

**ANNUAL REPORT ON
CORPORATE GOVERNANCE**

2018

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

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Introduction

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

Corporate governance in the European Union and in other countries of the region and worldwide is aimed at increasing the responsibility of relevant persons within companies, strengthening internal and external control mechanisms and introducing 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 ninth edition of the Report has been prepared on the basis of data collected directly from issuers, from Zagrebačka burza d.d (the Zagreb Stock Exchange, hereinafter: the ZSE), from Središnje klirinško depozitarno društvo d.d. (the Central Depository and Clearing Company, hereinafter: the CDCC) and from the court register.

The questionnaire for the preparation of the 2018 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 ZSE as at 31 December 2018. 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 2019.

2018 capital market

Following an optimistic start in 2018, another suspension of trading in Agrokor shares in February, and the impact of trade tensions and geopolitical turmoil on global market developments negatively affected the sentiment of investors. Only the end of the year was again marked by a positive sentiment, under the influence of reflection of trends from foreign markets.

The ZSE recorded a total turnover amounting to HRK 2.85bn, a 22% decrease compared to 2017. The decline in total turnover on the domestic capital market is primarily the result of lower share turnover (a decrease of 39.8% on the annual basis) and block trade (a decrease of 12.2% on the annual level), while at the same time bond turnover increased by 86.6% compared to the previous year. The lower activity and liquidity of the market is indicated by the focus of investors on a small number of shares and the fact that the turnover of the ten most traded shares (out of a total of 132 listed shares) represented almost 70% of the total share turnover, or 38.4% of the total turnover on the ZSE. The CROBEX share index decreased by 5.1% by the end of 2018, compared to the end of the previous year, and the fall in average return on equity investments was only slightly milder if dividends paid are also taken into account (CROBEXtr decreased by 2.8%). At the same time, the CROBIS bond index remained at the end-2017 level (down 0.01% on the annual basis). The market capitalisation of shares decreased by 4% during 2018, while the market capitalisation of bonds increased by 3%, so the total market capitalisation on the ZSE amounted to HRK 233.5bn, i.e. 1% less than the year before.

1 Annual report on corporate governance of share issuers¹

1.1 Introduction

Out of 126 issuers whose shares were admitted to trading on the regulated market of the ZSE as at 31 December 2018, 108 completed and submitted the Questionnaire (85.71%). The total market capitalisation of issuers that submitted their data amounted to HRK 130.6bn or 98.38% of the market capitalisation of all listed issuers. As at 31 December 2018, one issuer was in the process of liquidation.

Number of issuers and number of shares

In 2018, the number of issuers on the regulated market continued its downward trend.

As at 31 December 2018, the number of issuers totalled 126, falling by 3.82% compared to the previous year, when there were five issuers more (a total of 131), or by 9.35% in comparison with 31 December 2016, when there were 139 issuers admitted to trading.

Out of 126 issuers as at 31 December 2018, shares of four issuers were admitted to trading on the prime market, shares of 24 issuers were admitted to trading on the official market, and shares of 98 issuers were admitted to trading on the regular market. 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.

¹ For the purpose of comparison of data with previous years, data for the prime market throughout the Annual Report on Corporate Governance of Share Issuers are aggregated with data for the official market, as the prime market has existed since 2018, and only issuers from the official market have transferred to it.

Shares not traded yet

By 31 December 2018, four shares admitted to trading of four different issuers had not been traded yet on the ZSE. Those were the shares of the following issuers: ordinary share of Dalma d.d. (DALSR-A), preference share of Plava laguna d.d. (PLAG-P-A), preference share of Pounje d.d. (PUNTP-A) and ordinary share of Vodoprivreda Zagreb d.d. (VDZG-R-A).

Admissions and removals of shares

In 2018, the shares of two issuers were admitted for the first time on the regulated market of the ZSE. These were ordinary shares of the issuer Jadran d.d. and ordinary shares of the issuer Stanovi Jadran d.d. The shares were admitted to the official market of the ZSE.

In 2018, seven issuers withdrew their shares from the regular and none from the official market; in 2017, nine issuers withdrew their shares from the regular and none from the official market; while in 2016, ten issuers withdrew their shares from the regular and one from the official market. In 2018, shares of one issuer transferred from the official to the regular market, shares of one issuer transferred from the regular to the official market, while shares of four issuers transferred from the official to the prime market.

The removals of shares were mostly due to the decision of the general assembly (three issuers) and the initiation of bankruptcy proceedings, i.e. the issuers' shares being removed from trading at the request of the trustee in bankruptcy (three issuers). In case of one issuer, there was a merger with another joint-stock company whose shares were not admitted to the regulated market of the ZSE.

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.

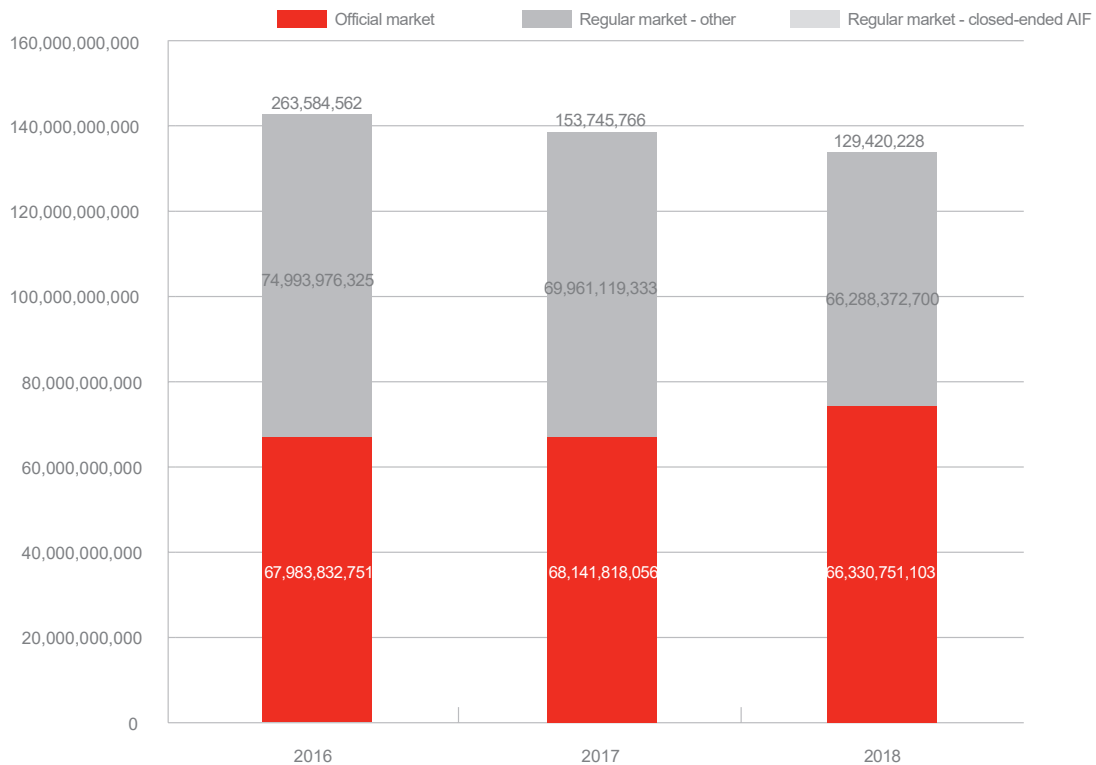
At the end of 2018, out of 126 share issuers, there were 12 (9.52%) issuers from the financial and 114 (90.48%) issuers from the non-financial sector. At the end of 2017, out of 131 share issuers, there were 14 (10.68%) issuers from the financial and 117 (89.32%) issuers from the non-financial sector.

Observed by subcategories, at the end of 2018, the largest number of issuers belonged to the tourism industry, followed by issuers from the food industry and from trade and banking sector, same as in the previous year.

Market capitalisation

Chart 1.1 shows changes in market capitalisation by types of market at the end of 2016, 2017 and 2018.

Chart 1.1 Market capitalisation of the regulated market of the ZSE as at 31/12/2016, 2017 and 2018



Source: ZSE

- During 2018, the total market capitalisation of the official market decreased by 2.66%, reaching HRK 66.3bn as at 31 December 2018.
- The total market capitalisation of the regular market decreased by 5.27%, reaching HRK 66.4bn as at 31 December 2017.
- Market capitalisation of issuers which submitted their 2018 Questionnaires (108 issuers) amounted to HRK 130.6bn as at 31 December 2018.

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 ZSE and an analysis of capital distribution, ownership structure and capital origin based on data from the CDCC.

1.2.1 Initial capital

At end-2018, the initial capital of 126 share issuers totalled HRK 60.7bn, while at end-2016, 131 issuers recorded their initial capital in the amount of HRK 60bn or 1.15% less. In comparison with 2016, when there were 13 admitted issuers more, the initial capital increased by HRK 0.24bn.

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 eight issuers (nine issuers in 2017) increased their initial capital in 2018, while two issuers (seven less than in 2017) reduced the initial capital.

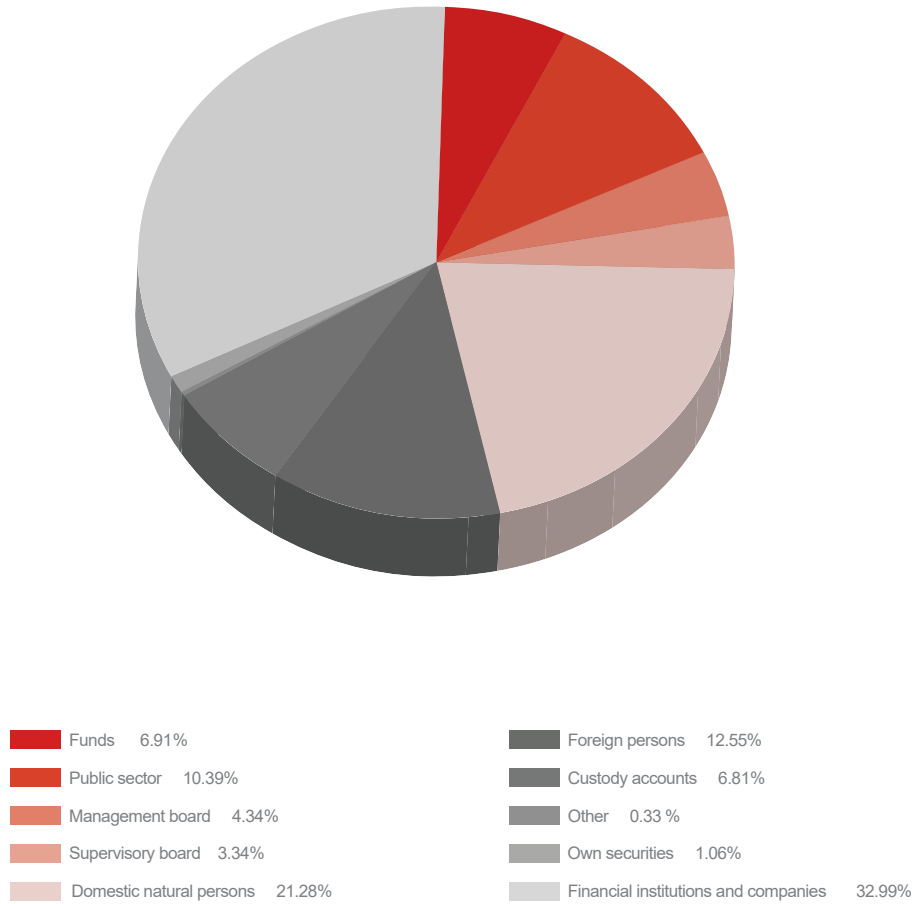
1.2.2 Ownership structure

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 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 2018, by the above mentioned groups.

Chart 1.2 Ownership structure of share issuers as at 31/12/2018

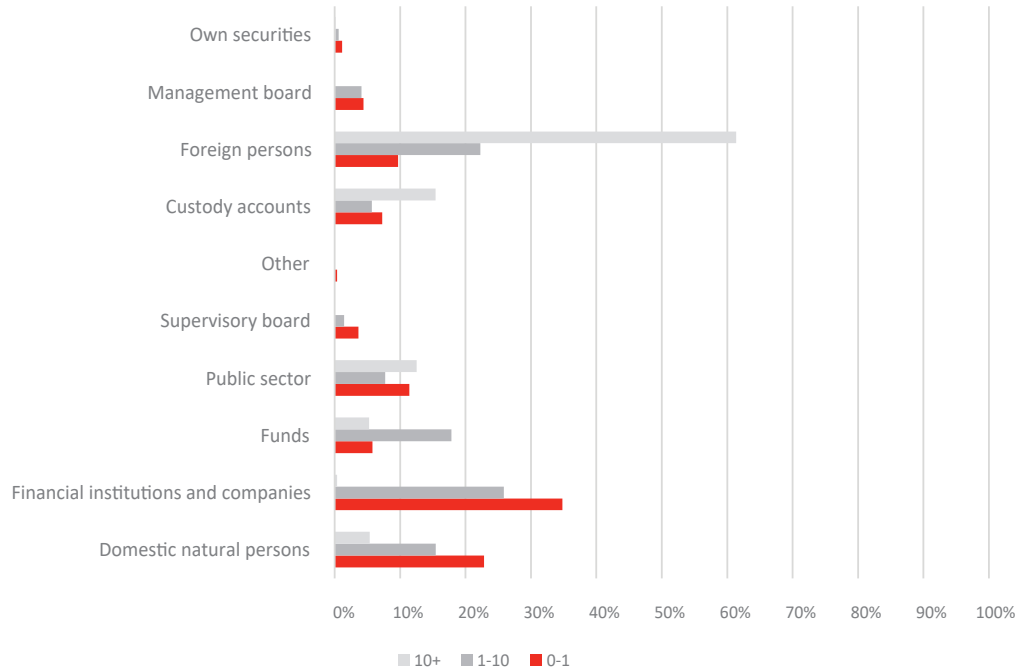


Source: CDCC

- The ownership structure of share issuers as at 31 December 2017 was dominated by financial institutions and companies with a proportion of 32.99% (32.44% in 2017) and domestic natural persons with a 21.3% proportion (21.8% in 2017). Public sector i.e. the Republic of Croatia continued to reduce its share which stood at 10.39% in 2017 (10.57% at end-2016). Funds increased their share from 6.05% to 6.91%.

Chart 1.3 shows the ownership structure of share issuers as at 31 December 2018, in relation to market capitalisation.

Chart 1.3 Ownership structure of share issuers as at 31/12/2018 in relation to market capitalisation (in HRK billion)

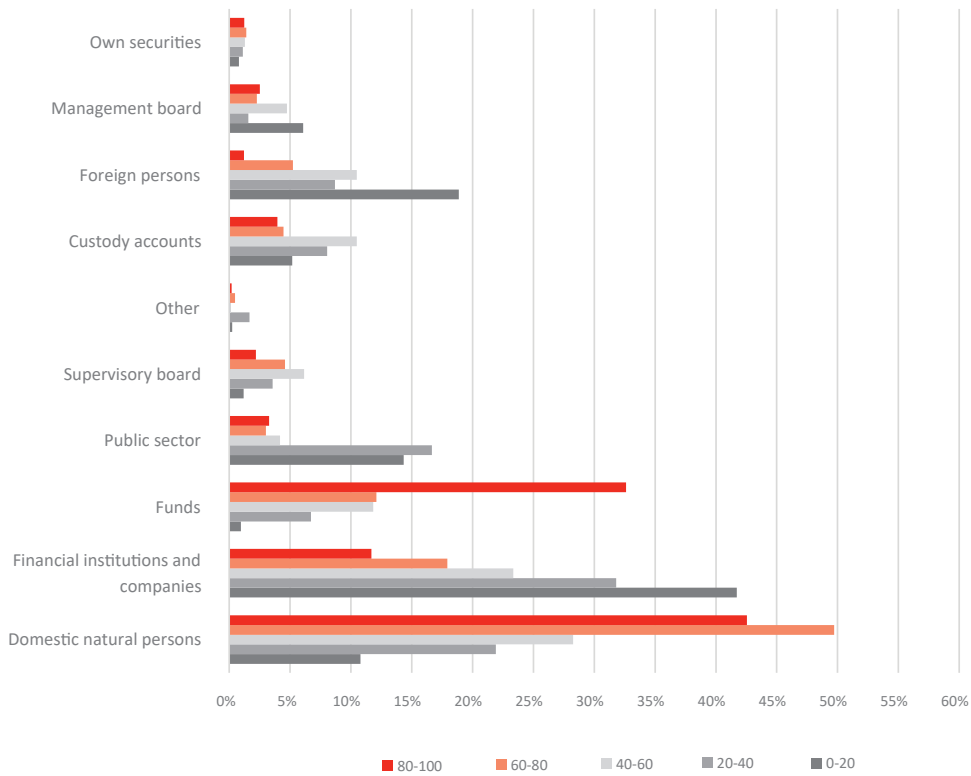


Source: CDCC

- Foreign persons had the highest proportion in issuers with market capitalisation over HRK 10bn (61.49%), while financial institutions and companies had the highest proportion in issuers with market capitalisation between HRK 1bn and 10bn (25.56%) and in issuers with market capitalisation up to HRK 1bn (34.98%). Domestic natural persons had the highest proportion in issuers with market capitalisation under HRK 1bn (22.61%).

Chart 1.4 shows the ownership structure of share issuers as at 31 December 2018, in relation to free float.

Chart 1.4 Ownership structure of share issuers as at 31/12/2018 in relation to free float



Source: CDCC

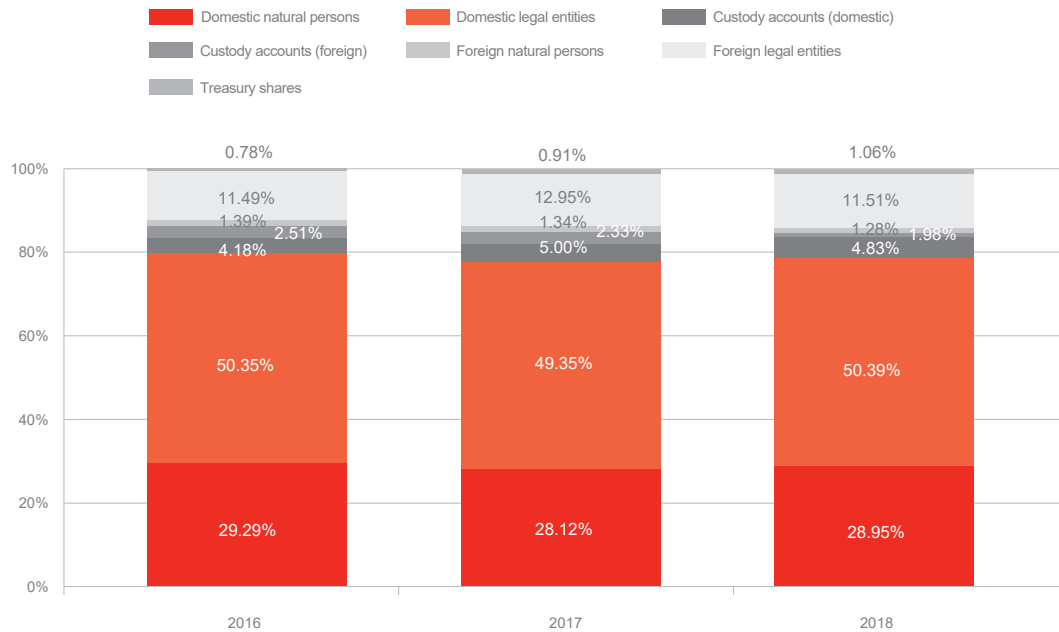
- Issuers with free float between 80% and 100% had the ownership structure dominated by domestic natural persons (42.44%), while issuers who had free float up to 20% had the ownership structure dominated by financial institutions and companies (41.95%). Domestic natural persons had only 10.84% of ownership in those issuers. Foreign persons dominated the ownership structure of issuers with free float up to 20% (18.86%).

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 31/12/2016, 2017 and 2018



Source: CDCC

- The largest proportion in the share ownership was still accounted for by domestic legal entities with a 50.39% share (49.35% and 50.35% in 2017 and 2016 respectively). The proportion of domestic natural persons as at 31 December 2018 was 28.95% (28.12% and 29.29% in 2017 and 2016 respectively).
- The proportion of domestic capital as at 31 December 2018 was 84.17% (82.47% in 2017 and 83.82% in 2016), while the proportion of foreign capital was 14.77% (16.62% in 2017 and 15.39% in 2016).

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 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, this function is performed by executive directors of the company, appointed by the general meeting. As at 31 December 2018, out of the total number of issuers (126), two had a one-tier and 124 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 11/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19) 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 ZSE as at 31 December 2016, 2017 and 2018, 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.

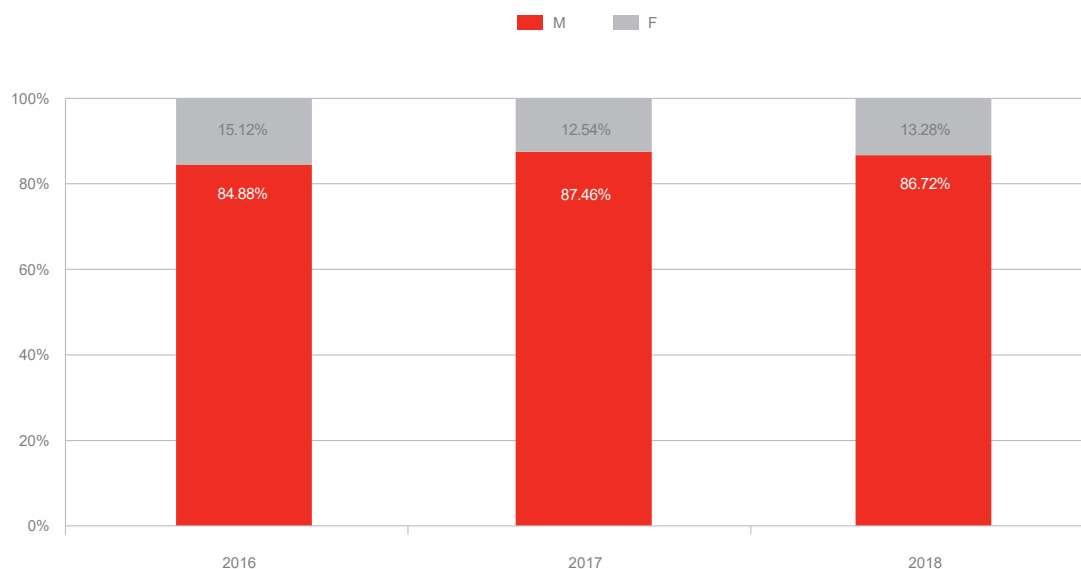
- As at 31 December 2018, there were a total of 268 management board members in 125 analysed issuers (an average of 2.14 management board members per issuer). As at 31 December 2017, the average number of management board members totalled 2.20, whereas as at 31 December 2016, it amounted to 2.15.
- As at 31 December 2018, a total of 56 issuers (44.8%) had a single management board member. A single management board member was reported by 56 issuers (44.09%) as at 31 December 2017 and 61 issuers as at 31 December 2016 (45.19%).
- As at 31 December 2018, the maximum number of management board members totalled seven (reported by one issuer).

Management board member structure by gender, age and professional qualifications

Chart 1.6 presents the proportion of men to women on management boards of issuers as at 31 December 2016, 2017 and 2018.

² 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.

Chart 1.6 Proportion of men to women on management boards as at 31/12/2016, 2017 and 2018



Source: court register

The following text presents the analysis of the data delivered in the 2018 Questionnaire.

- As at 31 December 2018, majority of management board members (38.46%) were between 45 and 55 years old, 35.63% were between 35 and 45 years old, 22.67% were over 55 years of age and 3.24% 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 and from food industry (four board members from three issuers). As in 2017, majority of management board members over 56 years of age came from the tourism industry (15 board members from 12 issuers) and the banking sector (seven board members from four issuers).
- 3.24% of management board members had a PhD.

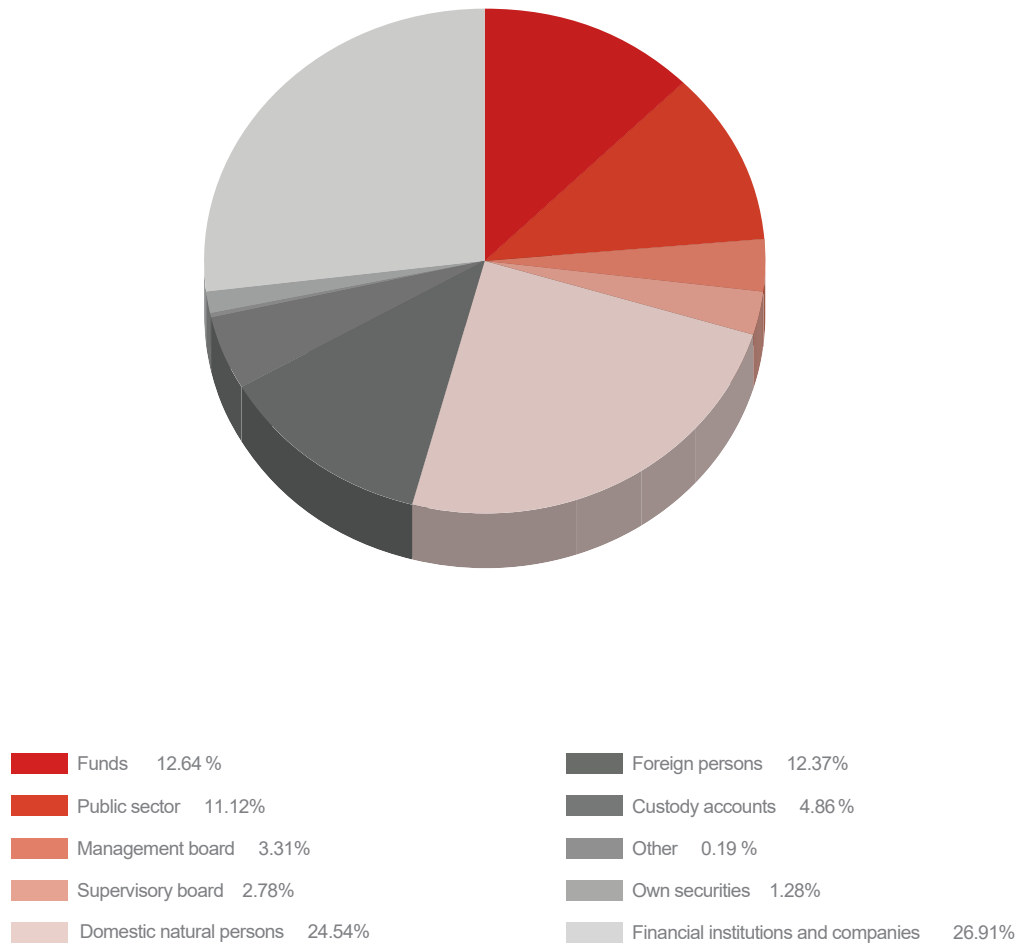
Rules of procedure of the management board

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 2018, a total of 49 issuers reported having an internal regulation on management board activities (rules of procedure of the management board).

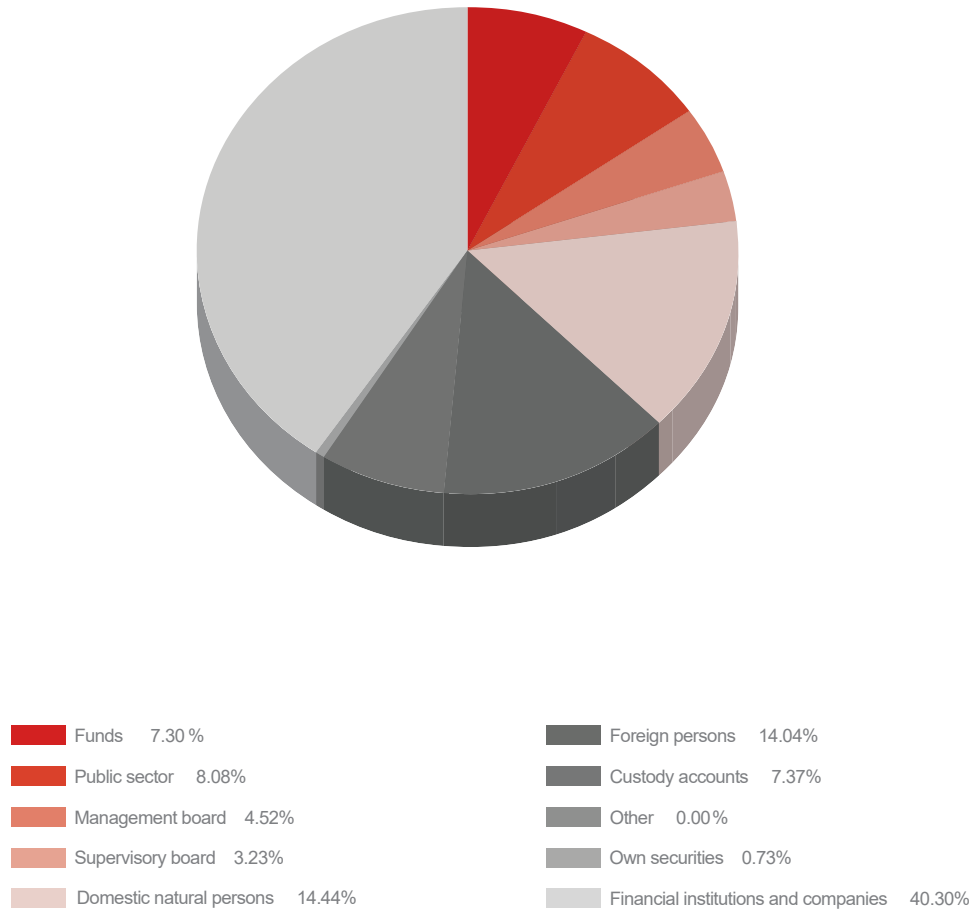
Chart 1.7 shows the ownership structure of share issuers having an internal regulation on management board activities (rules of procedure of the management board) as at 31 December 2018, and Chart 1.8 shows the ownership structure of share issuers without such regulation as at 31 December 2018.

Chart 1.7 Ownership structure of share issuers having an internal regulation on management board activities as at 31/12/2018



Source: CDCC, Questionnaire

Chart 1.8 Ownership structure of share issuers without an internal regulation on management board activities as at 31/12/2018



Source: CDCC, Questionnaire

- The ownership structure of issuers with an internal regulation on management board activities as at 31 December 2018 was dominated by financial institutions and companies (26.91%).
- The ownership structure of issuers without an internal regulation on management board activities was also dominated by financial institutions and companies (40.3%).

Meetings of the management board

- A total of 87 issuers reported the number of management board meetings held in 2018. The number ranged between 0 and 238, with the average number totalling 23.6.
- A total of 32 issuers reported having a schedule of meetings of the management board in 2018.
- Eight issuers (one more than in 2017) reported having mechanisms for proxy voting at management board meetings in 2018.

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.

- Nine issuers reported having established a succession planning process in 2018 (two more than in 2017). 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 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 2018, the average duration of management board membership was 6.39 years (at the end of 2017 it was 6.29 years, and at the end of 2016 it was 6.05 years).
- The average number of terms of office of management board members was 2.27 as at 31 December 2018 (it totalled an average of 2.22 in 2017, and 2.23 in 2016). In 2018, the largest number of consecutive terms of office (nine) was reported by two management board members (issuers from the tourism industry and from trade sector).

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 2018, 13 management board members resigned before their terms of office expired. In 2017, ten management board members resigned before their terms of office expired. Reasons for the resignations were mostly linked to personal issues.

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, 127/17).

The following analysis comprises all the issuers of shares admitted to the regulated market of the ZSE as at 31 December 2016, 2017 and 2018, except issuers undergoing bankruptcy or winding-up proceedings on that date according to the data from the court register.

- As at 31 December 2018, the average number of supervisory board members was 5.06 (it was 5.11 on 31 December 2017 and 5.16 on 31 December 2016).
- The minimum number of supervisory board members (three) was reported by 30 issuers as at 31 December 2018, by 29 issuers as at 31 December 2017 and by 31 issuers as at 31 December 2016.
- The maximum number of supervisory board members as at 31 December 2018 was 11, as reported by one issuer (from the food industry).

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.

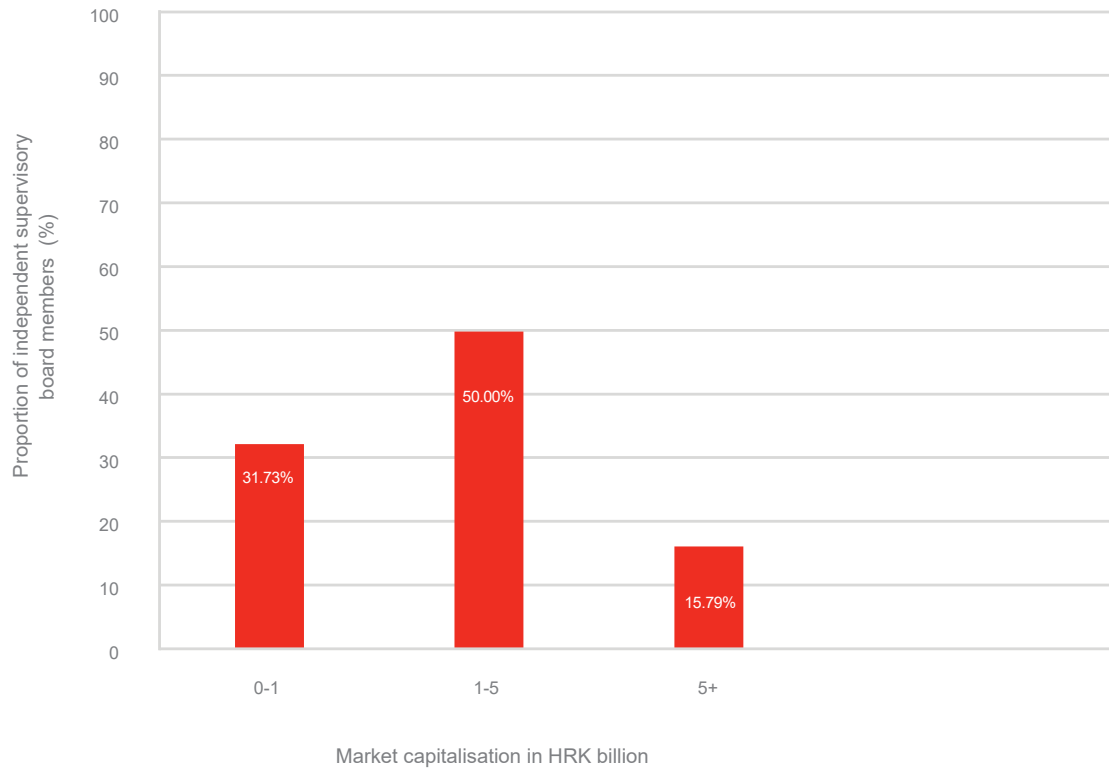
The right to appoint supervisory board members may only be granted to certain shareholders or servient holders of certain shares (the representative of significant shareholder/group of shareholders). Holders of certain shares may be granted the right by the statute to appoint supervisory board members 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 2018 Questionnaire, independent supervisory board members accounted for 41.12% in the total number of members of share issuers' supervisory boards (48.27% with issuers on the prime market, 31.88% with issuers on the official market, and 43.9% with issuers on the regular market). Employee/trade union representatives made up an 11.96% share, whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 46.92%.

³ 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.

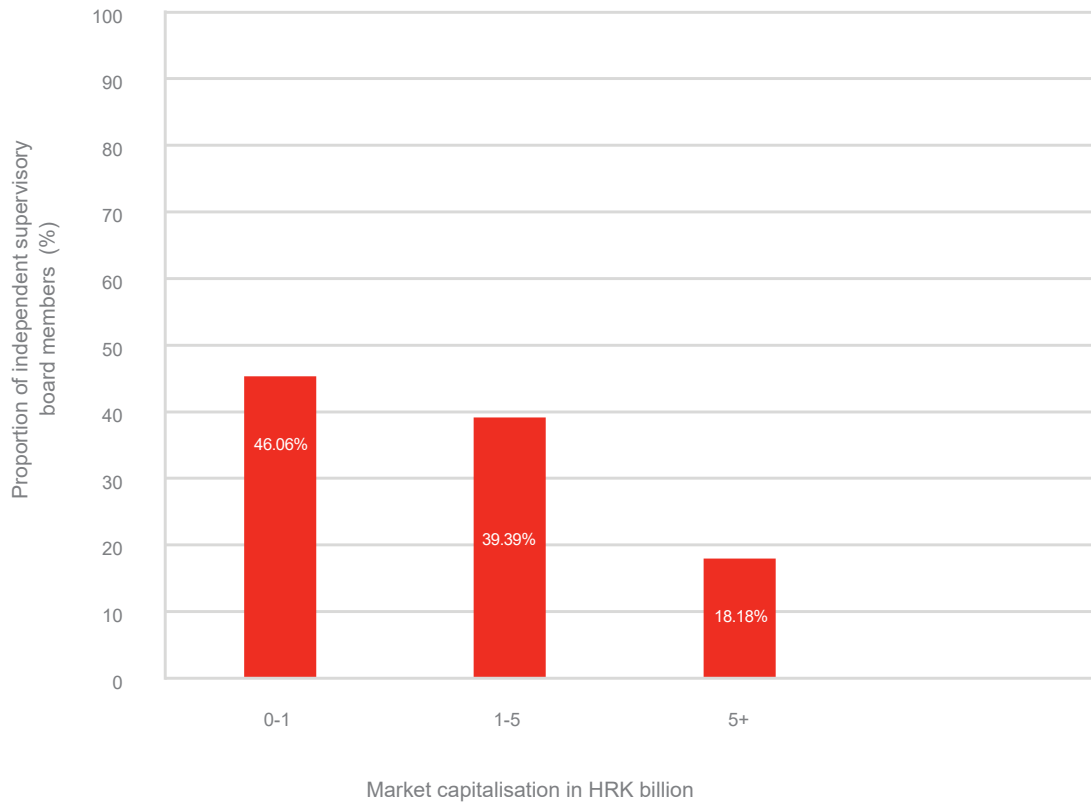
Chart 1.9 shows the proportion of independent supervisory board members with issuers on the prime and the official market in relation to the market capitalisation of those issuers, whereas Chart 1.10 shows the proportion of independent supervisory board members with issuers on the regular market in relation to the market capitalisation of those issuers.

Chart 1.9 Proportion of independent supervisory board members with issuers on the prime market and the official market in relation to the total market capitalisation



Source: Questionnaire, ZSE

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

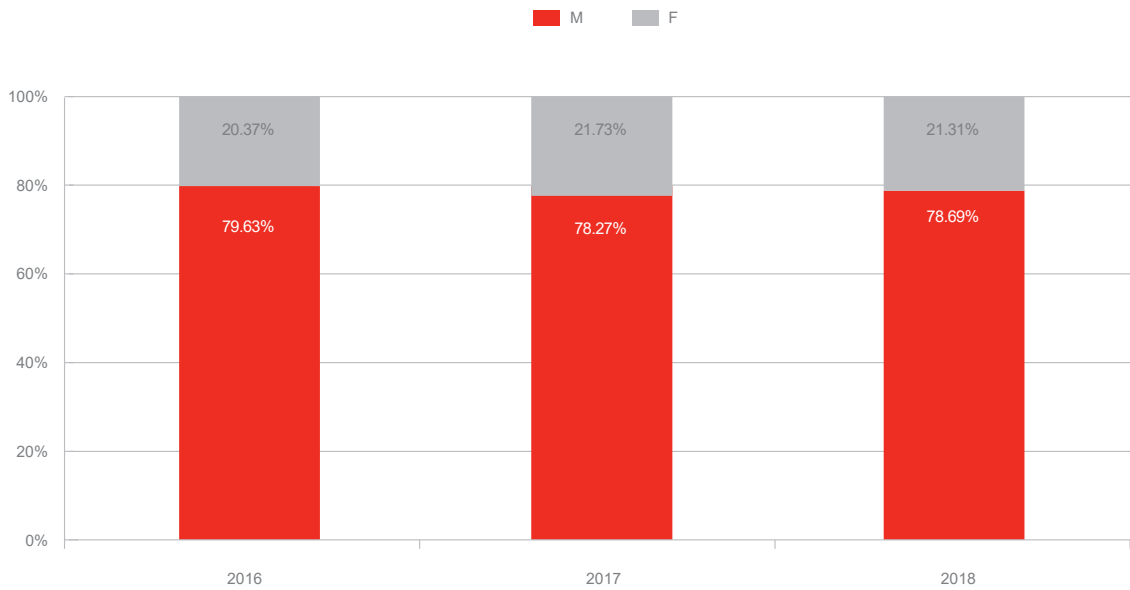


Source: Questionnaire, ZSE

Supervisory board member structure by gender, age and professional qualifications

Chart 1.11 shows the proportion of men to women on supervisory boards of issuers in 2016, 2017 and 2018.

Chart 1.11 Proportion of men to women on supervisory boards of issuers in 2016, 2017 and 2018



Source: court register

- In 2018, out of 643 analysed supervisory board members, 137 were women, making up 21.31% (21.73% in 2017). The average proportion of women on supervisory boards totalled 21.14% in all the three analysed years.
- In 2018, the proportion of women on supervisory boards was by 60.47% larger than the share of women on management boards.
- According to data from the Questionnaire, as at 31 December 2018, majority of supervisory board members (41.49%) were over 55 years old, 32.79% were between 45 and 55 years old, 20.29% were between 35 and 45 years old and only 5.43% 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 (12 members from eight issuers) followed by the property and funds industry (five members from four issuers) and food industry (three members from three issuers).
- As at 31 December 2018, the majority of supervisory board members had a university degree (77.9%), while 7.61% had a PhD.

Meetings of the supervisory board

- In 2018, a total of 49 issuers reported having a schedule of meetings of the supervisory board.
- A total of 34 issuers reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 72 issuers (66.67% of issuers that submitted their Questionnaires) reported having an internal regulation on supervisory board activities. In 2017, 69.61% of issuers that submitted their Questionnaires reported having such a regulation.
- In 2018, supervisory boards held an average of 8.42 meetings, with the number of the meetings ranging from zero to 93 (median 6).

Term of office and duration of the supervisory board membership⁴

- At end-2018, the average duration of management board membership was six years, in 2017 it was 5.76 years, while in 2016 it was 5.56 years.
- The average number of terms of office of supervisory board members as at 31 December 2018 totalled 2.14 (it was 2.14 in 2017, and 2.11 in 2016). In 2018, the largest number of consecutive terms of office (ten) was reported by two supervisory board members from two issuers.

Resignation of supervisory board members

In the course of 2018, 15 supervisory board members resigned before their terms of office expired (26 in 2017). Reasons for the resignations were mostly linked to personal issues or assumption of another role.

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.

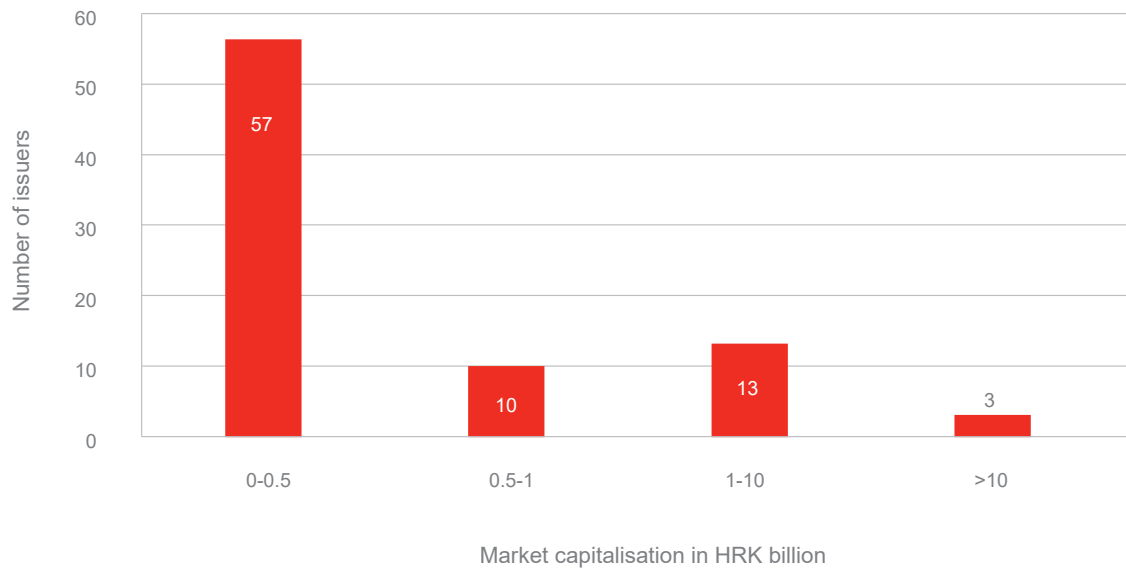
- The audit committee was established by most of the issuers (83 issuers or 76.85% of the issuers that submitted their 2018 Questionnaire; 72.55% of the issuers in 2017 and 69.1% of the issuers in 2016). In 2018, a remuneration committee was established by 11 issuers and a nomination committee by 15 issuers.

⁴ The following analysis presents the data on supervisory board members according to the data from 108 Questionnaires submitted. Therefore, the total number of supervisory board members differs with respect to the data from the court registers, which relates to all issuers.

- Internal working procedures were established by 47 audit committees (56.63%), nine remuneration committees (60%) and eight nomination committees (72.73%).
- Apart from having established these committees, 11 issuers reported having set up another committee (they were: investments committee, corporate governance committee, risk committee, committee for monitoring synergistic effects, legal advice committee and committee for the assessment of board members).
- During 2018, a total of 19 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 1.12 shows the number of issuers with an established audit committee as at 31 December 2018, in relation to market capitalisation of issuers.

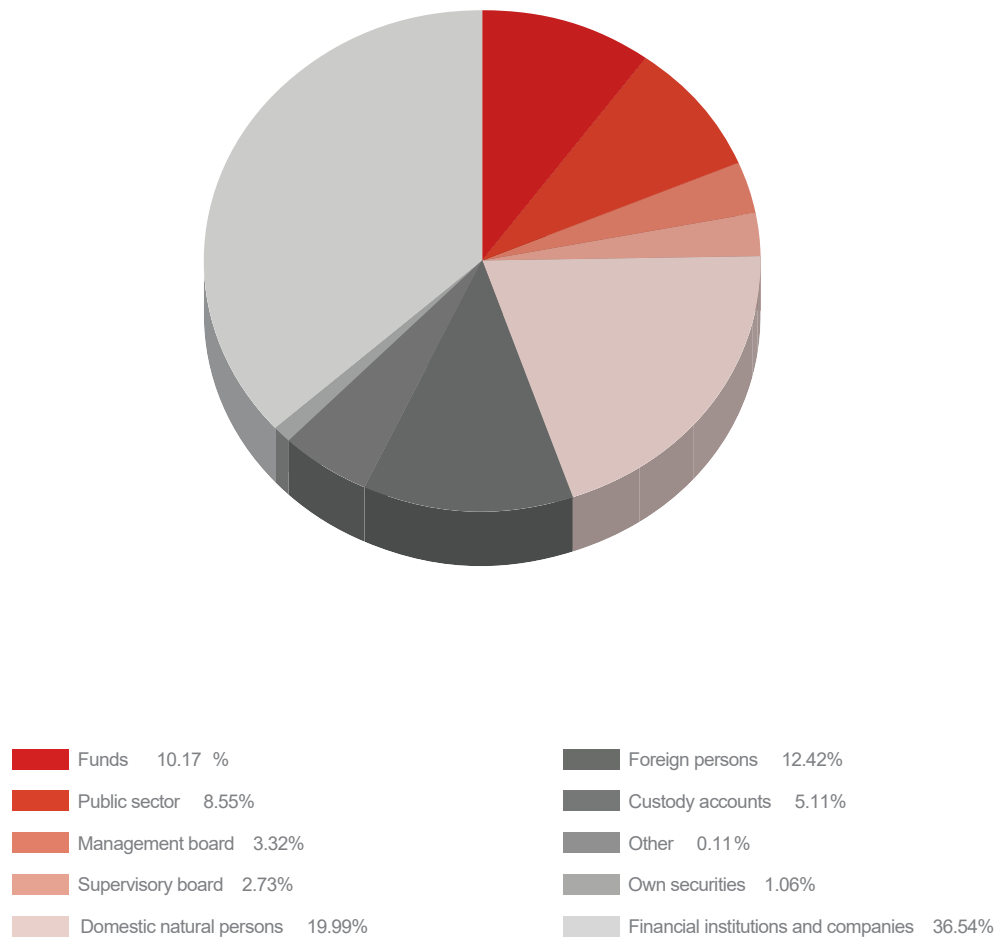
Chart 1.12 Number of issuers with an established audit committee as at 31/12/2018 in relation to market capitalisation of issuers



Source: Questionnaire, ZSE

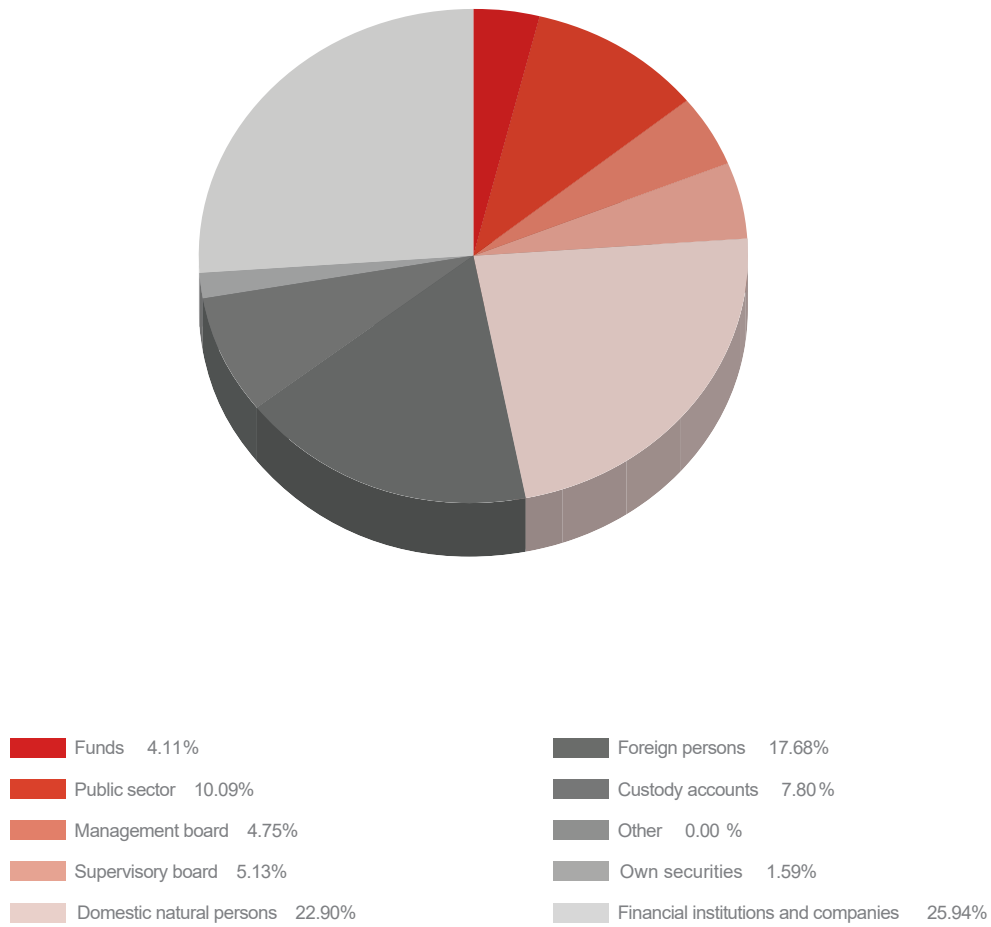
Chart 1.13 shows the ownership structure of issuers with an established audit committee as at 31 December 2018, while the Chart 1.14 shows the ownership structure of issuers without an established audit committee as at 31 December 2018.

Chart 1.13 Ownership structure of issuers with an established audit committee as at 31/12/2018



Source: Questionnaire, CDCC

Chart 1.14 Ownership structure of issuers without an established audit committee as at 31/12/2018



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 2018, as well as the ownership structure of issuers without an established audit committee (36.54% and 25.94% 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 Companies Act, 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 1.1 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 2018, 2017 and 2016. The amounts shown in Table 1.1 are average amounts paid to the entire management board (not to a single management board member).

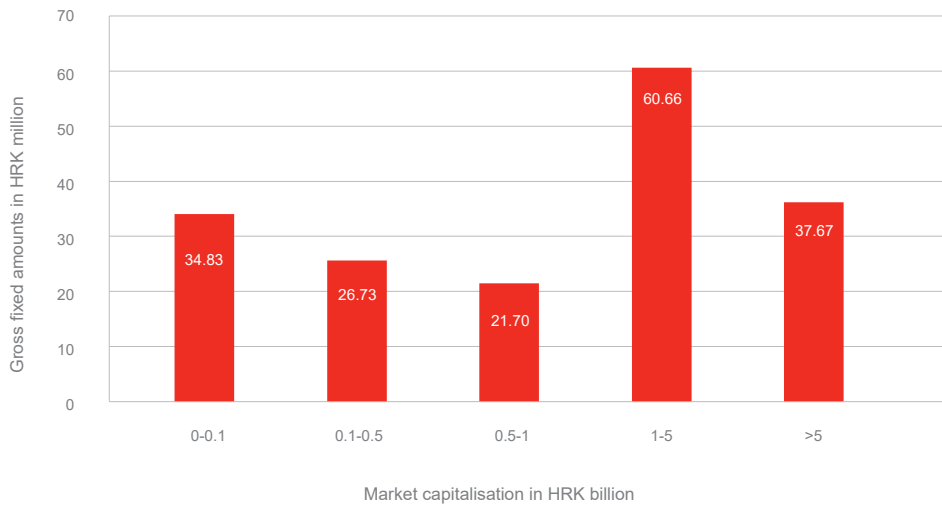
Table 1.1 Amount of remuneration of management board members of share issuers in 2018, 2017 and 2016 (in HRK)

		Average gross amount paid to management board members		Average amount of other benefits paid to management board members	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2018	Number of issuers	73	19	10	3
	Amount	2,487,501	2,325,776	1,197,802	12,207,100
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

Source: Questionnaire

- In 2018, gross amounts of fixed remuneration paid to management board members ranged between HRK 173.8 thousand and HRK 30.2m.
- In 2018, nominally highest gross amounts of fixed remuneration were paid to management board members of issuers from tourism industry, 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 2018, gross amounts of variable remuneration paid to management board members ranged between HRK 20.1 thousand and HRK 8.9m. Same as in 2017, 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 2018, the total value of options held by management board members ranged from HRK 238.2 thousand to HRK 35.1m (issuers from the food industry, other activities and tourism industry).
- The total amount of other benefits paid to management board members ranged between HRK 5.6 thousand and HRK 4.4m.
- A total of 14 issuers (16 issuers in 2017) reported having submitted the annual remuneration policy statement relating to management board members to the general meeting in 2018.

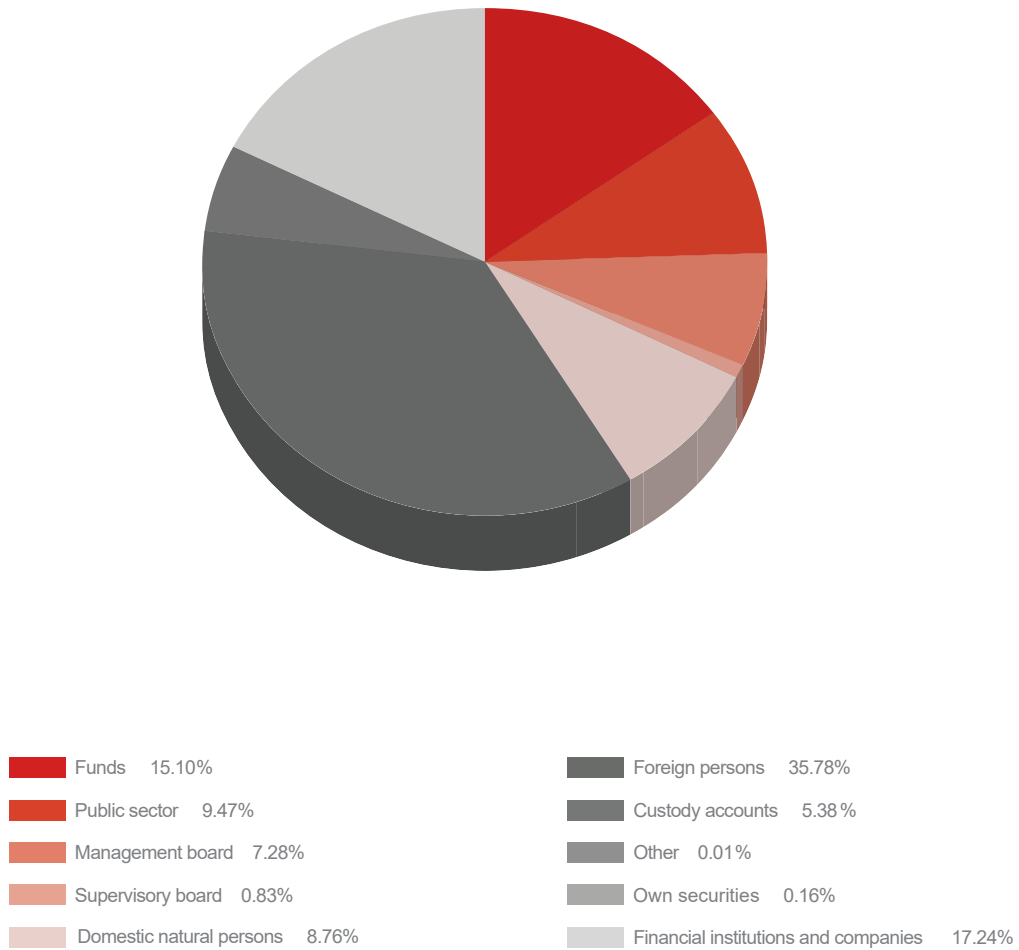
Chart 1.15 Total gross amount of fixed remuneration paid to management board members in 2018 in relation to market capitalisation (in HRK billion)



Source: Questionnaire, ZSE

In 2018, issuers with market capitalisation totalling HRK 0-0.1bn paid to their management board members an average gross fixed amount reaching HRK 967.5 thousand; issuers with market capitalisation totalling HRK 0.1-0.5bn paid to their management board members an average gross fixed amount reaching HRK 1.57m; issuers with market capitalisation totalling HRK 0.5-1bn paid to their management board members an average gross fixed amount reaching HRK 2.4m; issuers with market capitalisation totalling HRK 1-5bn paid to their management board members an average gross fixed amount reaching HRK 7.6m, and issuers with market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount reaching HRK 12.6m.

Chart 1.16 Ownership structure of share issuers that paid a gross fixed amount to management board members over HRK 5m in the course of 2018



Source: Questionnaire, CDCC

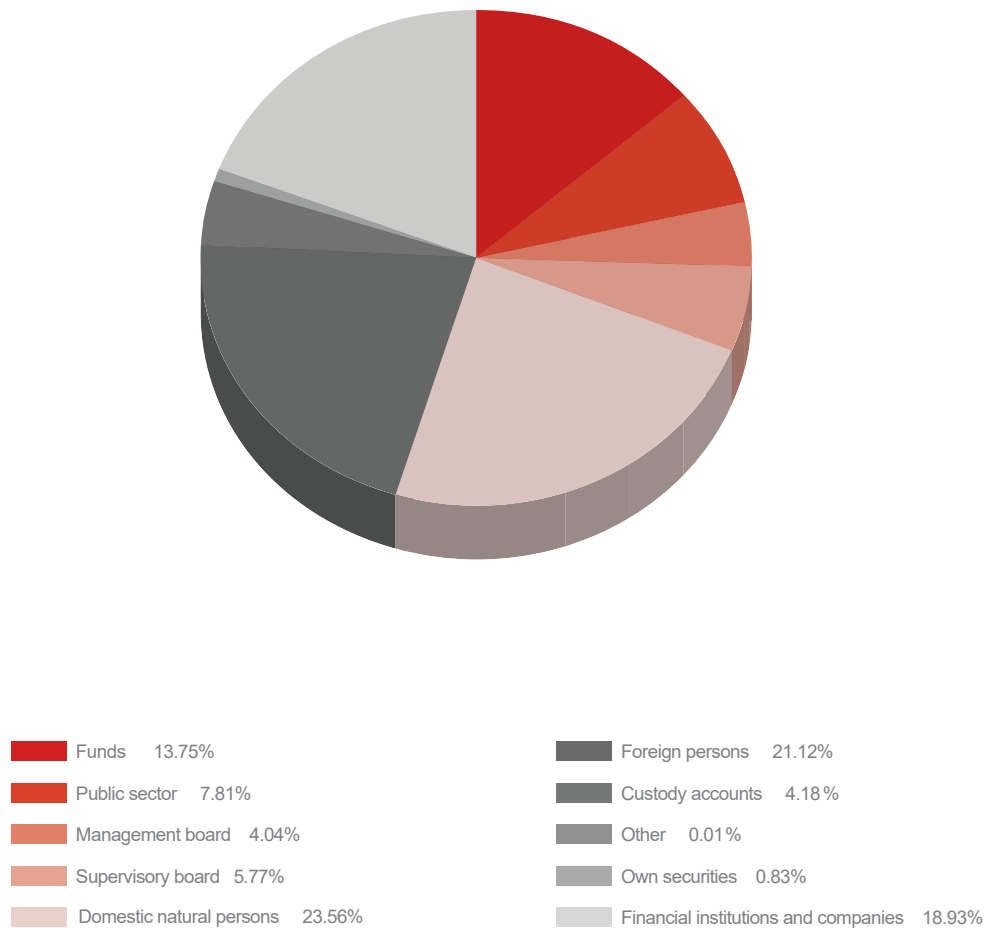
- The ownership structure of issuers that paid a gross fixed amount to their management board members over HRK 5m in the course of 2018 was dominated by foreign persons (35.78%), followed by financial institutions and companies (17.24%).

Management board remuneration policy

Pursuant to the Code on 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.

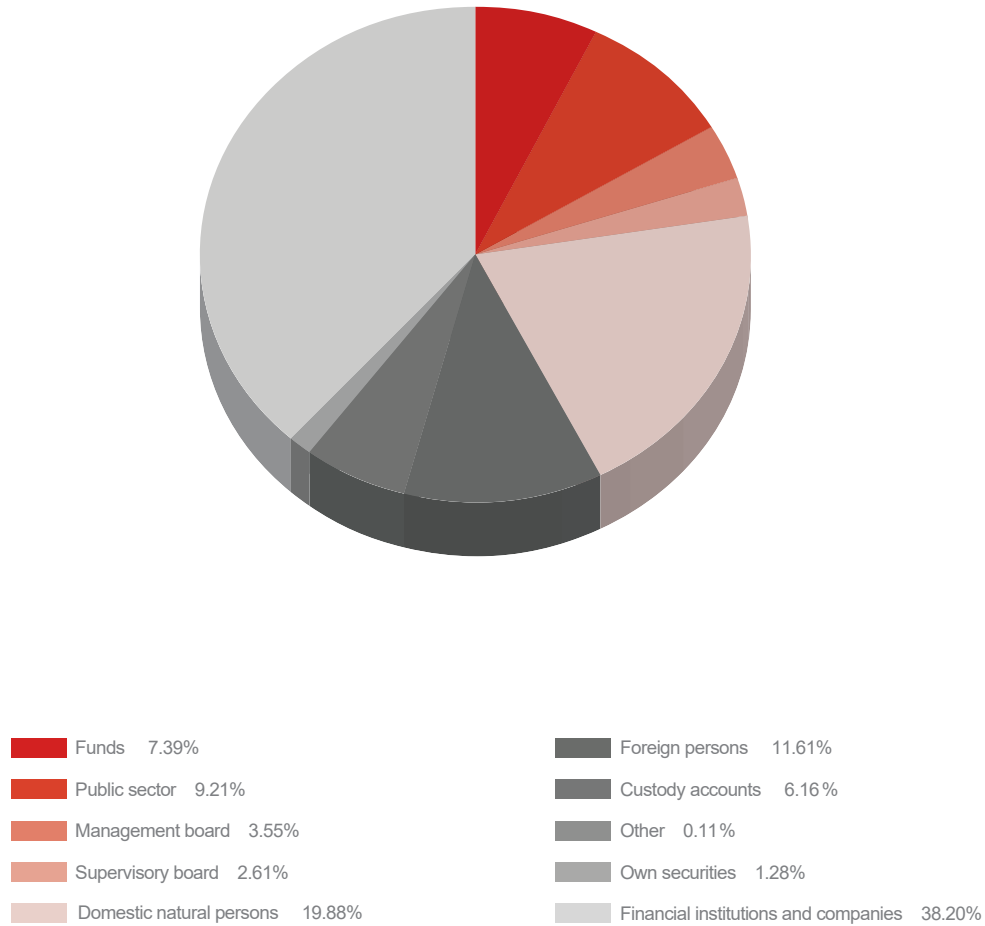
- A total of 23 issuers (22 in 2017) reported having a remuneration policy for management board members in place for 2018.
- A total of 17 issuers that reported having a remuneration policy for management board members in place do not make this policy publicly available. Data on remuneration policy for management board members have been made available by the remaining issuers on their websites, the ZSE and Hanfa, i.e. the Officially Appointed Mechanism for the Central Storage of Regulated Information (OAM).

Chart 1.17 Ownership structure of share issuers with an established remuneration policy for management board members in place as at 31/12/2018



Source: Questionnaire, CDCC

Chart 1.18 Ownership structure of share issuers without an established remuneration policy for management board members in place as at 31/12/2018



Source: Questionnaire, CDCC

- The ownership structure of issuers without an established remuneration policy for management board members in place as at 31 December 2018, was dominated by financial institutions and companies (38.20%) and domestic natural persons (19.88%), while the ownership structure of issuers with an established remuneration policy for management board members as at 31 December 2018 was dominated by domestic natural persons (23.56%) and foreign persons (21.12%).

Severance pay

- A total of 14 issuers reported total amounts of severance pay for management board members defined in contracts in 2018, which ranged from HRK 150 thousand to HRK 11.4m.
- Six issuers reported total amounts of severance pay given to management board members in 2018, which averaged HRK 511.3 thousand per issuer.

1.3.5 Remuneration of supervisory board members

Pursuant to Article 269 of the Companies Act, 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 2018, a total of 23 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 57 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 2018, 2017 and 2016. 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 2018, 2017 and 2016 (in HRK)

		Average gross amount of remuneration paid to supervisory board members		Average amount of other benefits paid to supervisory board members
		Fixed	Variable remuneration	
2018	Number of issuers	78	7	1
	Amount	477,511	249,462	3,267
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

Source: Questionnaire

- A total of 78 issuers reported the total gross fixed amount paid to supervisory board members, which ranged from HRK 1.6 thousand to HRK 3.8m.
- Seven issuers reported the total gross variable amount paid to supervisory board members, which ranged from HRK 2.3 thousand to HRK 862.9 thousand.
- A total of 16 issuers (19 issuers in 2017) 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 fixed amount paid to the senior management in 2018 was reported by 57 issuers, with the amounts ranging between HRK 12.9 thousand (an issuer from the construction industry) and HRK 28.9m (an issuer from the tourism industry).
- The total gross amount of variable remuneration paid to the senior management in 2018 was reported by 15 issuers, with the amounts ranging between HRK 30 thousand (an issuer from the banking sector) and HRK 8.3m (an issuer from the tourism industry).
- The total value of options held by the senior management was reported by two issuers, with the average amount of HRK 6.9m.
- The total gross amount of severance pay agreed with the senior management in 2018 was reported by ten issuers, with the amounts ranging from HRK 86 thousand to HRK 225.9m.
- The total gross amount of severance pay given to the senior management in 2018 was reported by 12 issuers, with the amounts ranging from HRK 86 thousand to HRK 746.1 thousand.
- The total amount of other benefits paid to the senior management was reported by 11 issuers, with the amounts ranging from HRK 23.5 thousand to HRK 3m.

1.3.7 Related party transactions

In 2018, a total of 24 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 22 and 24 issuers in 2017 and 2016, respectively.

Table 1.3 sets out the average value of reported transactions during 2016, 2017 and 2018, 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 2016, 2017 and 2018 (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
2018	Number of issuers having reported the transaction	40	20	10	45
	Transaction value	184,924,188	4,785,646	4,913,846	322,994,226
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 having reported the transaction	36	22	12	46
	Transaction value	252,381,830	12,715,746	7,139,912	363,163,243

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 2018, a total of 29 issuers (27 in 2017) 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 29 issuers that reported having an internal regulation in place to identify, prevent and report conflicts of interest at the end of 2018 came from the banking sector (six), followed by tourism industry (four), telecommunications industry and property and funds industry (three issuers from each sector).
- In 2018, a total of 16 cases of conflicts of interest were reported by three issuers, whereas other issuers did not report any conflicts of interest. Two issuer reported that all 14 cases of conflicts of interest involved persons who abstained from voting on entering related party transactions.

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 108 completed Questionnaires, four issuers did not hold the general meeting in 2018. In 2017, according to the data from 102 Questionnaires completed, three issuers did not hold the general meeting, whereas the same number of issuers reported not having held the general meeting in 2016, pursuant to the data from 110 completed Questionnaires.
- None of the issuers gave a reason for not having held a general meeting.
- According to data from 108 completed Questionnaires, a total of 79 issuers reported having held only one general meeting, 23 issuers held two general meetings, while two issuers held three 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 only one general meeting in 2018.

Internal rules of procedure of the general meeting

- A total of 44 issuers reported having rules of procedure of the general meeting in place for 2018, of which seven issuers reported changes in their rules of procedure during the year.
- As in the previous year, 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 2018 were attended by 79 shareholders on average (21 in the previous year). The largest number of shareholders attending a general meeting was 3,637, while ten 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 eight general meetings of seven issuers in the course of 2018. In most of those cases, voting rights were restricted due to the reason referred to in Article 293(1) of the Companies Act (issuance of clearance to members of management or supervisory boards or boards of directors). Pursuant to the said provision, voting rights may not be exercised by any person on his own behalf or on behalf of another person in the process of adopting a decision on whether the person should be issued clearance, on releasing the person from an obligation or on exercising rights claimed by the company with respect to that person. With respect to shares not permitting shareholders to exercise voting rights in this manner, no other person can do so on their behalf, either.

1.4 Audit and control

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

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

1.4.1 Internal audit and control

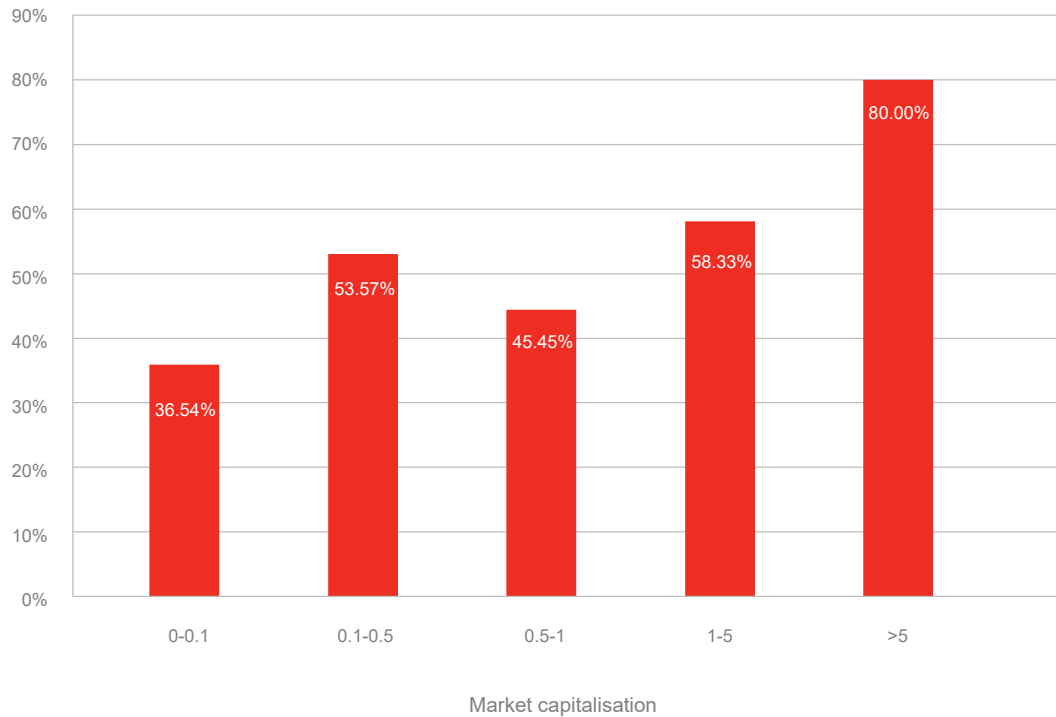
Pursuant to the Corporate Governance Code, internal auditors' task is to carry out internal audit activities and to verify the compliance with regulations, guidelines and instructions. Internal auditors submit performance reports directly to the audit committee or to the supervisory board of the company.

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

- A total of 50 or 46.3% of the issuers that submitted the 2018 Questionnaire reported having an internal audit system in place (a total of 43.14% and 44.55% of the issuers that submitted the Questionnaire for 2017 and 2016 respectively reported having an internal audit system in place).
- As at 31 December 2018, a total of 50 issuers with an internal audit system in place had a total market capitalisation of HRK 102.6bn (the total market capitalisation of 108 issuers that submitted their 2018 Questionnaires reached HRK 130.6bn as at 31 December 2018).
- Majority of issuers with an internal control system in place belonged to the tourism industry (ten), followed by those from the banking sector and the food industry (eight issuers from each sector).

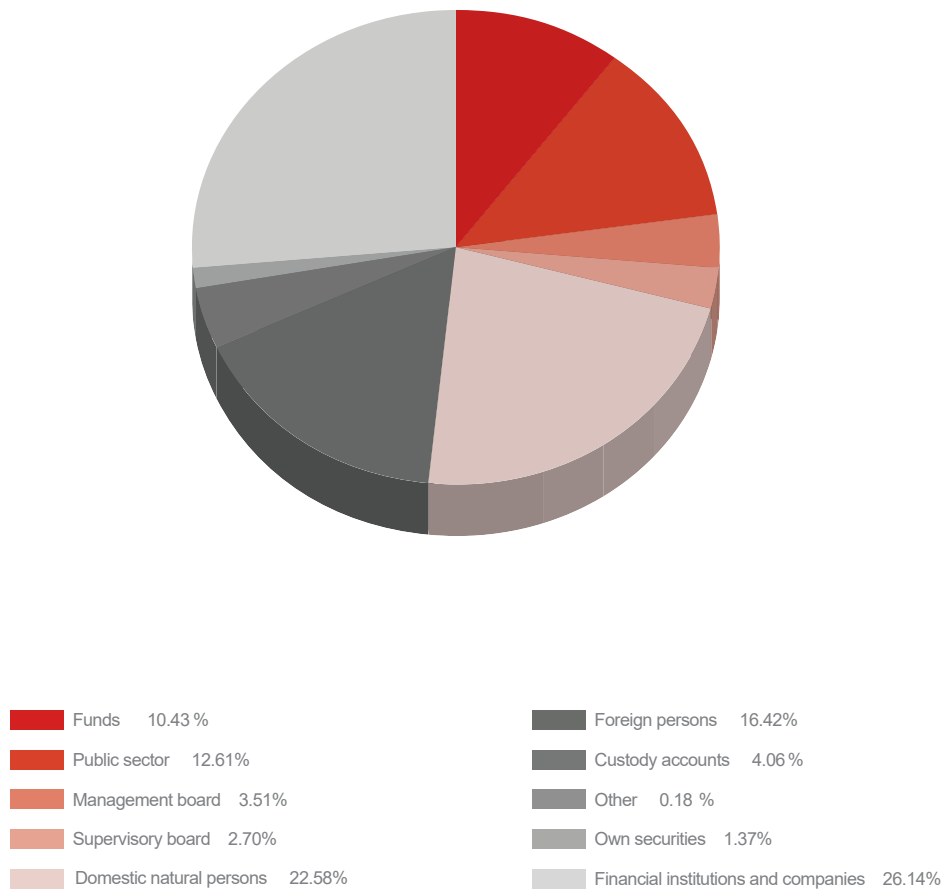
- A total of 76 or 70.37% of the issuers that submitted the 2018 Questionnaire reported having an internal control system in place (72.59% in 2017, and 72.73% in 2016).
- Most of the issuers with an internal control system in place belonged to the tourism industry (22 issuers), followed by those from the food industry (nine issuers) and the banking sector (eight issuers).

Chart 1.19 Share of issuers having an internal audit system in place with respect to market capitalisation of issuers (in HRK billion)



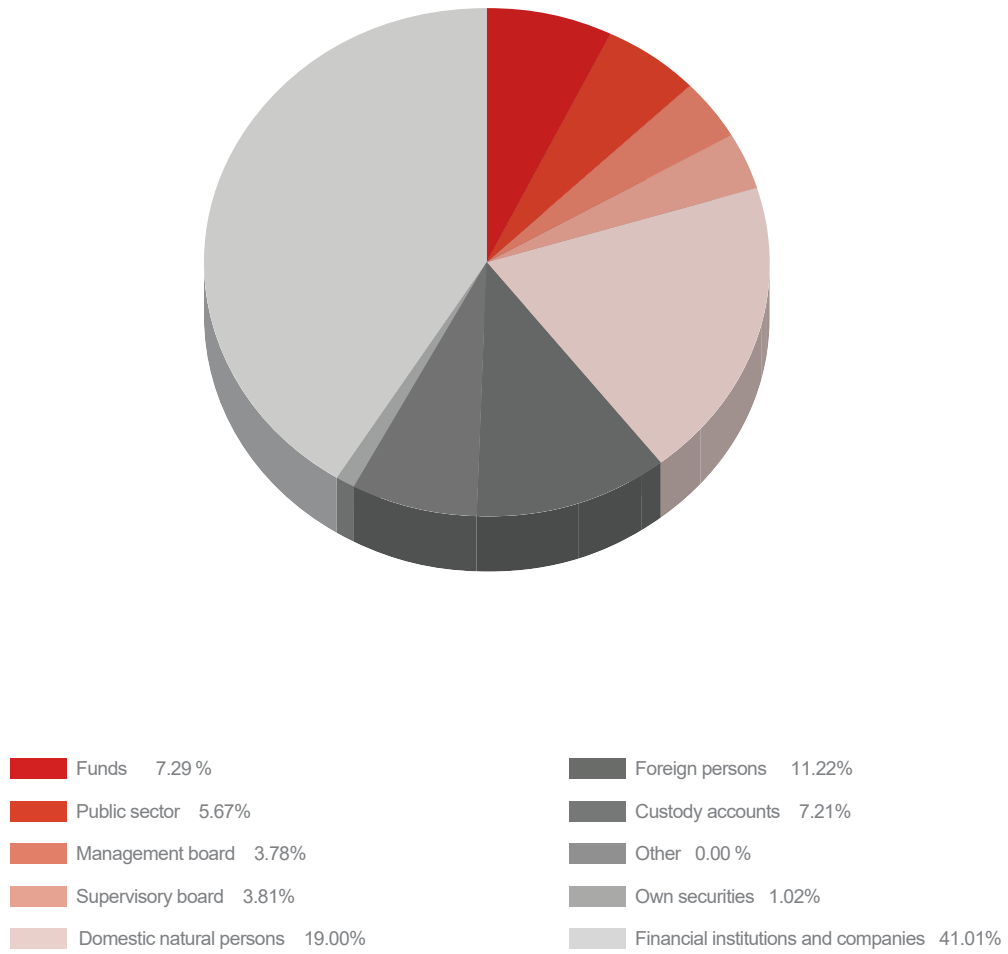
Source: Questionnaire, ZSE

Chart 1.20 Ownership structure of share issuers having an internal audit system in place as at 31/12/2018



Source: Questionnaire, CDCC

Chart 1.21 Ownership structure of share issuers without an internal audit system in place as at 31/12/2018



Source: Questionnaire, CDCC

- Financial institutions and companies dominate the ownership structure of issuers with an established internal audit system as at 31 December 2018, as well as the ownership structure of issuers without an established internal audit system (26.14% and 41.01% 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 41 issuers (seven more than in the previous year) reported having an internal regulation in place for the identification, management and prevention of risks.
- A total of 30 issuers (four more than in 2017) 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 property and funds industry (four issuers from each sector).
- A total of 37 issuers reported some risks having materialised during 2018, and 32 of them (86.49%) managed to control and manage those risks.
- Same as in 2017, the most common materialised risks were credit risk, liquidity risk, operational risk, currency risk and macroeconomic environment risk.

1.4.3 External audit

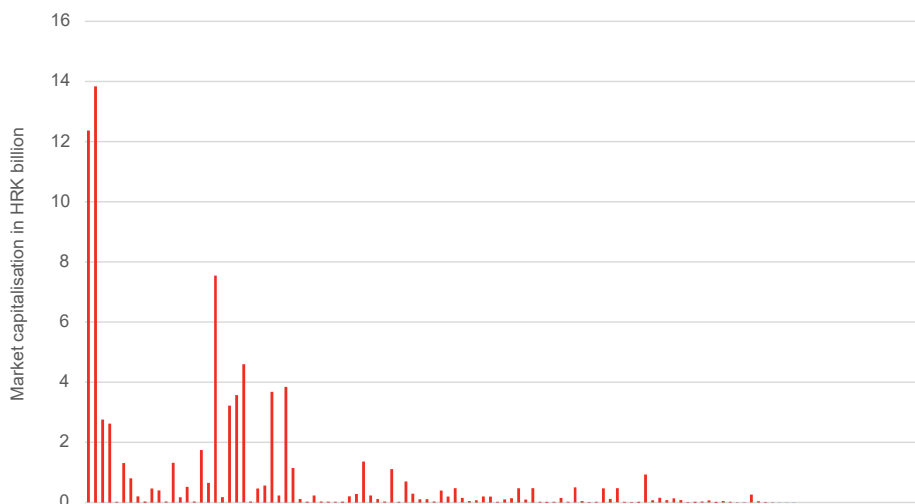
Pursuant to the Code of Corporate Governance, companies must have independent external auditors, who represent an important corporate governance tool. The main function of an external auditor is to ensure that financial statements of the company adequately reflect the current financial position of the 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 23 various audit firms providing external audit services to issuers were reported in the 108 Questionnaires submitted for 2018. The largest number of issuers using services of the same audit firm was 24.
- A total of 67 issuers (61 issuers in 2017) used services of the largest audit firms (the Big Four) in 2018. The majority of issuers using services of the mentioned audit firms came from the tourism industry (17), and banking sector and food industry (six issuers from each of the sectors).
- The market capitalisation of issuers using services of the largest audit firms amounted to HRK 121bn, or 92.65% of the total market capitalisation of issuers that submitted the 2018 Questionnaire.

- The average length of time during which issuers used services of the same audit firm was 4.89 years (6.37 years in 2017).
- The average length of time during which issuers used services of the same certified auditor in the same audit firm was 2.87 years (4.32 years in 2017).
- A total of 98 issuers reported the gross amount paid to an external audit firm for audit services provided in 2018. The amount totalled an average of HRK 360.6 thousand (HRK 321,8 thousand in 2017), ranging from HRK 25 thousand to HRK 5m.
- Fourteen issuers (17 issuers in 2017) reported having paid an external audit firm for services other than audit services provided in 2018. The average gross amount totalled HRK 434.2 thousand, ranging from HRK 1.25 thousand to HRK 4.8m. The services other than audit services provided in 2018 were training, due diligence and consultation services.
- 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 1.22 Gross amount paid to external audit firms for audit services provided during 2018 in relation to market capitalization (in HRK billion) of issuers



Source: Questionnaire, ZSE

The correlation between the gross amount paid to external audit firms for audit services provided during 2018 and market capitalisation of issuers was as high as 0.844741 (in 2017, it stood at 0.617788).

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 in English.

- According to the data from Questionnaires submitted in 2018, all issuers reported having their website in Croatian, and 76 issuers (70.4%) reported having their website in English, as well.
- A total of 33 issuers (30.56%) reported having a separate organisational unit or employees in charge of public (investor) relations. These issuers mostly belonged to the banking sector (six issuers), food industry and tourism (five issuers from each of the industries) and telecommunications and other activities industry (three issuers from each of the industries).
- A total of 37 issuers (34.26%) reported having published the calendar of significant events on their website. In 2017, a total of 36.27% of issuers provided the same answer.
- A total of 17 issuers reported having held one or more press conferences during 2018. The largest number of press conferences held by one issuer was 15, 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.

- According to the data from 108 Questionnaires submitted, 30 share issuers (27.78%) adopted a decision on dividend payment in 2018.
- One issuer paid the dividend partly in shares of issuer, in addition to cash.
- The average amount of dividend per share in 2018 totalled HRK 66 (it was 115.13 in 2017).
- Same as in 2017, most of the issuers that adopted a decision on dividend payment in 2018 belonged to the tourism industry (seven issuers), followed by the banking sector (four) and food industry (four).

- The total market capitalisation of issuers that adopted a decision on dividend payment in 2018 reached HRK 111.3bn. Among these issuers, the largest market capitalisation was reported by an issuer from the energy sector (HRK 31.4bn), and the smallest by an issuer from transport industry (HRK 113.1m).

2 Annual report on corporate governance of corporate bond Issuers

- At the end of 2018, a total of 11 corporate bonds were issued by nine different issuers. Seven of the issuers submitted their 2018 Questionnaire.
- The interest rate ranged between 1.5% and 10.00% and totalled an average of 4.4545% (at the end of 2017, it amounted to an average of 4.5500%).
- In 2018, no corporate bonds were removed from trading on the regulated market.
- In 2018, no issuers listed corporate bonds on the regulated market for the first time.
- At the end of 2018, one bond issuer belonged to the financial sector (banking) and eight issuers to the non-financial sector. The issuers from the non-financial sector came from the sector including other activities (three bond issuers), telecommunications industry and construction industry (two bond issuers from each of the sectors) and pharmaceutical industry (one bond issuer).
- As at 31 December 2018, one corporate bond issuer 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 2018, seven 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 31/12/2016, 2017 and 2018

Bond issuers	Number of issuers				2016	2017	2018
	2016	2017	2018				
with admitted shares	4	3	3	Initial capital	1,132,737,840	1,074,997,690	1,074,997,690
				Market capitalisation	382,968,369	455,734,693	432,693,330
without admitted shares	10	6	6	Initial capital	26,877,969,148	5,953,389,200	5,954,172,200
				Market capitalisation	4,414,822,544	3,417,397,913	3,475,125,443
TOTAL	14	9	9	Initial capital	28,010,706,988	7,028,386,890	7,029,169,890
				Market capitalisation	4,797,790,912	3,873,132,606	3,907,818,773

Source: court register, ZSE

- At the end of 2018, out of nine corporate bond issuers, three also had their shares on the regulated market of the ZSE.
- At the end of 2018, the total initial capital of all corporate bond issuers remained almost unchanged compared to the previous year. The initial capital of corporate bond issuers with admitted shares remained steady relative to 2017, whereas a 0.01% increase in the initial capital was reported by corporate bond issuers without admitted shares.
- The total market capitalisation of all corporate bonds issuers rose slightly, by 0.9%, relative to 2017. The total market capitalisation of corporate bond issuers with admitted shares decreased by 5.06%, whereas a 1.69% rise 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).

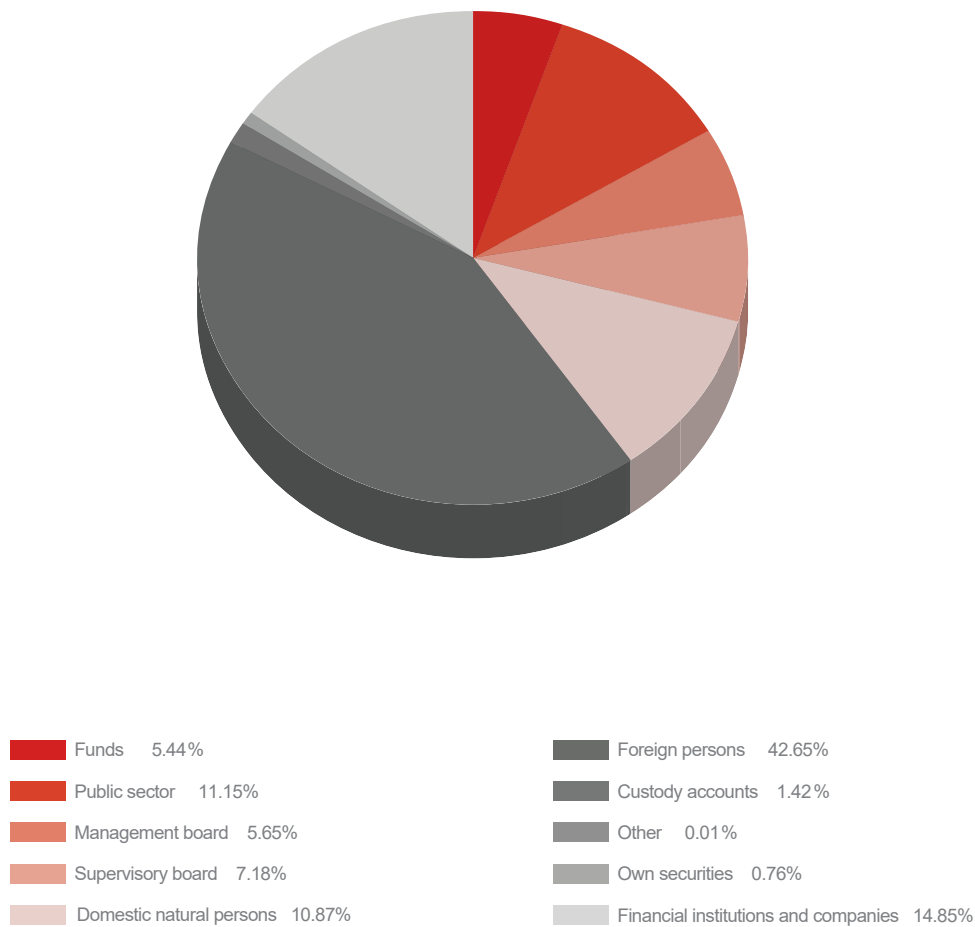
The ownership structure has been analysed according to groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

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

- own shares
- financial institutions and companies
- funds (investment and pension funds with their registered offices in the Republic of Croatia)
- public sector (Republic of Croatia)
- members of the management board
- members of the supervisory board
- domestic natural persons (except for members of the management and supervisory board)
- foreign persons (except for members of the management and supervisory board)
- custody accounts
- other.

Chart 2.1 presents the ownership structure of corporate bond issuers as at 31 December 2018 by the above mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31/12/2018



Source: CDCC

- The ownership structure of corporate bond issuers established as joint-stock companies was dominated by foreign persons with a 42.65% share (42.61% in 2017), followed by financial institutions and companies with a 14.85% share (12.99% in 2017) and the public sector with an 11.15% share (11.15% in 2017).

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 have 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 2016, 2017 and 2018.

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 Companies Act does not stipulate the minimum number of management board members.

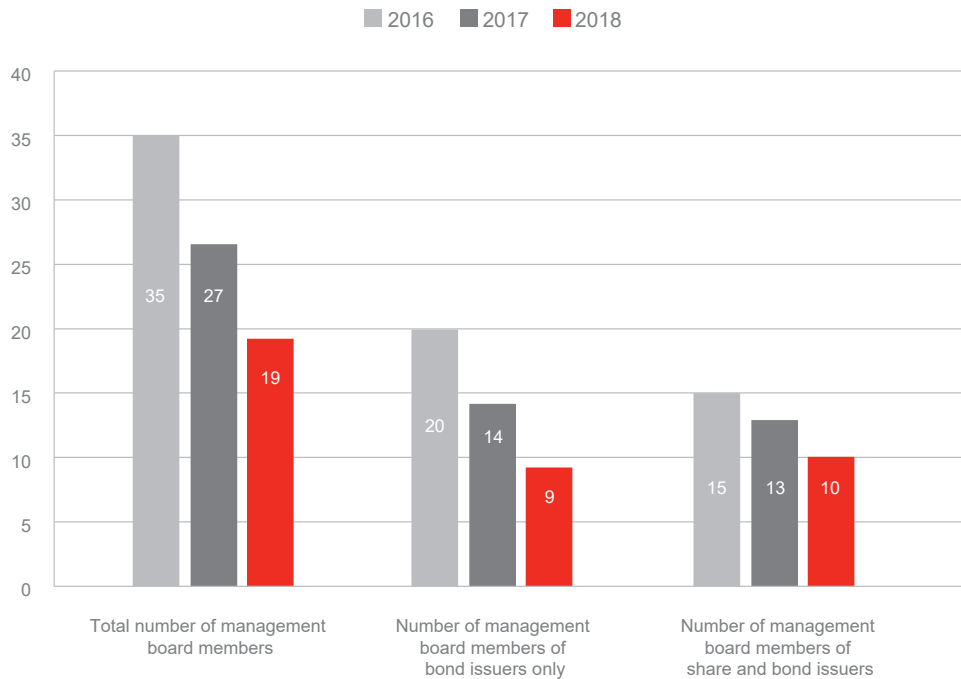
Only natural persons with full legal capacity may be appointed members of the management board.

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 2018 and 2017 and ten at the end of 2016.

Chart 2.2 shows the total number of management board members of bond issuers at the end of 2016, 2017 and 2018.

Chart 2.2 Total number of management board members as at 31/12/2016, 2017 and 2018

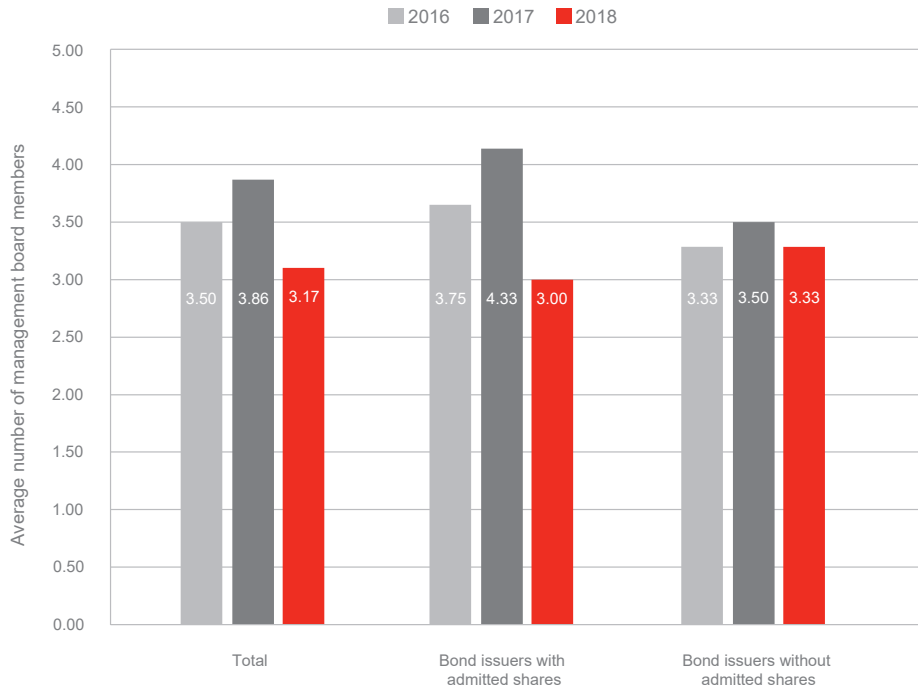


Source: court register, Hanfa

- As at 31 December 2018, the maximum number of management board members was five, as reported by one bond issuer from the banking sector. One issuer had four members of the management board, three issuers had three members, while one issuer had one member of the management board.

Chart 2.3 shows the average number of management board members of corporate bond issuers as at 31 December 2016, 2017 and 2018.

Chart 2.3 Average number of management board members of bond issuers as at 31/12/2016, 2017 and 2018



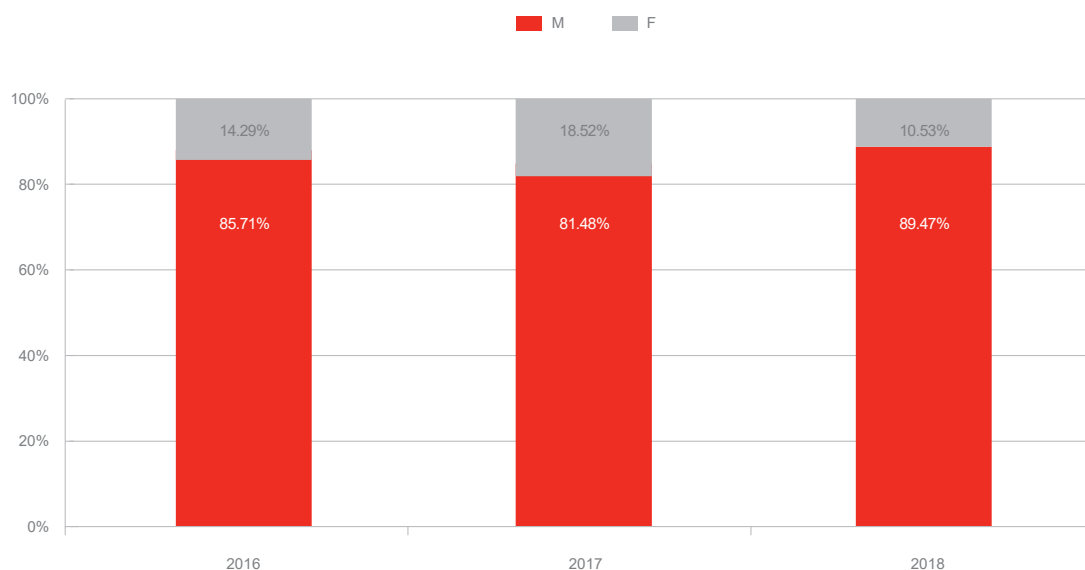
Source: court register, Hanfa

Management board member structure by gender, age and professional qualifications

- As at 31 December 2018, there were two women on management boards of corporate bond issuers (five in 2017).
- Most management board members of corporate bond issuers (60%) were between 45 and 55 years old, 30% of them were 35 to 45 years old, 10% of them 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 2016, 2017 and 2018.

Chart 2.4 Proportion of men to women on management boards of corporate bond issuers as at 31/12/2016, 2017 and 2018



Source: court register, Hanfa

Rules of procedure of the management board

- In 2018, five corporate bond issuers (71.43%) reported having an internal regulation on management board activities (rules of procedure of the management board).
- During the year, one issuer amended this regulation, namely provisions relating to the scope of competence and decision-making process of the management board.

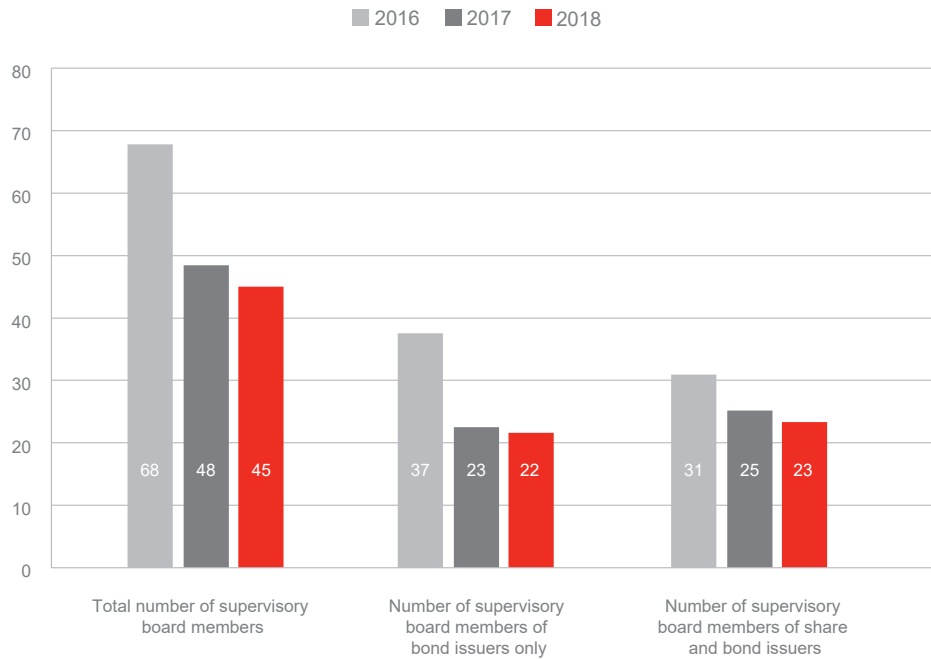
Meetings of the management board

- In 2018, four corporate bond issuers reported having a schedule of meetings of the management board, while one issuer reported having a mechanism for proxy voting at management board meetings.
- The average number of management board meetings was 33.16 (the maximum number of meetings held was 56 and the minimum 11).

2.2.2 Supervisory board

Chart 2.5 presents the total number of supervisory board members of corporate bond issuers at the end of 2016, 2017 and 2018.

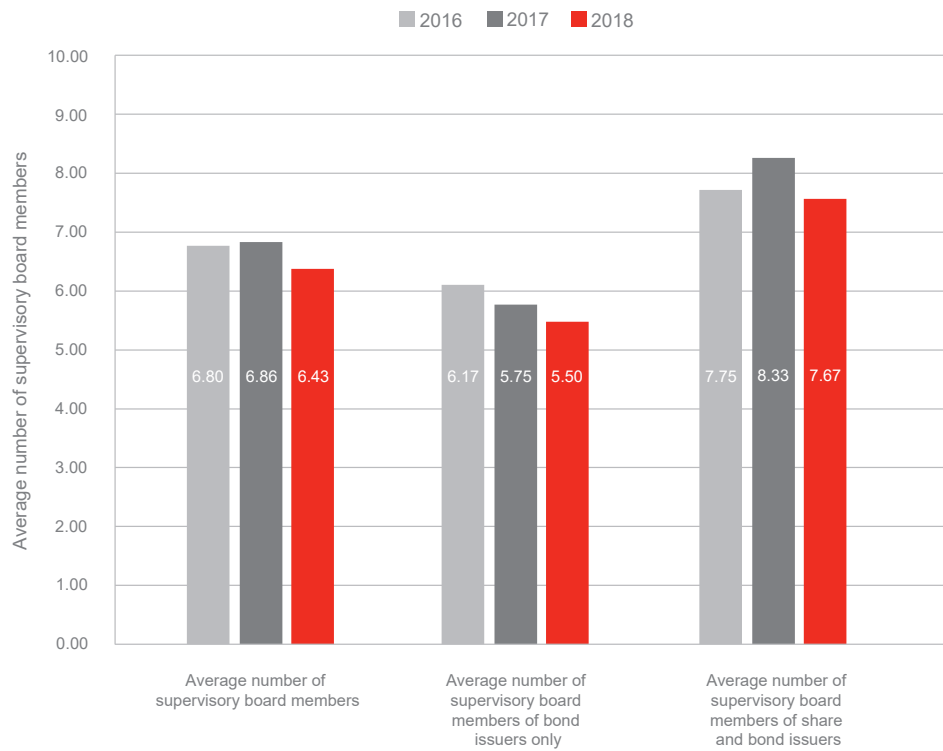
Chart 2.5 Total number of supervisory board members as at 31/12/2016, 2017 and 2018.



Source: court register

Chart 2.6 presents the average number of supervisory board members of corporate bond issuers as at 31 December 2016, 2017 and 2018.

Chart 2.6 Average number of supervisory board members of corporate bond issuers as at 31/12/2016, 2017 and 2018

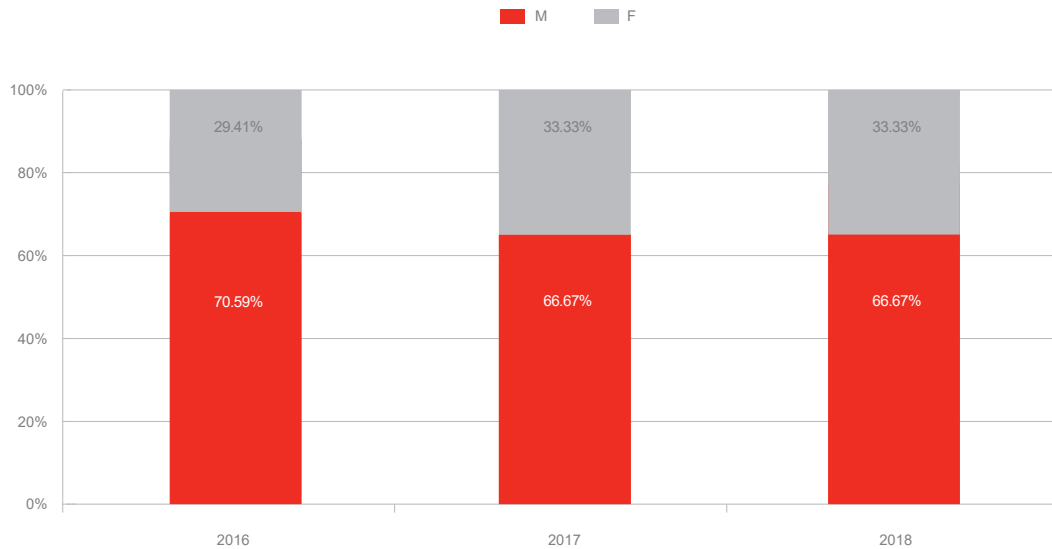


Source: court register

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 2016, 2017 and 2018.

Chart 2.7 Proportion of men to women on supervisory boards of corporate bond issuers as at 31/12/2016, 2017 and 2018



Source: court register

- In the observed period, the average proportion of men to women on supervisory boards of corporate bond issuers totalled 32.02%, exceeding the average proportion of men to women on management boards of corporate bond issuers in the same period (14.45%), but still being far from the gender-balanced representation.
- As at 31 December 2018, 36.58% of supervisory board members of corporate bond issuers were 45 to 55 years old, 34.15% of them were older than 55 years of age, 26.83% of them were between 35 and 45 years old, while 2.44% of them were younger than 35 years of age.
- The majority of supervisory board members of corporate bond issuers (87.8%) had a university degree.
- A total of 4.88% of supervisory board members of corporate bond issuers had a PhD.

Supervisory board committees

- Seven issuers reported having the audit committee and four issuers reported having the remuneration committee and nomination committee each in place in 2018.
- 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 2018 reported having established internal working procedures for the audit committee.
- Three out of four issuers that had 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 reports 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 2018. The average number of audit committee meetings during the year was 3.5 (4.17 in 2017).
- One issuer held three meetings of the remuneration committee in 2018, while two issuers held eight meetings of the nomination committee.

2.3 Remuneration

2.3.1 Remuneration of management board members

In 2018, four corporate bond issuers reported having a remuneration policy for management board members (four issuers reported having this policy in 2017 and six issuers in 2016).

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 2018, 2017 and 2016.

Table 2.2 Amount of remuneration of management board members of corporate bond issuers in 2018, 2017 and 2016

		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		
2018	Number of issuers	6	4	3	1
	Amount	4,617,662	2,186,485	196,054	1,449,639
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

Source: Questionnaire

- The year 2018 saw a decrease in average gross fixed amount paid to management board members, while the average gross variable amount paid to management board members rose by 4.26% relative to 2017.
- 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 2018 in relation to issuers' consolidated financial statements after taxation (in HRK million)



Source: Questionnaire, ZSE

2.3.2 Remuneration of supervisory board members

- Three corporate bond issuers reported the level of supervisory board member remuneration being prescribed by the general meeting, while two issuers reported the remuneration being determined 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 2018, 2017 and 2016.

Table 2.3 Amount of remuneration of supervisory board members of corporate bond issuers in 2018, 2017 and 2016

		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	
2018	Number of issuers	5	0	1
	Amount	385,972	0	10,851
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

Source: Questionnaire

- Only one issuer (same as in the previous year) reported having submitted the annual remuneration statement relating to supervisory board members to the general meeting in 2018.

2.3.3 Related party transactions

- In 2018, four issuers (five in the previous year) reported having an internal regulation in place for cases of related party transactions.

Table 2.4 sets out the value of reported transactions during 2016, 2017 and 2018 concluded by the corporate bond 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 2016, 2017 and 2018

		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
2018	Number of issuers having reported the transaction	2	1	1	2
	Average transaction value (in HRK)	2,702,060,938	16,172,725	22,904,727	741,990,627
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

Source: Questionnaire

- As in the previous years, during 2018 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 2018, five issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (same as in the previous year). 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.
- In 2018, no cases of conflicts of interest were reported in relation to any of the issuers.

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 2018.
- Five out of seven issuers that completed the Questionnaire also reported having an internal audit system in place in 2018.

2.4.2 Managing company risks

- Four issuers reported having an internal regulation in place for the identification, management and prevention of risks in 2018.
- In addition, four issuers reported having appointed persons in charge for risk management. These persons performed the function of internal auditor, analyst, management board member in charge of risks, and financial risk management specialist.
- According to the issuers, the most frequent business risks were liquidity, interest rate, credit, operational and political risks.
- Two issuers reported credit risk and counterparty risk having materialised in 2018. 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 2018, seven corporate bond issuers used services of five 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 three.
- All three corporate bond issuers which are at the same time share issuers used services of audit firms from the group of the largest audit firms.
- At the end of 2018, the average length of the time period during which issuers used services of the same external audit firm was 2.43 years (3 years in 2017 and 3.67 years in 2016).
- At the end of 2018, the average length of the time period during which issuers used services of the same certified external auditor in the same audit firm was 2.43 years (3 years in 2017 and 2.5 years in 2016).
- Seven issuers reported the gross amount paid to the external audit firm for audit services provided in 2018, and the amounts ranged from HRK 62 thousand to HRK 2.2m. External auditors were paid an average of HRK 586.4 thousand by issuers for audit services provided in 2018 (HRK 359.7 thousand in 2017).

- Two issuers reported the gross amount paid to the external audit firm for other services provided in 2018, and the average amount reached HRK 17.5 thousand. Professional training and tax advice were services other than audit services provided by external audit firms in 2018.
- 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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