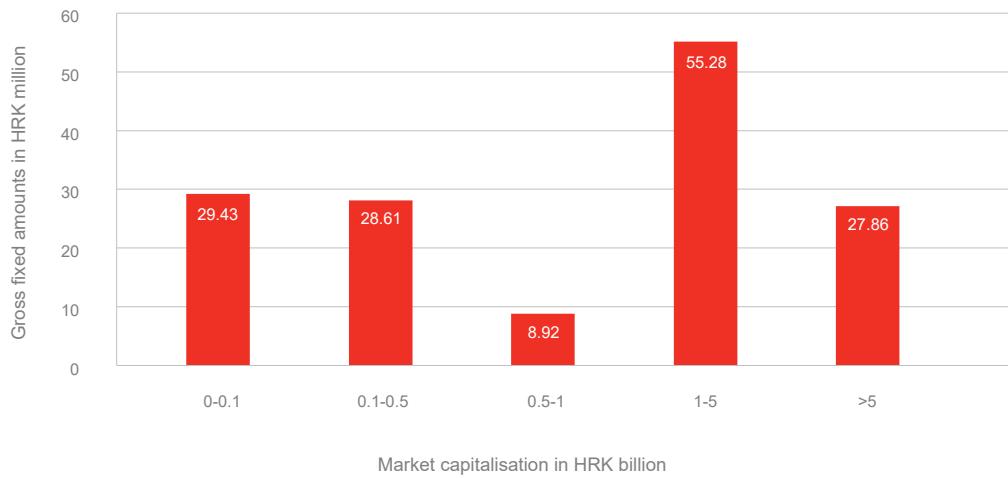
Table 1.1 Amount of remuneration of management board members of share issuers in 2017, 2016 and 2015 (in HRK)

		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 remuneration	Variable remuneration		
2017	Number of issuers	69	16	14	2
	Amount	2,175,208	1,899,286	1,186,087	12,811,131
2016	Number of issuers	72	19	7	3
	Amount	2,236,450	1,752,400	1,349,549	11,886,341
2015	Number of issuers	85	20	7	4
	Amount	1,918,047	2,845,726	463,883	10,673,739

Source: Questionnaire

- In 2017, gross amounts of fixed remuneration paid to management board members ranged between HRK 167.4 thousand and HRK 18.8m.
- In 2017, nominally highest gross amounts of fixed remuneration were paid to management board members of issuers from other activities, followed by issuers from the banking sector, while nominally lowest gross amounts of fixed remuneration were paid to management board members in the property and funds industry.
- In 2017, gross amounts of variable remuneration paid to management board members ranged between HRK 18.7 thousand and HRK 11.4m. Same as in 2016, 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 agriculture sector.
- In the course of 2017, the total value of options held by management board members ranged from HRK 7.4m to HRK 18.2m (issuers from the food industry and other activities).
- The total amount of other benefits paid to management board members ranged between HRK 5.8 thousand and HRK 3.3m.
- A total of 16 issuers (20 issuers in 2016) reported having submitted the annual remuneration policy statement relating to management board members to the general meeting in 2017.

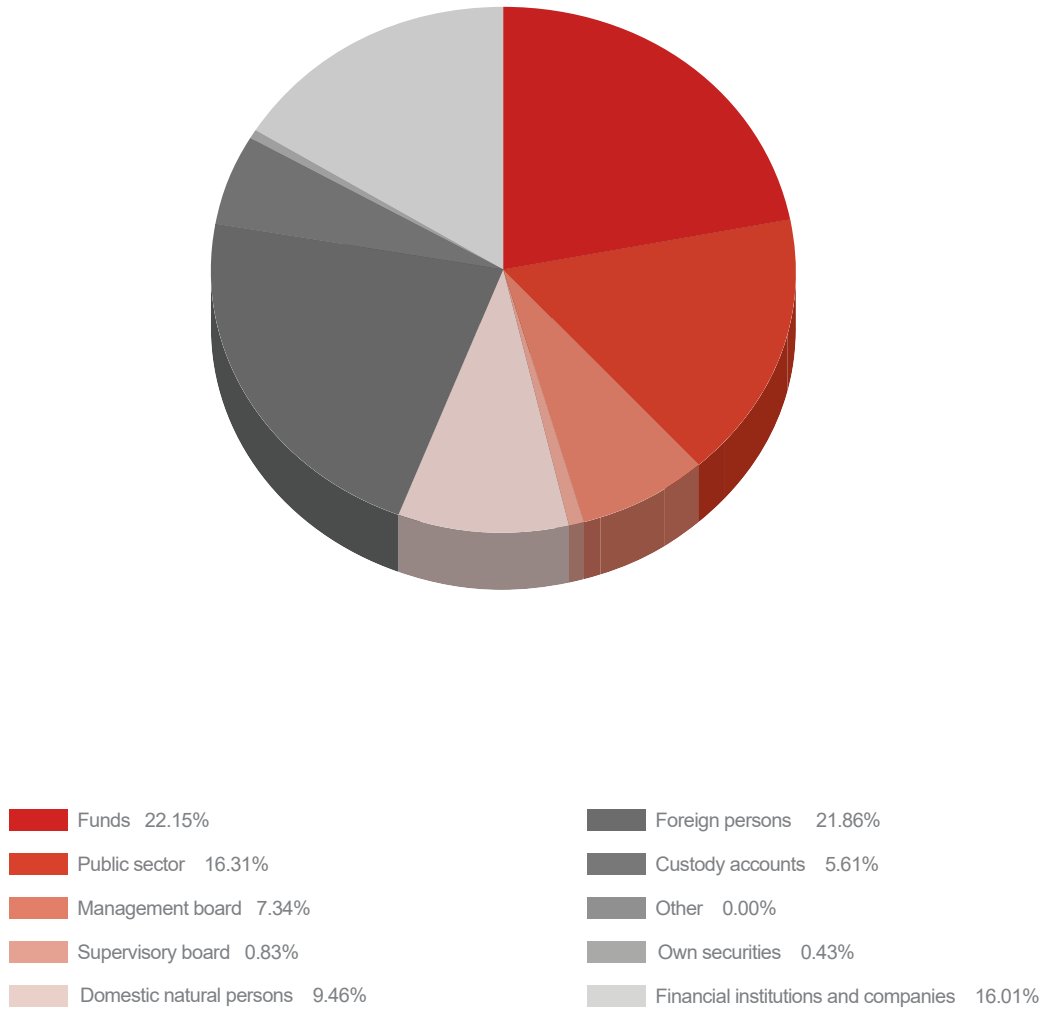
Chart 1.16 Total gross amount of fixed remuneration paid to management board members in 2017 in relation to market capitalisation (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

In 2017, issuers with a market capitalisation totalling HRK 0-0.1bn paid to their management board members an average gross fixed amount reaching HRK 892 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 1.3m; issuers with a market capitalisation totalling HRK 1-5bn paid to their management board members an average gross fixed amount reaching HRK 6.9m, and issuers with a market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount reaching HRK 7m.

Chart 1.17 Ownership structure of share issuers that paid a gross fixed amount to management board members over HRK 5m in the course of 2017



Source: Questionnaire, CDCC

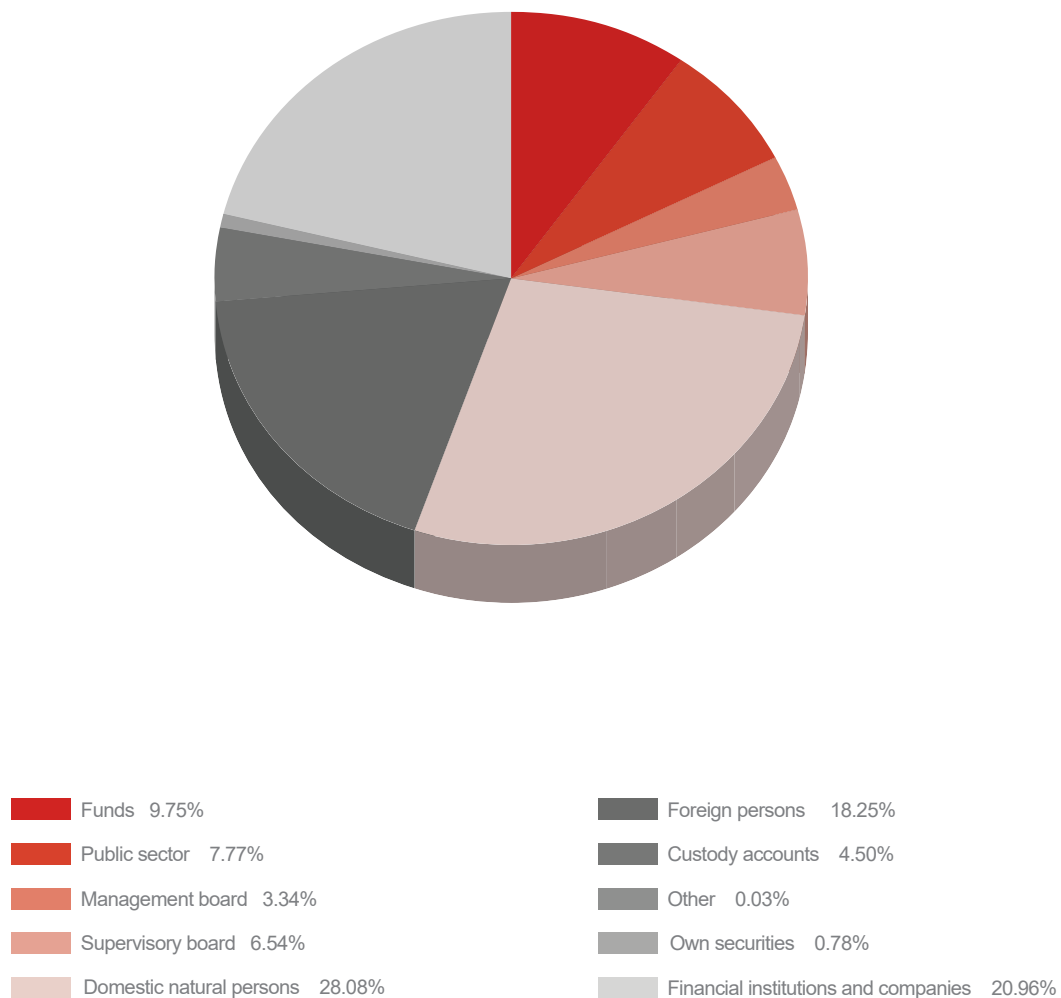
- The ownership structure of issuers that paid a gross fixed amount to their management board members over HRK 5m in the course of 2017 was dominated by funds (22.15%), followed by foreign persons (21.86%).

Management board remuneration policy

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

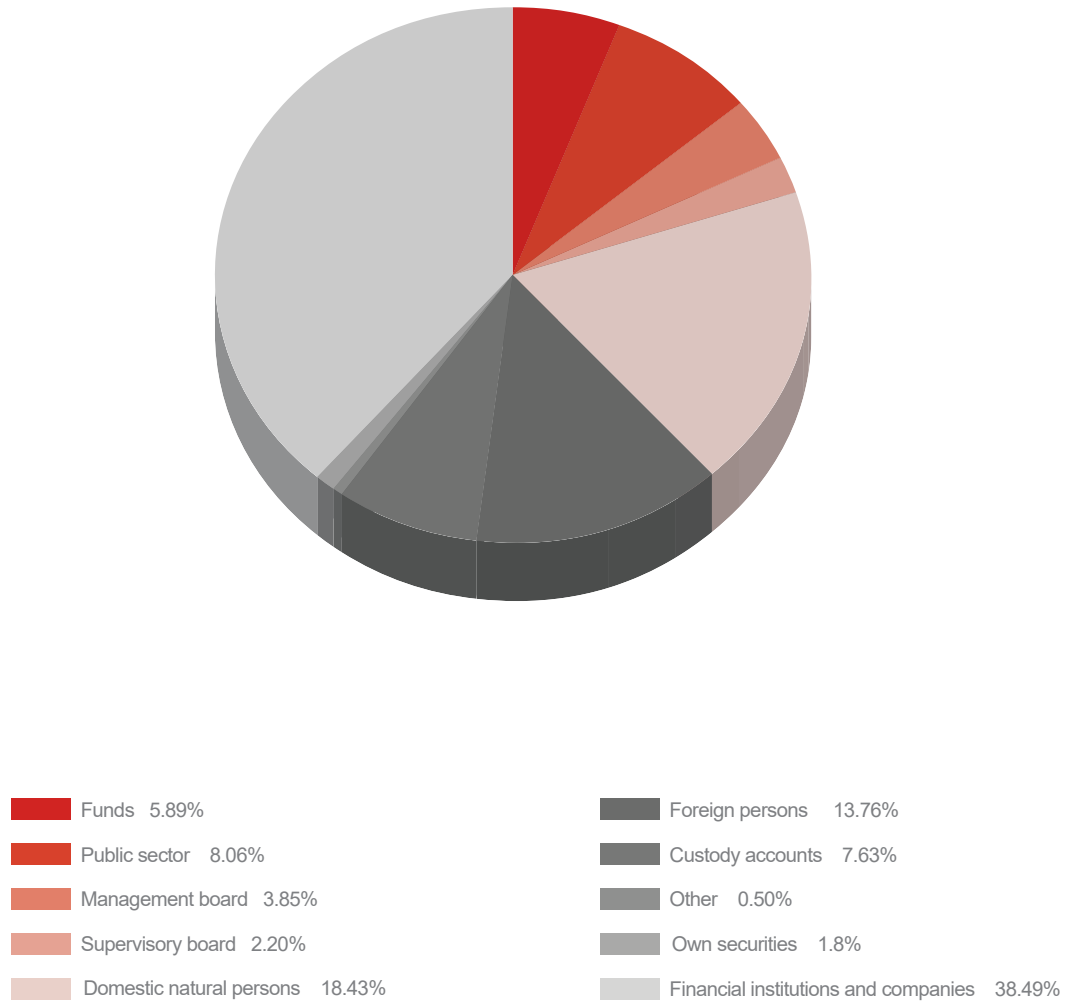
- A total of 22 issuers (27 in 2016) reported having a remuneration policy for management board members in place for 2017.
- A total of 17 issuers that reported having a remuneration policy for management board members in place do not make this policy publicly available. Data on remuneration policy for 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 1.18 Ownership structure of share issuers with an established remuneration policy for management board members in place as at 31/12/2017



Source: Questionnaire, CDCC

Chart 1.19 Ownership structure of share issuers without an established remuneration policy for management board members in place as at 31/12/2017



Source: Questionnaire, CDCC

- The ownership structure of issuers without an established remuneration policy for management board members in place as at 31 December 2017, was dominated by financial institutions and companies (38.49%) and domestic natural persons (18.43%), while the ownership structure of issuers with an established remuneration policy for management board members as at 31 December 2017 was dominated by domestic natural persons (28.08%) and financial institutions and companies (20.96%).

Severance pay

- Nine issuers reported total amounts of severance pay given to management board members in 2017, which ranged from HRK 636 thousand to HRK 19.6m.
- Three issuers reported total amounts of severance pay given to management board members in 2017, which averaged HRK 1m per issuer.

1.3.5. Remuneration of supervisory board members

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 2017, a total of 21 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 52 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 1.2 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 2017, 2016 and 2015. The amounts shown in Table 1.2 are average amounts paid to the entire supervisory board (not to a single supervisory board member).

Table 1.2. Amount of remuneration of supervisory board members of share issuers in 2017, 2016 and 2015 (in HRK)

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2017	Number of issuers	71	4	0
	Amount	431,817	291,696	0
2016	Number of issuers	78	5	0
	Amount	406,855	774,894	0
2015	Number of issuers	89	5	1
	Amount	391,127	479,791	0

Source: Questionnaire

- A total of 71 issuers reported the total gross amount of fixed remuneration paid to supervisory board members in 2017, which ranged from HRK 16 thousand to HRK 2.8m.
- Four issuers reported the total gross amount of variable remuneration paid to supervisory board members, which ranged from HRK 7 thousand to HRK 876 thousand.
- A total of 19 issuers (20 issuers in 2016) 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 variable remuneration paid to the senior management in 2017 was reported by 55 issuers, with the amounts ranging between HRK 587.3 thousand (an issuer from the construction industry) and HRK 27.3m (an issuer from the tourism industry).
- The total gross amount of variable remuneration paid to the senior management in 2017 was reported by 55 issuers, with the amounts ranging between HRK 587.3 thousand (an issuer from the construction industry) and HRK 27.3m (an issuer from the tourism industry).
- The total value of options held by the senior management was reported by two issuer, in the average amount of HRK 4.7m.
- The total gross amount of severance pay agreed with the senior management in 2017 was reported by eight issuers, with the amounts ranging from HRK 150 thousand to HRK 12.1m.
- The total gross amount of severance pay given to the senior management in 2017 was reported by nine issuers, with the amounts ranging from HRK 150 thousand to HRK 2.9m.
- The total amount of other benefits paid to the senior management was reported by eight issuers, with the amounts ranging from HRK 13 thousand to HRK 4.2m.

1.3.7. Related party transactions

In 2017, a total of 22 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 24 and 25 issuers in 2016 and 2015, respectively.

Table 1.3 sets out the average value of reported transactions during 2015, 2016 and 2017, 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 1.3. Average value of reported related party transactions in 2015, 2016 and 2017 (in HRK)

		Average 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 its parent
2017	Number of issuers having reported the transaction	34	19	8	45
	Transaction value	161,198,802	4,910,966	8,851,501	235,074,283
2016	Number of issuers	36	22	12	46
	Amount	252,381,830	12,715,746	7,139,912	363,163,243
2015	Number of issuers	37	19	9	50
	Amount	271,561,189	10,144,030	5,623,301	408,656,623

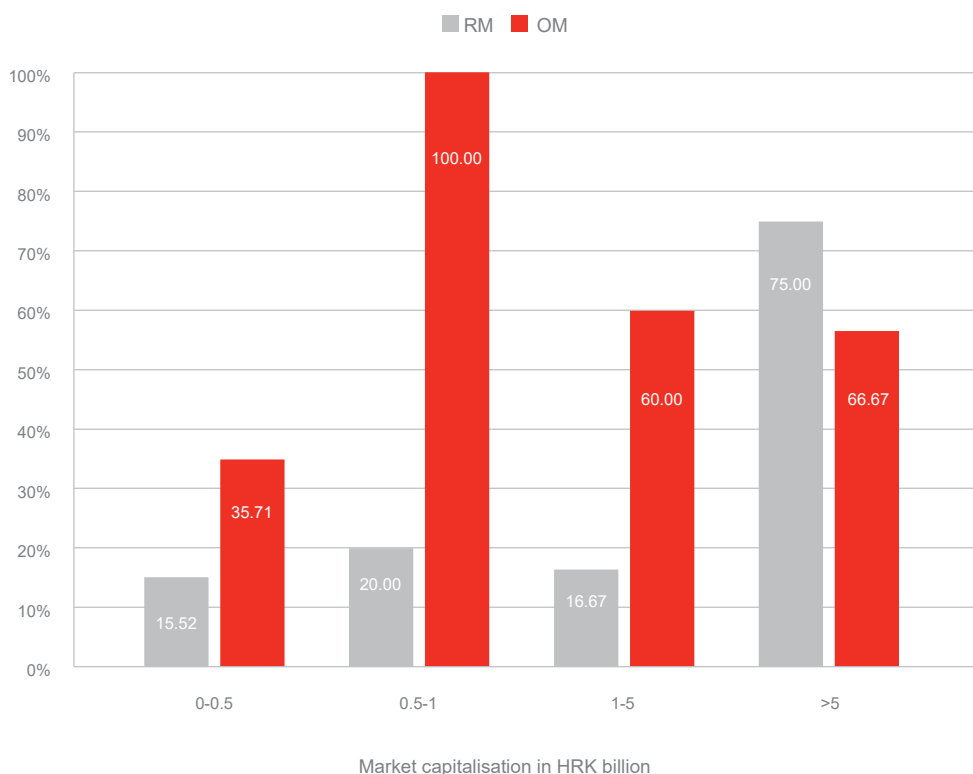
Source: Questionnaire

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 2017, a total of 27 issuers (29 in 2016) 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 and preventing bribery and corruption.
- The majority of 27 issuers that reported having an internal regulation in place to identify, prevent and report conflicts of interest at the end of 2017 came from the banking sector (seven), followed by telecommunications industry (three) and tourism industry (three).
- In 2017, a total of 15 cases of conflicts of interest were reported by three issuers, whereas other issuers did not report any conflicts of interest. One issuer reported that eight cases of conflicts of interest involved persons who failed to abstain from voting on entering related party transactions.

Chart 1.20 Issuers having an internal regulation to identify, prevent and report conflicts of interest in relation to market capitalization of issuers (in HRK billion) and market where shares are admitted as 31/12/2017



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 102 completed Questionnaires, three issuers did not hold the general meeting in 2017. In 2016, according to the data from 110 Questionnaires completed, three issuers did not hold the general meeting, whereas five issuers reported not having held the general meeting in 2015 pursuant to the data from 128 completed Questionnaires.
- As a reason for not having held a general meeting in 2017, one issuer reported undergoing bankruptcy proceedings, while two issuers did not state their reasons.
- According to data from 102 completed Questionnaires, a total of 68 issuers reported having held only one general meeting, 24 issuers held two general meetings, two issuers held three general meetings each, four issuers held four general meetings each, while one issuer held five general meetings.

Internal rules of procedure of the general meeting

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 not provided for at any of general meetings in 2017.

Interni propis rada glavne skupštine

- A total of 39 issuers reported having rules of procedure of the general meeting in place for 2017, of which three issuers reported changes in their rules of procedure during the year.
- A total of 13 issuers reported having sent the invitation to the general meeting by registered mail.

Participation in the general meeting

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

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

- General meetings held in 2017 were attended by 21 shareholders (same as in 2016). The largest number of shareholders attending a general meeting was 415, while 12 general meetings were attended by only one shareholder.

Voting limitations, attendance conditions and decision making

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

- Voting rights were restricted for some shareholders at six general meetings of six issuers in the course of 2017. 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 above-mentioned 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.

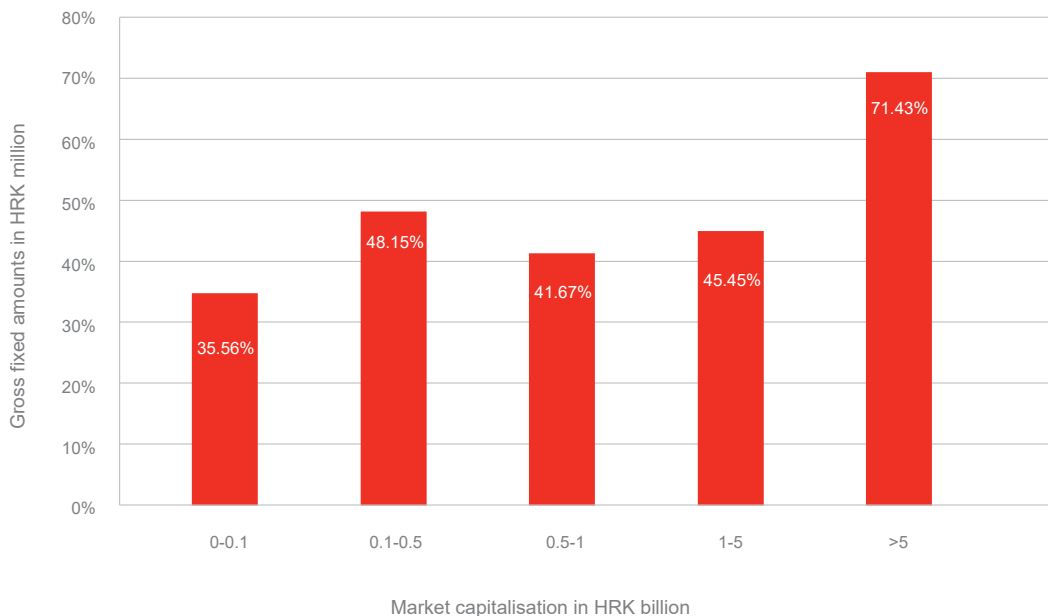
1.4.1. Internal audit and control

Pursuant to the Code of Corporate Governance, 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.

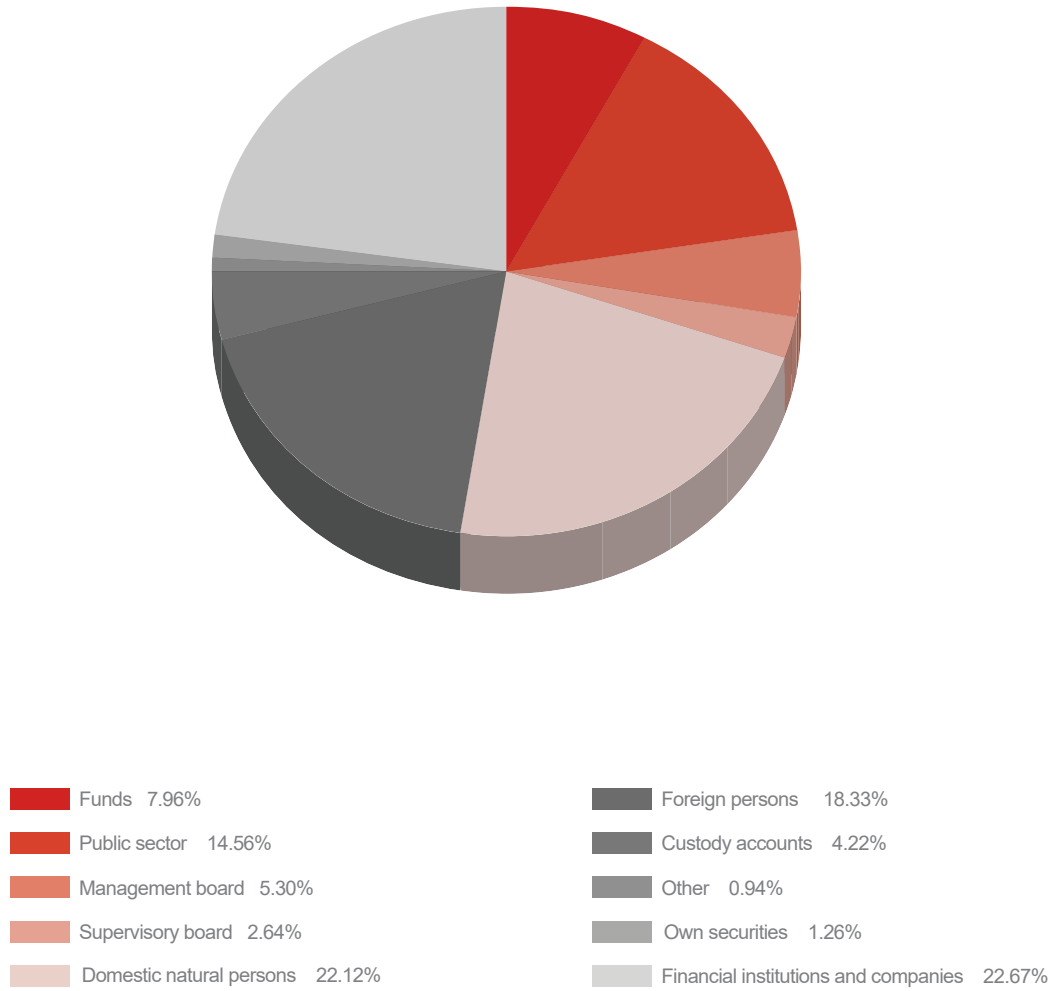
- A total of 44 or 43.14% of the issuers that submitted the 2017 Questionnaire reported having an internal audit system in place (a total of 44.55% and 42.19% of the issuers that submitted the Questionnaire for 2016 and 2015 respectively reported having an internal audit system in place).
- As at 31 December 2017, a total of 44 issuers with an internal audit system in place had a total market capitalisation of HRK 101.1bn (the total market capitalisation of 102 issuers that submitted their 2017 Questionnaires reached HRK 134.2bn as at 31 December 2017).
- Most of the issuers with an internal audit system in place belonged to the tourism industry (ten) and banking sector (eight), followed by food industry (six).
- A total of 72 or 72.59% of the issuers that submitted the 2017 Questionnaire reported having an internal control system in place (72.73% in 2016 and 69.53% in 2015).
- Most of the issuers with an internal control system in place belonged to the tourism industry (20 issuers), followed by those from the banking sector (eight) and the food industry (seven).

Chart 1.21 Share of issuers having an internal audit system in place with respect to market capitalisation of issuers (in HRK billion)



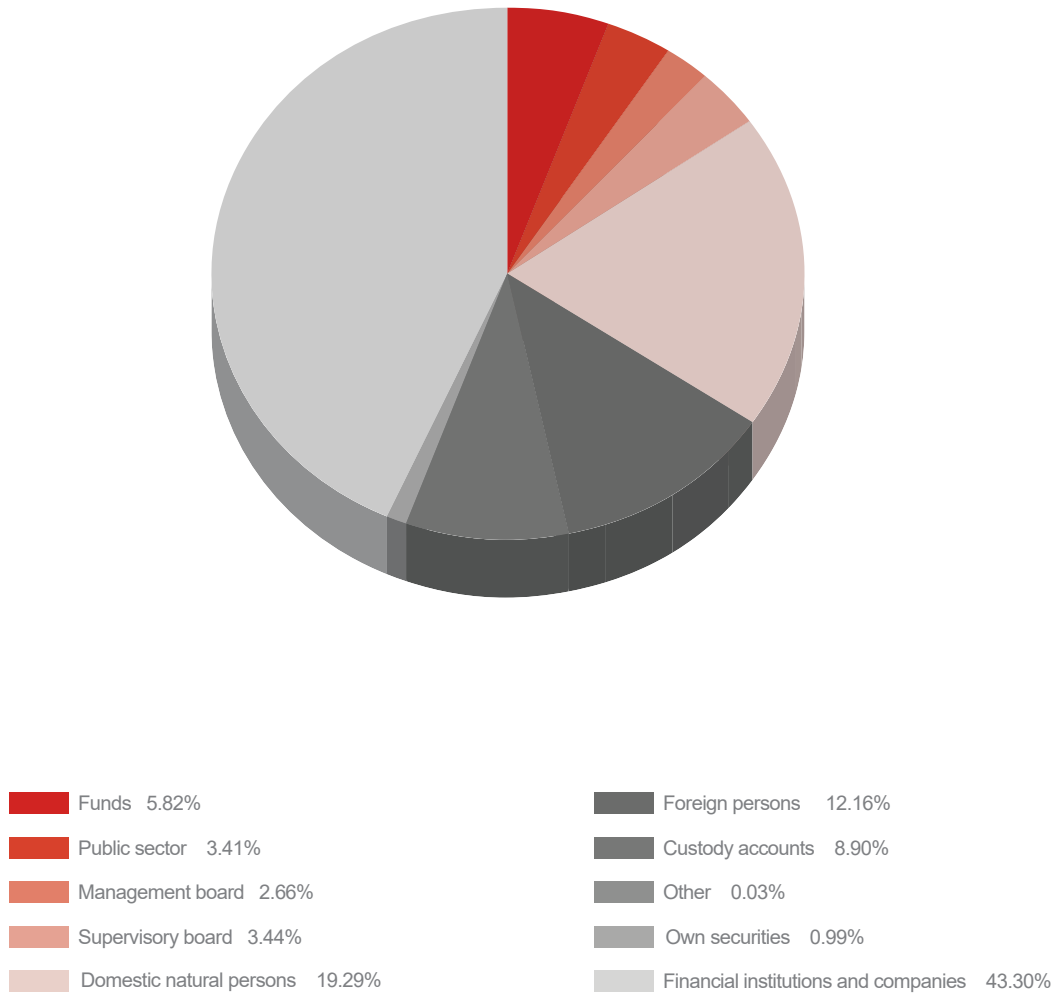
Source: Questionnaire, Zagreb Stock Exchange

Chart 1.22 Ownership structure of share issuers having an internal audit system in place as at 31/12/2017



Source: Questionnaire, CDCC

Chart 1.23 Ownership structure of share issuers without an internal audit system in place as at 31/12/2017



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established internal audit system as at 31 December 2017, as well as the ownership structure of issuers without an established internal audit system (22.67% and 43.3% 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 34 issuers (four less than in the previous year) reported having an internal regulation in place for the identification, management and prevention of risks.
- A total of 26 issuers (five less than in 2016) reported having appointed persons in charge for risk management. Majority of issuers that appointed a person to be in charge of risk management came from the banking sector (eight), and food industry and tourism (three issuers from each sector).
- A total of 35 issuers reported some risks having materialised during 2017, and 31 of them (88.57%) managed to control and manage those risks.
- Same as in 2016, the most common materialised risks were credit risk, liquidity risk, operational risk, currency risk and macroeconomic environment risk.

1.4.3. External audit

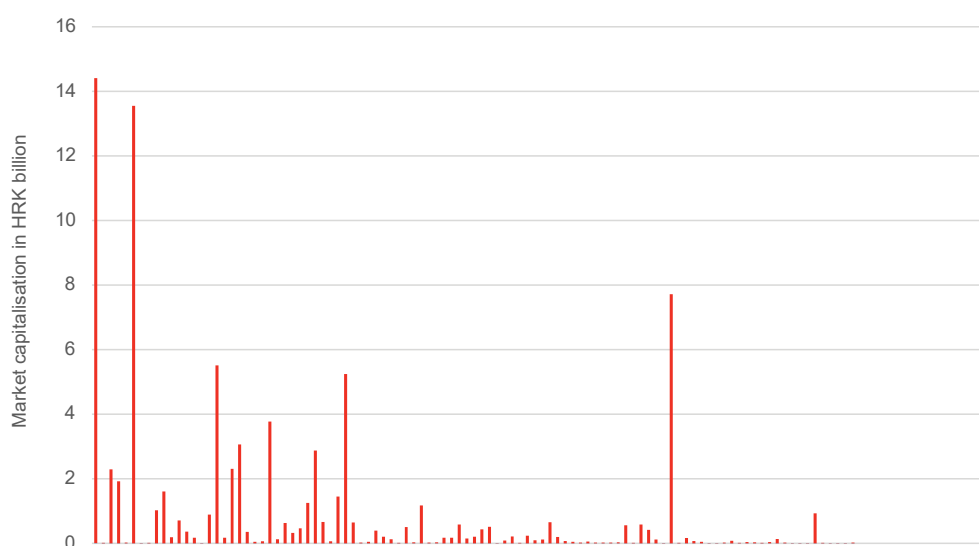
Pursuant to the Code of Corporate Governance, companies must have independent external auditors, who represent an important corporate governance tool. The main function of an external auditor is to ensure that financial statements of the company adequately reflect the current financial position of the 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 29 various audit firms providing external audit services to issuers were reported in the 102 Questionnaires submitted for 2017. The largest number of issuers using services of the same audit firm was 24.
- A total of 61 issuers (55 issuers in 2016) used services of the largest audit firms (the Big Four) in 2017. The majority of issuers using services of the mentioned audit firms came from the tourism industry (13), and banking sector and food industry (seven issuers from each of the sectors).
- The market capitalisation of issuers using services of the largest audit firms amounted to HRK 126.01bn, or 93.93% of the total market capitalisation of issuers that submitted the 2017 Questionnaire.
- The average length of time during which issuers used services of the same audit firm was 6.37 years (6.46 years in 2016).

- The average length of time during which issuers used services of the same certified auditor in the same audit firm was 4.32 years (4.6 years in 2016).
- A total of 96 issuers reported the gross amount paid to an external audit firm for auditing services provided in 2017. The amount totalled an average of HRK 321.8 thousand (HRK 315.2 thousand in 2016), ranging from HRK 5.7 thousand to HRK 4.9m.
- Seventeen issuers (six issuers in 2016) reported having paid an external audit firm for services other than auditing services provided in 2017. The average gross amount totalled HRK 447.2 thousand, ranging from HRK 1.9 thousand to HRK 3.7m. The following were the services other than auditing services provided in 2017: tax and financial advice, due diligence, drawing reports on restructuring, and training.
- As in previous years, 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 1.24 Gross amount paid to external audit firms for audit services provided during 2017 in relation to market capitalization (in HRK billion) of issuers



Source: Questionnaire, Zagreb Stock Exchange

The correlation between the gross amount paid to external audit firms for audit services provided during 2017 and market capitalization of issuers was 0.617788 (in 2016, it was as high as 0.840904).

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 in both Croatian and English.

- According to the data from Questionnaires submitted in 2017, all issuers reported having their website in Croatian, and 70 issuers (68.6%) reported having their website in English, as well.
- A total of 30 issuers (29.4%) reported having a separate organisational unit or employees in charge of public (investor) relations. These issuers mostly belonged to the banking sector (six issuers), tourism industry (four issuers) and telecommunications industry, food industry and other activities (three issuers from each of the industries).
- A total of 37 issuers (36.27%) reported having published the calendar of significant events on their website. In 2016, a total of 23.64% of issuers provided the same answer.
- A total of 19 issuers reported having held one or more press conferences during 2017. The largest number of press conferences held by one issuer was 12, while the average number of press conferences was three. The most common reasons for convening a press conference were presentations of business results including significant activities and investments and presentations of new products and new offers.

1.5.2. Dividend payments

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

- Based on data from 102 Questionnaires, 26 share issuers (25.5%) adopted a decision on dividend payment in 2017.
- One issuer paid the dividend partly in shares of issuer, in addition to cash.
- The average amount of dividend per share in 2017 totalled HRK 115.13 (it was 94.78 in 2016).
- Same as in 2016, most of the issuers that adopted a decision on dividend payment in 2017 belonged to the tourism industry (five issuers), followed by the banking sector (four) and food industry (three).

- The total market capitalisation of issuers that adopted a decision on dividend payment in 2017 reached HRK 83.67bn. Among these issuers, the largest market capitalisation was reported by an issuer from the banking sector (HRK 16.9bn), and the smallest by an issuer from transport industry (HRK 116.5m).

2. Annual Report on Corporate Governance of Corporate Bond Issuers

- At the end of 2017, a total of ten corporate bonds were issued by nine different issuers. Seven of them completed and submitted the Questionnaire for 2017.
- The interest rate ranged between 1.8125% and 8.0000% and totalled an average of 4.5500% (at the end of 2016, it amounted to an average of 5.7695%).
- Corporate bonds of six issuers were removed from the official market in 2017.
- In 2017, no issuers listed corporate bonds on the regulated market for the first time.
- At the end of 2017, one bond issuer belonged to the financial sector (banking) and eight issuers to the non-financial sector. Regarding the non-financial sector, issuers came from other activities (three issuers), telecommunications industry and construction industry (two issuers from each of the sectors) and pharmaceutical industry (one issuer).
- As at 31 December 2017, none of the corporate bond issuers was undergoing insolvency proceedings.
- Out of nine issuers whose corporate bonds were admitted to trading on the regulated market of the ZSE as at 31 December 2017, seven of them completed and submitted the Questionnaire (77.78%).

2.1. Capital and origin of capital

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 31/12/2015, 2016 and 2017

Bond issuers	Number of issuers						
	2015	2016	2017		2015	2016	2017
with admitted shares	5	4	3	Initial capital	1,268,189,840	1,132,737,840	1,074,997,690
				Market capitalisation	257,339,378	382,968,369	455,734,693
without admitted shares	8	10	6	Initial capital	23,044,712,948	26,877,969,148	5,953,389,200
				Market capitalisation	1,531,809,372	4,414,822,544	3,417,397,913
TOTAL	13	14	9	Initial capital	24,312,902,788	28,010,706,988	7,028,386,890
				Market capitalisation	1,789,148,749	4,797,790,912	3,873,132,606

Source: court register, Zagreb Stock Exchange

- At the end of 2017, out of nine corporate bond issuers, three also had their shares on the regulated market of the Zagreb Stock Exchange.
- The total initial capital of all corporate bond issuers decreased by 74.91%, however, the number of issuers also decreased by five. The initial capital of corporate bond issuers with admitted shares decreased by 5.09% 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 shares decreased by 77.85% (the number of issuers decreased by four).
- The total market capitalisation of all corporate bonds issuers decreased by 19.27% relative to the previous year. At the end of 2017, the total market capitalisation of corporate bond issuers with admitted shares increased by 19%, whereas a 22.59% decrease in market capitalisation was reported by corporate bond issuers without admitted shares.

2.1.1. Ownership structure of corporate bond issuers

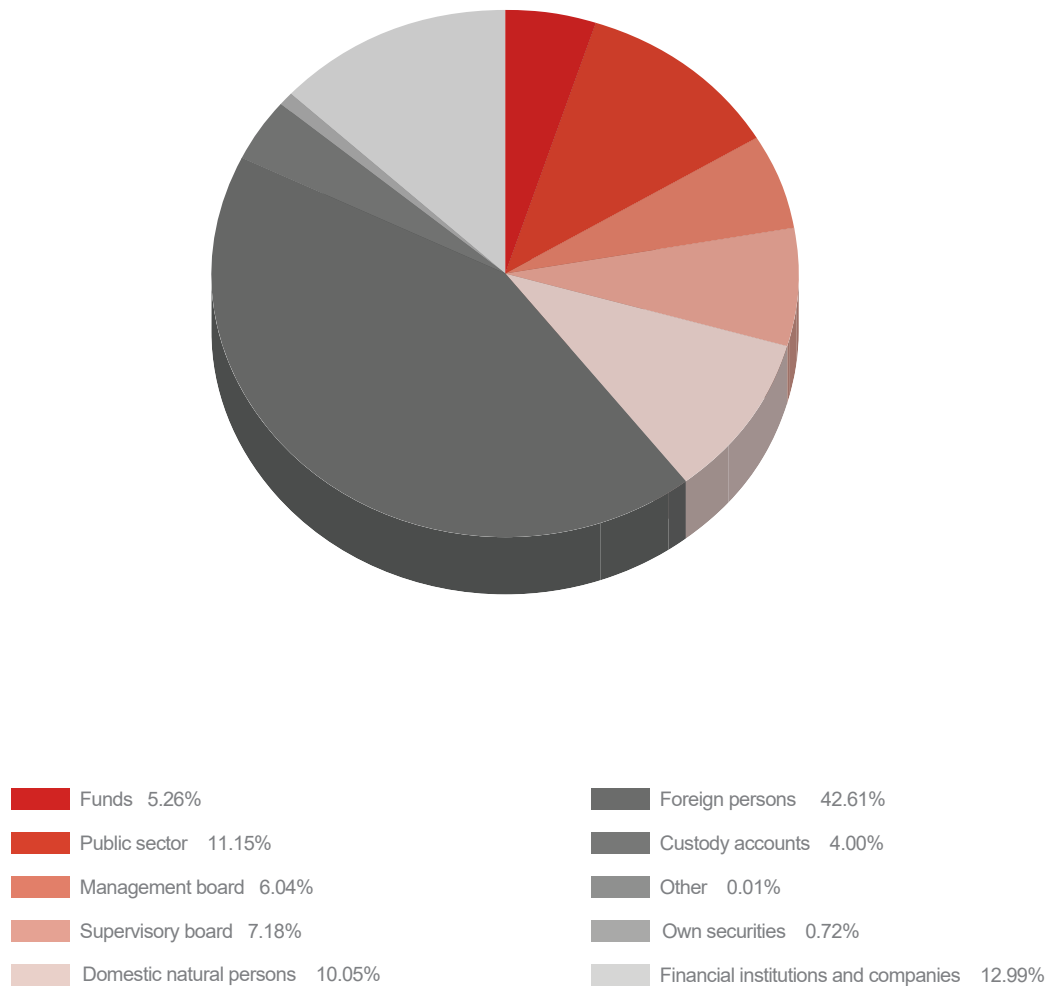
Data on the ownership structure of bond issuers have been produced on the basis of data received from the CDCC; therefore the following analysis comprises only corporate bond issuers established as joint-stock companies (seven issuers).

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 for members of the management and supervisory board)
- custody accounts
- other.

Chart 2.1. shows the ownership structure of share issuers as at 31 December 2017, by the above-mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31/12/2017



Source: CDCC

- The ownership structure of corporate bond issuers established as joint-stock companies was dominated by foreign persons with a 42.61% share (31.97% in 2016), followed by financial institutions and companies with a 12.99% share (16.21% in 2016) and the public sector with a share of 11.15% (16.77% in 2016).

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).

Six 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. One issuer has a one-tier governance system.

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 2015, 2016 and 2017.

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.

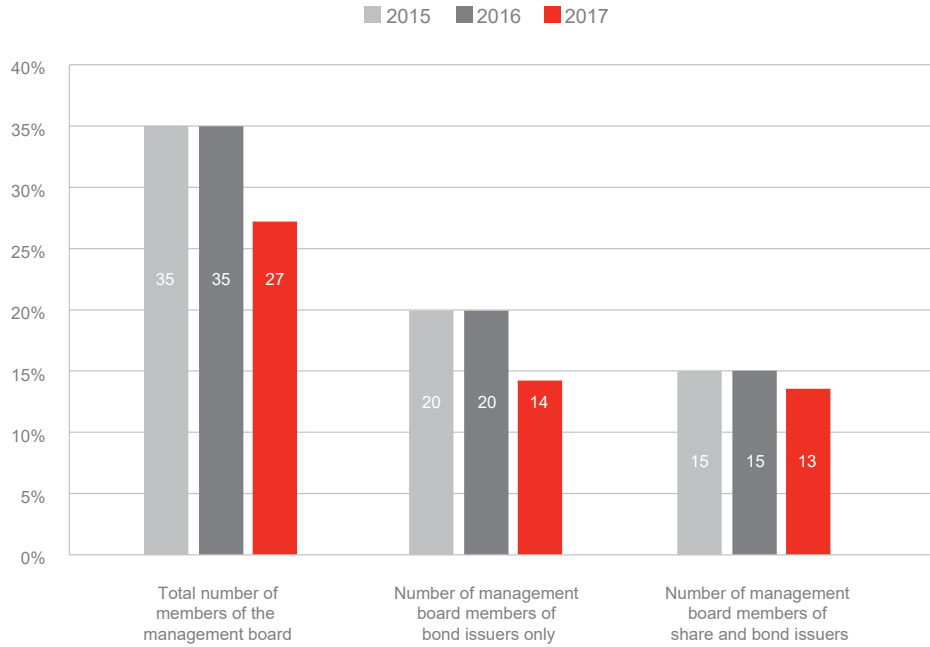
Only natural persons with full legal capacity may be appointed members of the management board.

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 (seven issuers).

The following analysis shows the number of management board members of joint-stock companies – corporate bond issuers, totalling seven at the end of 2017, ten at the end of 2016 and 11 at the end of 2015.

Chart 2.2 shows the total number of management board members of bond issuers as at 31 December 2015, 2016 and 2017.

Chart 2.2 Total number of management board members as at 31/12/2015, 2016 and 2017

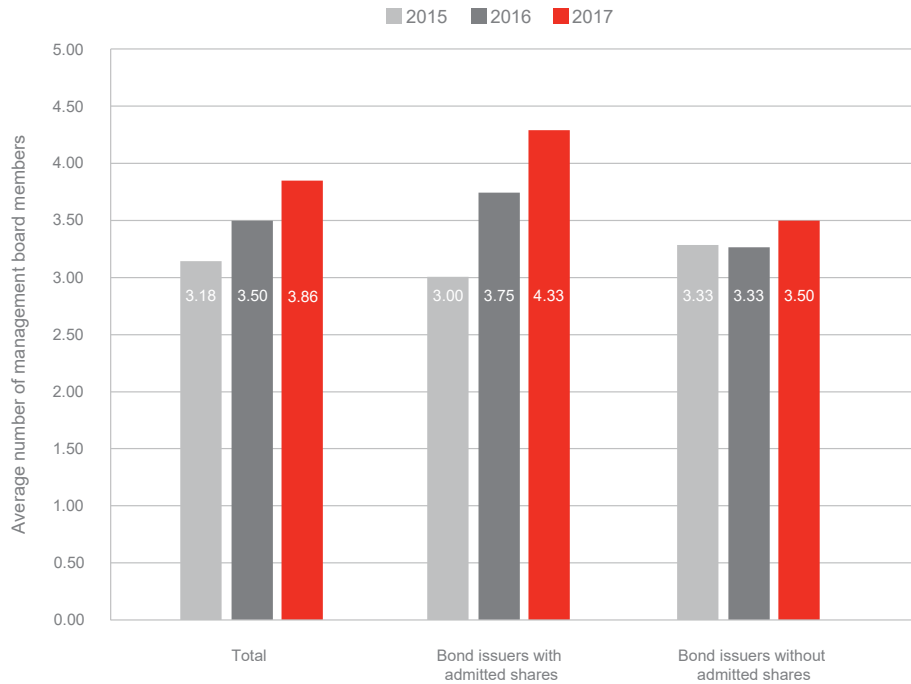


Source: court register, Hanfa

- As at 31 December 2017, the maximum number of management board members was five, as reported by two bond issuers. Three issuers had four members of the management board, one issuer had three members, while one issuer had two members of the management board.

Chart 2.3 shows the average number of management board members of corporate bond issuers as at 31 December 2015, 2016 and 2017.

Chart 2.3 The average number of management board members of bond issuers as at 31/12/2015, 2016 and 2017



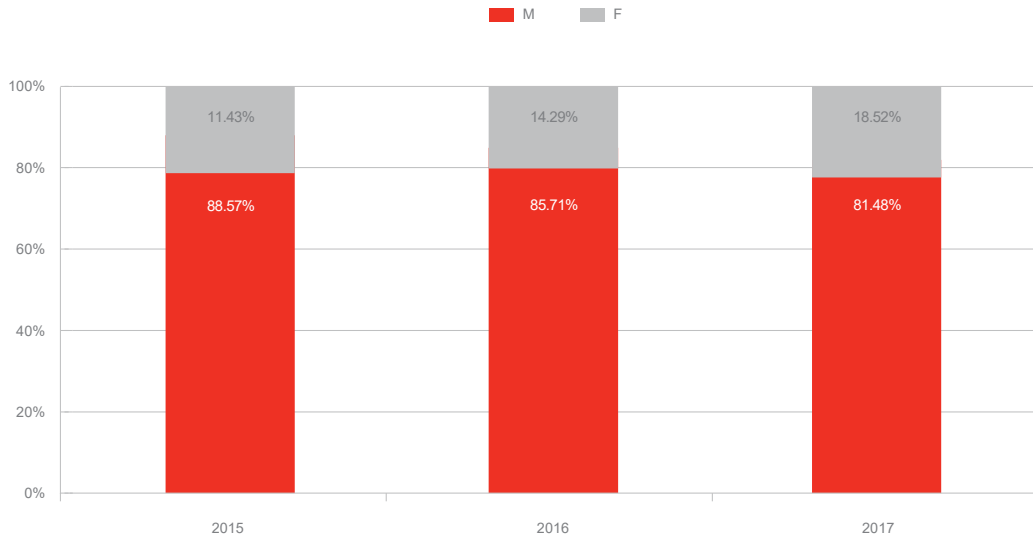
Source: court register, Hanfa

Management board member structure by gender, age and professional qualifications

- As at 31 December 2017, five women sat on management boards of corporate bond issuers (same as in 2016).
- Most management board members of corporate bond issuers (50%) were between 35 and 45 years old, 43.33% were 45 to 55 years old, 6.67% were older than 55 years of age, and there were no management board members younger than 35 years of age.
- All management board members of corporate bond issuers had a university degree.

Chart 2.4 shows the proportion of men to women on management boards of corporate bond issuers as at 31 December 2015, 2016 and 2017.

Chart 2.4 Proportion of men to women on management boards of corporate bond issuers as at 31/12/2015, 2016 and 2017



Source: court register, Hanfa

Rules of procedure of the management board

- In 2017, a total of six issuers reported having an internal regulation on management board activities (rules of procedure of the management board).
- None of the issuers reported changes in this regulation occurring during the year.

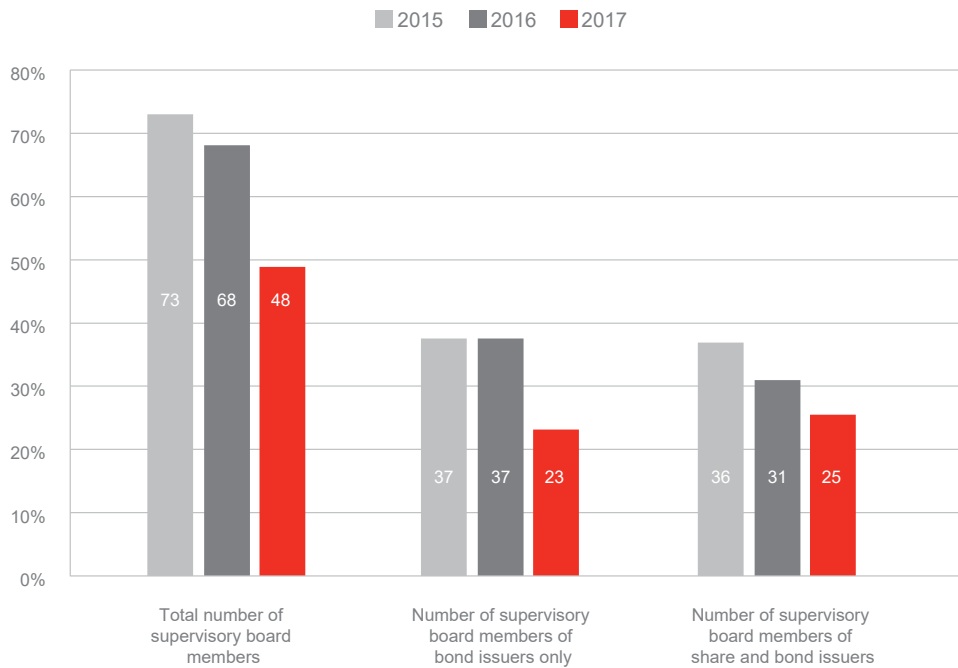
Meetings of the management board

- In 2017, four 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 38.86 (the maximum number of meetings held was 66, and the minimum number was seven).

2.2.2. Supervisory board

Chart 2.5 presents the total number of supervisory board members of corporate bond issuers at the end of 2015, 2016 and 2017.

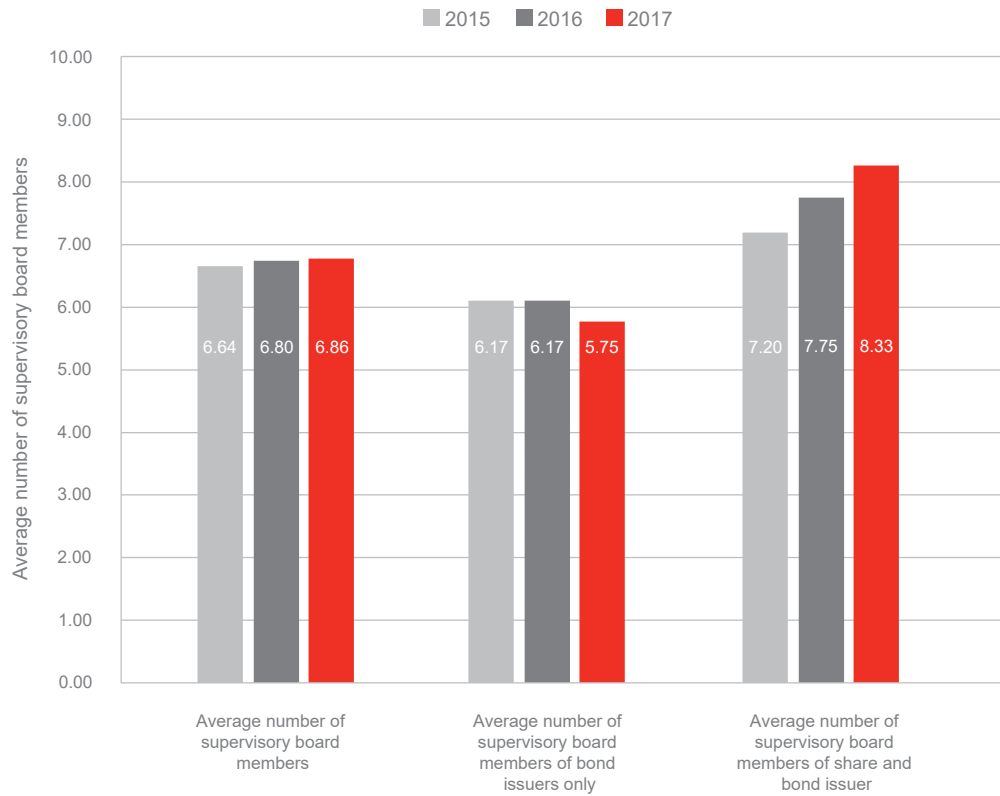
Chart 2.5 Total number of supervisory board members as at 31/12/2015, 2016 and 2017.



Source: court register

Chart 2.6 shows the average number of supervisory board members of corporate bond issuers as at 31 December 2015, 2016 and 2017.

Chart 2.6 Average number of supervisory board members of corporate bond issuers as at 31/12/2015, 2016 and 2017

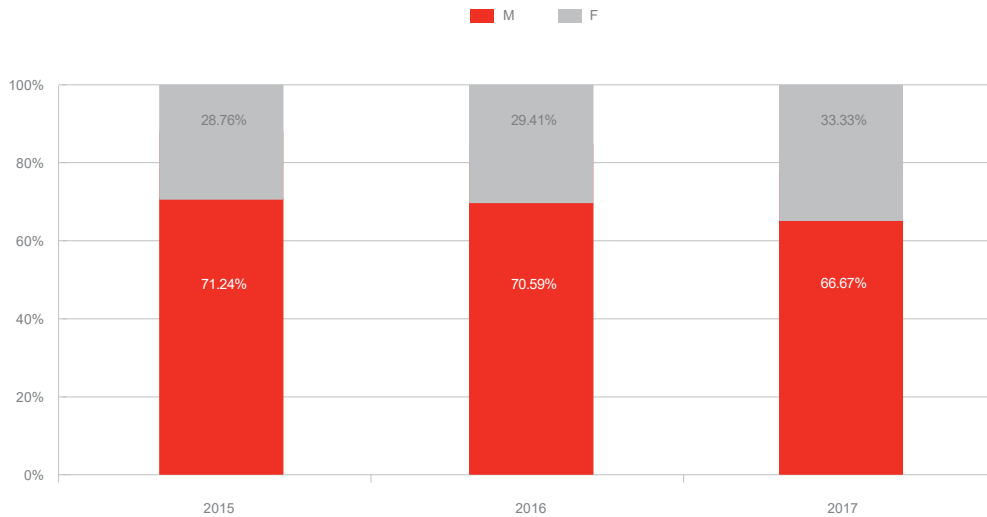


Source: court register

Supervisory board member structure by gender, age and professional qualifications

Chart 2.7 shows the proportion of men to women on supervisory boards of corporate bond issuers as at 31 December 2015, 2016 and 2017.

Chart 2.7 Proportion of men to women on supervisory boards of corporate bond issuers as at 31/12/2015, 2016 and 2017



Source: court register

- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 30.50%, exceeding the average proportion of women on management boards of corporate bond issuers in the same period (14.75%), but still being far from the gender-balanced representation.
- As at 31 December 2017, 35.85% of supervisory board members of corporate bond issuers were 35 to 55 years old, 35.85% were older than 55 years of age, 26.41% were between 45 to 55 years old, while 1.89% were younger than 35 years of age.
- As regards formal qualifications of supervisory board members of corporate bond issuers, most of them had a university degree (88.68%), while 11.32% had a secondary school degree or a lower level of education.
- 11.32% of supervisory board members of corporate bond issuers had a PhD.

Supervisory board committees

- Seven issuers reported having the audit committee and four corporate bond issuers reported having the remuneration committee and the nomination committee each in place in 2017.
- Four issuers reported having set up another committee (they were corporate governance committee, risk committee and committee for monitoring synergistic effects).

Internal working procedures of the committees

- Six out of seven issuers that had the audit committee in place in 2017 reported having established internal working procedures for the audit committee.
- Three out of four issuers that reported having the remuneration committee in place also reported having established its internal working procedures. Three out of four issuers with a nomination committee in place also reported having internal working procedures for that committee.
- Two issuers reported the preparation of a report on the work of committees, with reports of one issuer being available to the public.

Meetings

- Six out of seven issuers that had the audit committee in place reported the committee meetings having been held in 2017. The average number of audit committee meetings during the year was 4.17 (2.56 in 2016).
- Two issuers held ten meetings of the remuneration committee in 2017, while two issuers held seven meetings of the nomination committee.

2.3. Remuneration

2.3.1. Remuneration of management board members

In 2017, four corporate bond issuers reported having a remuneration policy for management board members (same as in 2015 and 2016).

Table 2.2 presents the number of issuers that 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 2017, 2016 and 2015.

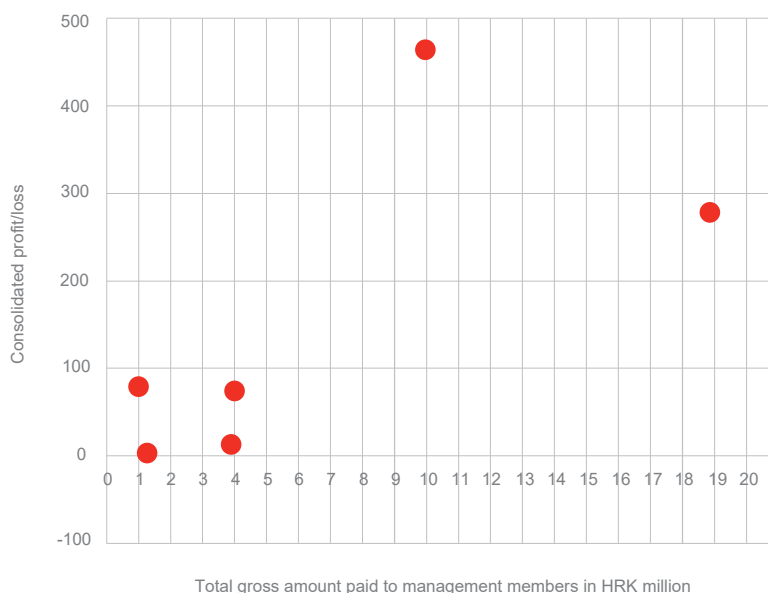
Table 2.2. Amount of remuneration of management board members of corporate bond issuers in 2017, 2016 and 2015

		Average gross amount paid to management board members during the year		Average amount of other benefits paid to management board members during the year	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2017	Number of issuers	7	2	2	1
	Amount	5,915,505	2,097,175	436,821	7,406,173
2016	Number of issuers	11	4	1	1
	Amount	4,263,922	1,004,093	4,796,452	2,181,511
2015	Number of issuers	11	4	0	1
	Amount	3,676,886	2,675,902	0	5,622,555

Source: Questionnaire

- In 2017, there was a significant increase in average gross fixed amount paid to management board members, while the average gross variable amount paid to management board members decreased by 108.87% relative to 2016.
- Two issuers reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.

Chart 2.8 Total gross fixed amount (in HRK million) paid to management board members in 2017 in relation to consolidated financial statements of issuers (in HRK million)



Source: Questionnaire, Zagreb Stock Exchange

2.3.2. Remuneration of supervisory board members

- Two corporate bond issuers reported the level of supervisory board member remuneration being prescribed by the statute, while one issuer reported the level being determined by the general meeting. 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 2017, 2016 and 2015.

Table 2.3 Amount of remuneration of supervisory board members of corporate bond issuers in 2017, 2016 and 2015

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2017	Number of issuers	5	1	1
	Amount	1,037,499	17,737	4,474
2016	Number of issuers	9	1	1
	Amount	423,449	21,760	9,910
2015	Number of issuers	9	1	1
	Amount	505,085	25,680	6,897

Source: Questionnaire

- Only one issuer (same as in 2016) reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting in 2017.

2.3.3. Related party transactions

- In 2017, five issuers (same as in 2016) reported having an internal regulation in place for cases of related party transactions.

Table 2.4 sets out the value of reported transactions during 2015, 2016 and 2017, 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 2015, 2016 and 2017

		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 its parent
2017	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	6,711,198,573	14,744,242	23,201,925	1,493,762,311
2016	Number of issuers having reported the transaction	2	2	1	4
	Average transaction value (in HRK)	3,780,588,017	9,111,820	29,761,977	361,361,308
2015	Number of issuers having reported the transaction	2	1	1	4
	Average transaction value (in HRK)	2,740,055,064	13,065,650	34,542,009	284,748,431

Source: Questionnaire

- As in the previous years, during the year 2017, 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 2017, five issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (same as and 2016). The internal regulations contained the following basic provisions relating to conflicts of interest: prevention of conflicts between private and public interests, guidelines for avoiding corruption and other conflicts of interest in relation to users and business partners, and the principles of prohibition.
- One case of conflict of interest was reported by one issuer during 2017, however, the issuer did not reply whether the person in question abstained from voting on entering a related party transaction.

2.4. Audit and control

2.4.1. Internal audit and control

- Five out of seven issuers that completed the Questionnaire reported having an internal control system in place in 2017.
- In addition, five out of seven issuers that completed the Questionnaire reported having an internal audit system in place in 2017.

2.4.2. Managing company risks

- Four issuers reported having an internal regulation in place for the identification, management and prevention of risks in 2017.
- In addition, four issuers reported having appointed persons in charge for risk management. These persons performed the function of internal auditor, CEO, management board member in charge with risks, and financial risks management specialist.
- According to corporate bond issuers, the most frequent risks were operational risk, liquidity risk, interest rate risk and political risk.
- Two issuers (three in 2016) reported credit risk and counterparty risk having materialised in 2017. According to the issuers, the reasons for the risks having materialised were difficulties encountered by a large partner company.
- All issuers that reported some of the risks having materialised were able to control and manage them.

2.4.3. External audit

- In 2017, a total of seven corporate bond issuers used services of four different external auditors. Five issuers used services of the largest audit firms (the Big Four).
- The largest number of issuers using services of the same audit firm (from the Big Four) was four.
- Two out of three corporate bond issuers that 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 2017, the average length of the time during which issuers used services of the same external audit firm was 3 years (3.67 years in 2016 and 3.92 years in 2015).

- At the end of 2017, the average length of the time during which issuers used services of the same external audit firm was 3 years (2.5 years in 2016 and 2.42 years in 2015).
- Six issuers reported the gross amount paid to the external audit firm for audit services provided in 2017, and the amount ranged from HRK 137.5 thousand to HRK 701.8 thousand. External auditors were paid on average HRK 359.7 thousand (HRK 412.1 thousand in 2016) for auditing services provided in 2017.
- Four issuers reported the gross amount paid to the external audit firm for other services provided in 2017, and the average amount was HRK 132.4 thousand. The following were the services other than auditing services provided by external audit firms in 2017: professional training, tax advice, seminars and consulting related to business strategy preparation.
- None of the corporate bond issuers reported relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

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