

ANNUAL REPORT
ON CORPORATE GOVERNANCE
OF ISSUERS WITH SECURITIES ADMITTED TO TRADING ON
A REGULATED MARKET OF THE REPUBLIC OF CROATIA

2011



ANNUAL REPORT
ON CORPORATE GOVERNANCE
OF ISSUERS WITH SECURITIES ADMITTED TO TRADING ON
A REGULATED MARKET OF THE REPUBLIC OF CROATIA
2011

Zagreb, November 2012

Croatian Financial Services Supervisory Agency
Miramarska 24b, 10000 Zagreb
www.hanfa.hr
Phone: +385 1 6173 200
Fax: +385 1 4811 406

Design:
Printera Grupa

Prepress:
Kerschoffset

Those using data from this publication are requested to cite the source.

Content

Introduction	7
1 Annual Report on Corporate Governance of Share Issuers	9
Introduction	11
1.1 Capital and origin of capital	15
1.1.1. Initial capital	15
1.1.2. Distribution of capital	15
1.1.3. Ownership structure	16
1.1.4. Origin of the capital of issuers	18
1.1.5. Ownership concentration	19
1.2 Governing bodies of share issuers	22
1.2.1. The management board	22
1.2.2. The supervisory board	27
1.2.3. Remuneration	32
1.2.3.1. Remuneration of members of management boards of share issuers	32
1.2.3.2. Remuneration of members of supervisory boards of share issuers	34
1.2.4. Related party transactions	35
1.2.5. Conflicts of interest	36
1.2.6. General meeting	37
1.3 Audit and control	40
1.3.1. Internal audit	40
1.3.2. Managing company risks	40
1.3.3. External audit	41
1.4 Code of Corporate Governance	42
1.5 Relations with investors	45
1.5.1. Website of the issuer	45
1.5.2. Dividend payments	46
1.5.3. Submission of financial statements of the issuer	47

2.	Annual Report on Corporate Governance of Bond Issuers . . .	49
	Introduction	51
2.1.	Capital of corporate bond issuers	52
	2.1.1. Initial capital	52
	2.1.2. Ownership structure of bond issuers	53
	2.1.3. Ownership structure of bondholders	54
2.2.	Governing bodies of corporate bond issuers	56
	2.2.1. The management board	56
	2.2.2. The supervisory board	60
	2.2.3. Remuneration	63
	2.2.3.1. Remuneration of members of management boards of corporate bond issuers	63
	2.2.3.2. Remuneration of members of supervisory boards of corporate bond issuers	64
	2.2.4. Transactions with related persons	65
	2.2.5. Conflicts of interest	66
2.3.	Audit and control	67
	2.3.1. Internal audit and control	67
	2.3.2. Managing company risks	67
	2.3.3. External audit	67

Introduction

Corporate governance in the European Union and in other countries in the region and worldwide is oriented towards 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. This was the idea underlying the preparation of the second edition of the Annual Report on Corporate Governance (hereinafter referred to as: Report), which presents the level of corporate governance of issuers with securities admitted to trading on the regulated market in the Republic of Croatia.

The Organisation for Economic Co-operation and Development has published its principles of corporate governance, serving as a basis for most European countries, including the Republic of Croatia, for developing corporate governance practices of issuers on capital markets. Principles of corporate governance are usually defined by a corporate governance code, applied due to different interest groups within and outside an issuer.

Sources of Data

The second edition of the Report has been prepared on the basis of data collected directly from issuers, from The Zagreb Stock Exchange, Inc. (hereinafter referred to as: Zagreb Stock Exchange), from the Central Depository and Clearing Company Inc. (hereinafter referred to as: CDCC), and from the court register.

Data from issuers have been obtained through Questionnaires for the Preparation of the Annual Report on Corporate Governance in XML form (hereinafter referred to as: Questionnaire), completed by issuers in accordance with the Decision on the form and manner of delivery of data from the Questionnaire for the Preparation of the Annual Report on Corporate Governance to the Croatian Financial Services Supervisory Agency, adopted by the Croatian Financial Services Supervisory Agency (hereinafter referred to as: Agency and HANFA) at its session on 22 December 2011. The Questionnaire is intended for all issuers with securities admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December of the year analysed in the Report. It comprises a comprehensive list of questions about the principal data on the issuer, own shares, structure of the management and supervisory board, meetings of the management and supervisory board, supervisory board committees, management and supervisory board members' remuneration and options, all general meetings held, code of corporate governance, internal and external control and risks, conflicts of interest, dividend payments, etc.

The Zagreb Stock Exchange has provided data on the official and regular market (new listings, etc.) and on market capitalisation (as at 31 December).

Data on capital distribution, ownership structure, capital origin (domestic/foreign), and dividend payments have been obtained from the CDCC.

The court register has been a source of data on initial capital and any changes therein (increase/decrease) and on the management and supervisory board.

The Report presents separate analyses of issuers of shares and corporate bonds, with all the data being provided in aggregate form.



1 Annual Report
on Corporate Governance
of Share Issuers

Introduction

Out of 204 issuers with securities admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2011, 174 submitted their completed Questionnaires. The total market capitalisation of issuers which submitted their data amounted to HRK 123.1bn or 97.50% of the market capitalisation of all listed issuers. Their total initial capital reached HRK 64.5bn or 94.15% of the initial capital of all listed issuers.

Number of issuers and number of shares

In 2011, the number of issuers continued its downward trend from 2010.

- As at 31 December 2011, the number of issuers totalled 204, falling by 5.55% compared to the previous year, when there were 216 issuers with securities admitted to trading (12 more), or by 13.92% in comparison with 31 December 2009, when there were 237 issuers with securities admitted to trading.
- Out of a total of 204 issuers as at 31 December 2011, 20 were admitted to trading on the official market and 184 on the regular market. As at 31 December 2010, out of a total of 216 issuers, 19 were admitted to trading on the official market and 197 on the regular market. As at 31 December 2009, out of a total of 237 issuers, 17 were admitted to trading on the official market and 220 on the regular market.
- In the course of 2011, the number of listed ordinary shares declined by 12 or by 5.53% (from 217 as at 31 December 2010 to 205 as at 31 December 2011), due to the delisting of 12 issuers. In comparison with 31 December 2009, when there were 238 ordinary shares admitted to trading, the number fell by 13.87%.
- The number of listed preference shares held steady, totalling 16 during the three years analysed in this Report. In 2011, the number of active shares amounted to 173, declining by 4.95% relative to 2010, when it totalled 182, or by 11.73% compared with 2009, when it reached 196.

Shares not yet traded

- By 31 December 2011, 20 shares of 16 different issuers had not been traded, namely shares of the following issuers: ordinary share of Brodograđevna industrija 3. maj d.d. (3MAJ-R-A), preference shares of Croatia Airlines d.d. (CRAL-P-A, CRAL-P-A1, CRAL-P-A2, CRAL-P-A3, CRAL-P-A4), ordinary share of Dalma d.d. (DAL-S-R-A), ordinary share of Dalit corp. d.d. (DLTC-R-A), ordinary share of Dalmacijavino d.d. (DLVN-R-A), preference share of Hoteli Croatia d.d. (HCRC-P-A), preference share of Istarska kreditna banka Umag d.d. (IKBA-P-A), ordinary share of Kapitalni fond d.d. (KAPF-R-A), ordinary share of PAN-papirna industrija-trgopromet d.d. (PAN-R-A), preference share of Plava laguna d.d. (PLAG-P-A), ordinary share of Poljoprivredno poduzeće Orahovica d.d. (PPOR-R-A), preference share of Pounje d.d. (PUNT-P-A), ordinary share of Regeneracija d.d. (RGNC-R-A), ordinary share of Sunce osiguranje d.d. (SCOS-R-A), ordinary share of Tekstilstroj d.d. (TSTR-R-A) and ordinary share of Vodoprivreda Zagreb d.d. (VDZG-R-A).

Listings

- There were no listings of new issuers either on the official or on the regular market in 2010 and in 2011, whereas the year 2009 saw two new listings on the regular market.
- In 2011, 12 issuers withdrew their shares from the regular and none from the official market; in 2010, 21 issuers withdrew their shares from the regular and none from the official market; while in 2009, seven issuers withdrew their shares from the regular and one from the official market. In 2011, one issuer transferred from the regular to the official market (LKPC-R-A).

Sector division

a) Classification into the financial and non-financial sector

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

- At the end of 2011, out of a total of 204 share issuers, 27 (13.24%) issuers, or 20 issuers excluding closed-end investment funds, belonged to the financial, and the remaining 177 (86.76%) to the non-financial sector. At the end of 2010, out of a total of 216 share issuers, 28 (12.96%) issuers, or 20 issuers excluding closed-end investment funds, belonged to the financial, and the remaining 188 (87.04%) to the non-financial sector. At the end of 2009, out of a total of 237 share issuers, there were 30 (12.66%) issuers from the financial (two banks delisted in the course of 2010) and 207 (87.34%) issuers from the non-financial sector.

b) Classification into groups of activities

The financial and non-financial sectors are divided into subcategories. The financial sector is divided into banks, insurance companies and closed-end investment funds. The non-financial sector is divided into agriculture, industry (shipbuilding, wood industry, energy, pharmaceuticals, food industry (food, beverage and tobacco), chemical industry, metalworking industry, textile industry and other industries), construction industry, property, telecommunications, transport, trade, tourism and other activities.

Table 1.1 shows the changes in the number of issuers by these activities in 2009, 2010 and 2011.

Table 1.1 Issuers by groups of activities as at 31 December 2009, 2010 and 2011

Group of activities	Number of issuers			
	2009	2010	2011	Change
FINANCIAL SECTOR				
Banks	16	14	14	0
Insurance	6	6	6	0
Closed-end investment funds	8	8	7	-1
NON-FINANCIAL SECTOR				
Agriculture	8	7	7	0
Industry				
a. Shipbuilding	4	4	4	0
b. Wood industry	5	4	3	-1
c. Energy	1	1	1	0
d. Pharmaceuticals	3	3	3	0
e. Food, beverage and tobacco	30	25	25	0
f. Chemical industry	10	8	8	0
g. Metalworking industry	12	12	10	-2
h. Textile industry	10	9	8	-1
i. Other industries	6	6	6	0
Construction industry	14	13	12	-1
Property	4	4	4	0
Telecommunications	5	5	5	0
Transport	13	12	12	0
Trade	21	20	19	-1
Tourism	57	51	46	-5
Other activities	4	4	4	0
TOTAL	237	216	204	-12

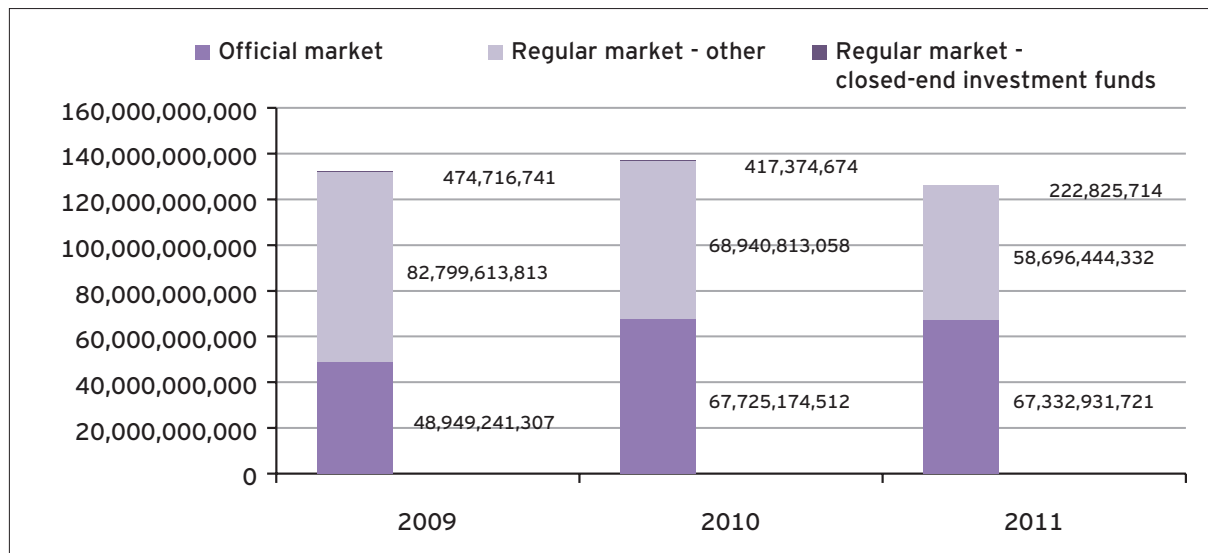
Source: HANFA, Zagreb Stock Exchange

- The largest number of issuers belonged to the tourism industry (a total of 46, 51 and 57 issuers at the end of 2011, 2010 and 2009 respectively), followed by issuers from the food industry (a total of 25, 25 and 30 issuers at the end of 2011, 2010 and 2009 respectively) and from trade (a total of 19, 20 and 21 issuers at the end of 2011, 2010 and 2009 respectively).
- Out of a total of 12 issuers which delisted from the regulated market in 2011, 11 belonged to the non-financial and one to the financial sector. In the non-financial sector, the largest number of delisted issuers belonged to the tourism industry (a total of five), two were from the metalworking industry, and one issuer each was from wood, textile and construction industry and trade. The delisted issuer from the financial sector was a closed-end investment fund.

Market capitalisation

Chart 1.1 shows the changes in market capitalisation by types of market in 2009, 2010 and 2011.

Chart 1.1 Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2009, 2010 and 2011.



Source: Zagreb Stock Exchange

- In 2011, the total market capitalisation of the official market declined by 0.58%, falling from HRK 67.7bn as at 31 December 2010 to HRK 67.3bn as at 31 December 2011. In the course of 2010, it grew by 38.36% from HRK 48.9bn as at 31 December 2009.
- In 2011, the total market capitalisation of the regular market declined by 15.05%, falling from HRK 69.4bn as at 31 December 2010 to HRK 58.9bn as at 31 December 2011. In the course of 2010, it fell by 16.71% from HRK 83.3bn as at 31 December 2009.

1.1 Capital and origin of capital

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

1.1.1 Initial capital

Initial capital is the start-up capital of issuers used for starting their business¹. The minimum initial capital requirements for joint-stock companies amount to HRK 200,000.00. From the shareholders' point of view, the most important function of the initial capital is, depending on nominal amounts of individual shares initial capital is divided into, to serve as a measure for the internal relations among the shareholders.

- At end-2011, the initial capital of 204 share issuers totalled HRK 68.6bn, rising by 3.80% compared to the end-2010, when 216 issuers recorded their initial capital amounting to HRK 66.1bn. In comparison with 2009, when there were 33 listed issuers more recording their initial capital in the amount of HRK 69.4bn, the initial capital declined by 1.22%.
- The amount of share issuers' initial capital ranged between HRK 6.7m to HRK 9bn.
- In the course of 2011, 12 issuers increased their initial capital, whereas eight issuers decreased their initial capital. Out of those issuers, three both decreased and increased their initial capital. The total initial capital increase reached HRK 6.1bn, while the total initial capital decrease amounted to HRK 1.6bn.

1.1.2 Distribution of capital²

The distribution of capital by type of shareholders as at 31 December 2011 (and as at 31 December 2010 and 31 December 2009) was as follows:

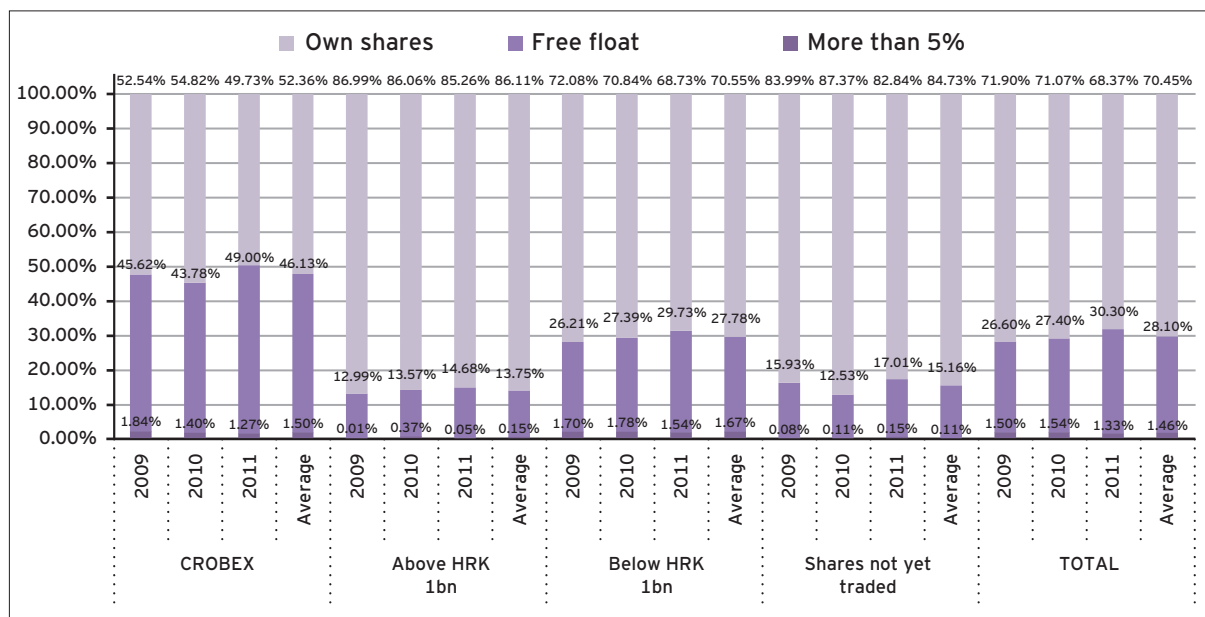
- own shares: 1.33% (1.54%, 1.50%),
- free float 30.30% (27.40%, 26.60%),
- more than 5%: 68.37% (71.07%, 71.90%).

¹ All the definitions contained in Chapter 1 have been taken over from Gorenc, Ćesić, Buljan, Brkanić, Komentar Zakona o trgovačkim društvima, IV. Izmijenjena i nadopunjena naklada, Zagreb, 2008

² Data representing the average of all shares irrespective of the issuer.

Chart 1.2 shows the distribution of capital by level of market capitalisation for all shares on the regulated market as at 31 December 2009, 2010 and 2011.

Chart 1.2 Distribution of capital by market capitalisation group as at 31 December 2009, 2010 and 2011



Source: CDCC, Zagreb Stock Exchange, HANFA

1.1.3 Ownership structure³

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

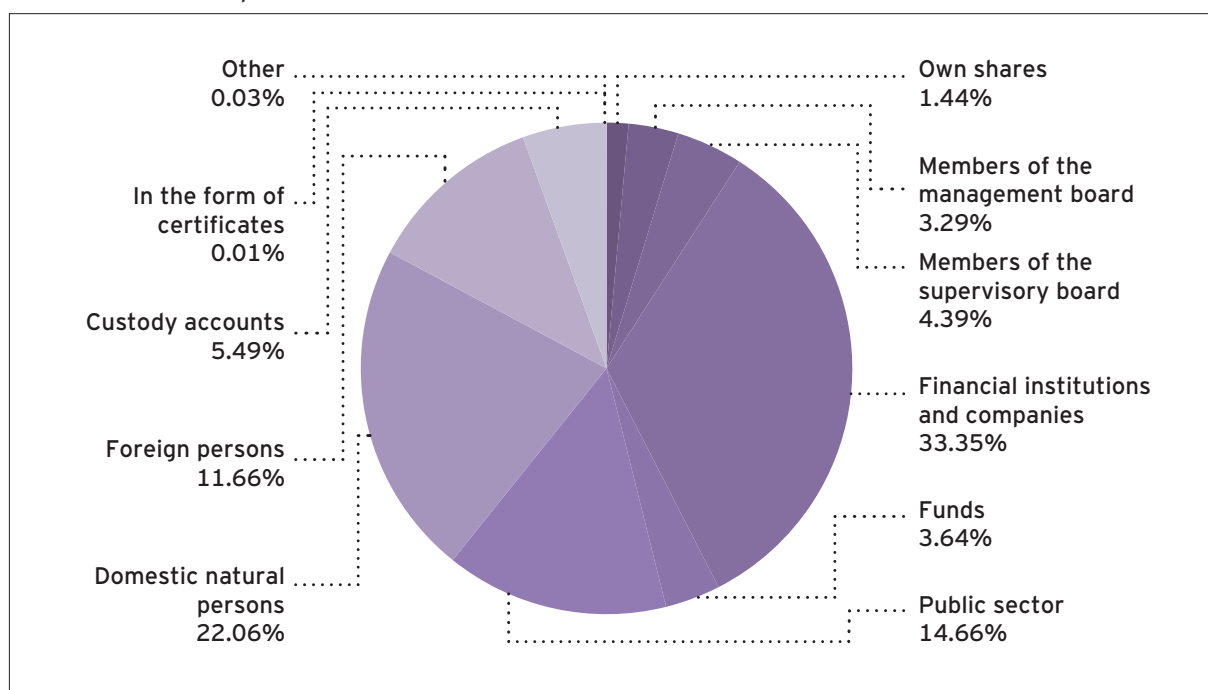
- own shares,
- financial institutions and companies,
- funds (investment funds and pension funds with their registered offices in the Republic of Croatia),
- public sector (Republic of Croatia),
- members of the management board,

³ The proportion of all shares of individual issuers in the initial capital of issuers is calculated first, followed by the calculation of the average of all issuers.

- members of the supervisory board,
- domestic natural persons (except for members of the management and supervisory board),
- foreign persons (except for members of the management and supervisory board),
- custody accounts,
- other.

Chart 1.3 presents the ownership structure of share issuers as at 31 December 2011 by the above mentioned groups.

Chart 1.3 Ownership structure of share issuers as at 31 December 2011



Source: CDCC

- The ownership structure of share issuers was dominated by financial institutions and companies with a 33.35% share, followed by domestic natural persons with a 22.06% share, the public sector or the Republic of Croatia with a 14.66% share, foreign persons with an 11.66% share, custody accounts with a 5.49% share, members of supervisory boards with a 4.39% share, funds with a 3.64% share, members of management boards with 3.29% share, own shares with a 1.44% share, the “other” category with a 0.03% share and the “in the form of certificates” category with a 0.01% share.

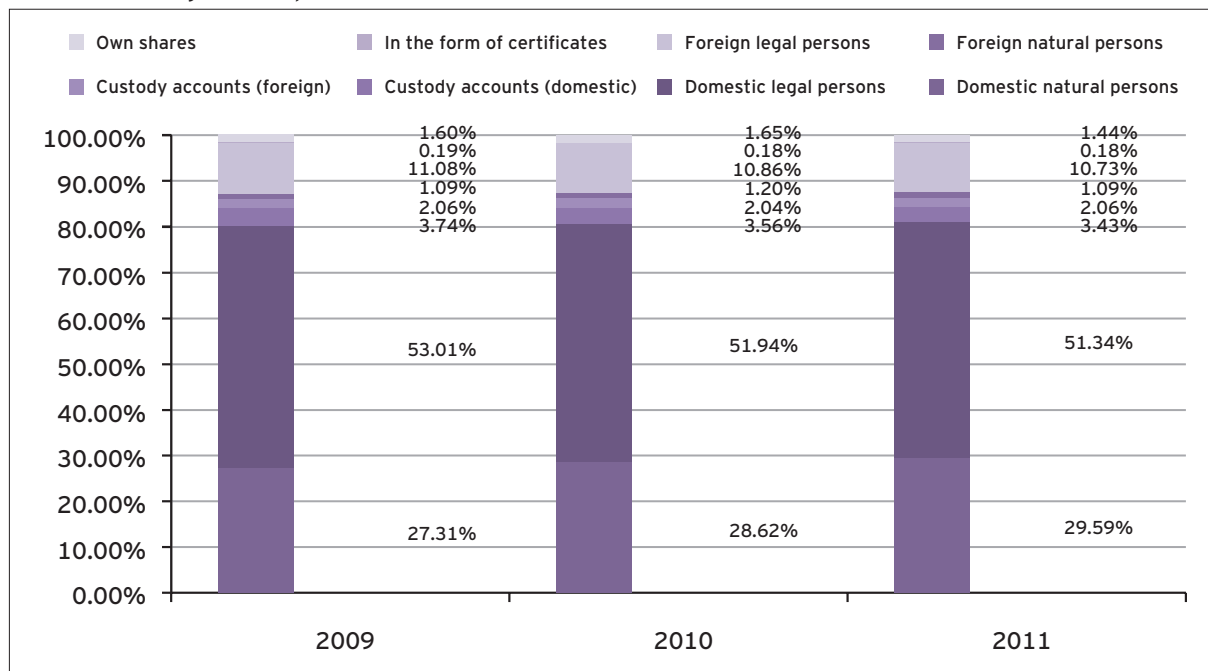
1.1.4 Origin of the capital of issuers

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

Chart 1.4 shows the ownership of individual shares by the following categories:

- domestic natural persons,
- domestic legal persons,
- custody accounts (domestic),
- custody accounts (foreign),
- foreign natural persons,
- foreign legal persons,
- own shares,
- in the form of certificates.

Chart 1.4 Origin of the capital of issuers as at 31 December 2009, 2010 and 2011



Source: CDCC

- The largest share in the ownership of shares was accounted for by domestic legal persons with a 51.34%, 51.94% and 53.01% share in 2011, 2010 and 2009 respectively. The second largest category was made up of domestic natural persons with a 29.59%, 28.62% and 27.31% share in 2011, 2010 and 2009 respectively.

- The share of domestic capital as at 31 December 2011 totalled 85.79% (85.77% in 2010 and 85.66% in 2009), whereas foreign capital accounted for 13.87% (14.10% in 2010 and 14.22% in 2009) and the “other” category for 0.0052% (0.0051% in 2010 and 0.0048% in 2009) of total capital.

1.1.5 Ownership concentration

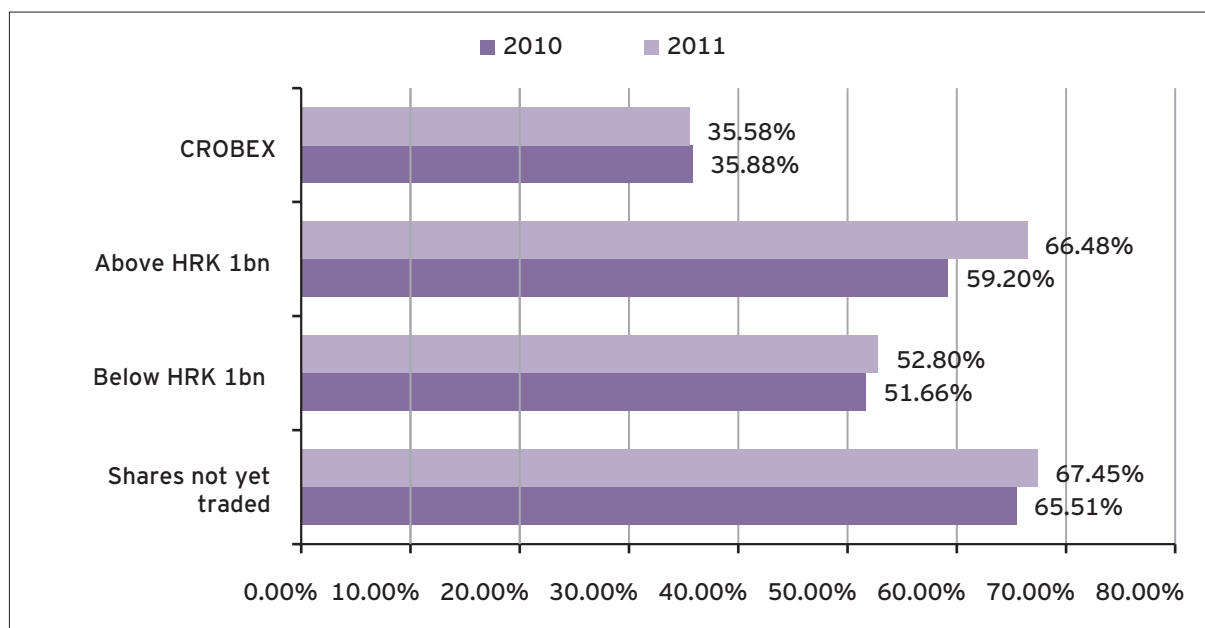
This Chapter presents the analysis of ownership concentration for the first shareholder and for the top ten shareholders on the regulated market of the Zagreb Stock Exchange by groups of activities and market capitalisation groups as at 31 December 2010 and 2011.

The largest shareholder

- The largest shareholder accounted for an average share of 52.60% in the ownership of each of 221 shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2011, and for a 51.44% share in the ownership of 233 shares as at 31 December 2010 (a 2.26% growth).
- The concentration of the largest shareholder in the financial sector totalled 39.40% and 37.35% in 2011 and 2010 respectively (a 5.49% growth). The concentration of the largest shareholder in the non-financial sector amounted to 54.83% and 53.46% in 2011 and 2010 respectively (a 2.56% increase). The highest ownership concentration was recorded in the pharmaceutical industry (66.52% in 2011 and 2010) and in telecommunications (65.32% in 2011 and 65.29% in 2010). They were followed by the tourism industry with a 65.27% ownership concentration in 2011 and a 64.40% ownership concentration in 2010, and the wood industry with a 65.20% and 52.35% ownership concentration in 2011 and 2010 respectively. The lowest ownership concentration was recorded in the construction industry and totalled 22.69% and 28.62% in 2011 and 2010 respectively (a 20.72% decrease).

Chart 1.5 presents the concentration of the largest shareholder as at 31 December 2010 and 2011 by the following market capitalisation groups: shares within the CROBEX index, shares whose market capitalisation is higher/lower than HRK 1bn and shares not yet traded.

Chart 1.5 Concentration of the largest shareholder by market capitalisation groups as at 31 December 2010 and 2011



Source: CDCC, Zagreb Stock Exchange, HANFA

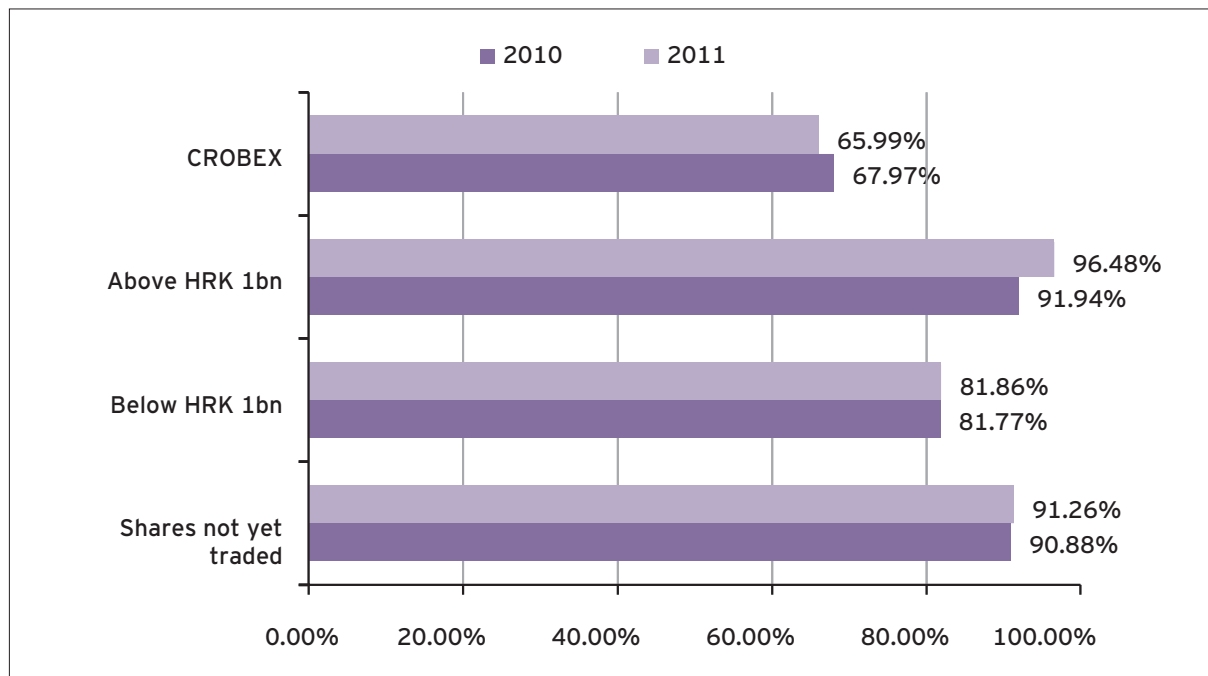
- The highest ownership concentration was recorded in the securities not yet traded group and it totalled 67.45% and 65.51% as at 31 December 2011 and 31 December 2010 respectively (a 2.96% growth). The lowest ownership concentration was recorded in the group of shares within the CROBEX index and it reached 35.58% and 35.88% as at 31 December 2011 and 31 December 2010 respectively (a 0.84% fall).

The top ten shareholders

- The top ten shareholders accounted for an average share of 81.38% in the ownership of each of 221 shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2011, and for an 81.42% share in the ownership of 233 shares as at 31 December 2010 (a 0.05% fall).
- The top ten shareholder concentration in the financial sector totalled 75.87% and 75.98% in 2011 and 2010 respectively (a 0.14% fall). The top ten shareholder concentration in the non-financial sector amounted to 82.31% in 2011 and 2010. The highest top ten shareholder ownership concentration was recorded in the energy industry (98.10% and 95.88% as at 31 December 2011 and 2010 respectively, a 2.32% growth) and in the wood industry (90.50% and 85.47% as at 31 December 2011 and 2010 respectively). They were followed by the tourism industry with an 89.00% ownership concentration as at 31 December 2011 and an 88.55% ownership concentration as at 31 December 2010. The lowest top ten shareholder ownership concentration was recorded in the construction industry and totalled 57.32% as at 31 December 2011 and 59.86% as at 31 December 2010 (a 4.24% decrease).

Chart 1.6 presents the top ten shareholder concentration as at 31 December 2010 and 2011 by the following market capitalisation groups: shares within the CROBEX index, shares whose market capitalisation is higher/lower than HRK 1bn and shares not yet traded.

Chart 1.6 Top ten shareholder concentration by market capitalisation groups as at 31 December 2010 and 2011



Source: CDCC, Zagreb Stock Exchange, HANFA

- The highest ownership concentration was recorded in the group of shares whose market capitalisation is higher than HRK 1bn and it totalled 96.48% and 91.94% as at 31 December 2011 and 31 December 2010 respectively (a 4.94% growth). The lowest ownership concentration was recorded in the group of shares within the CROBEX index and it reached 65.99% and 67.97% as at 31 December 2011 and 31 December 2010 respectively (a 2.91% decline).

1.2 Governing bodies of share issuers

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

1.2.1 The management board

The function of a management board in a two-tier governance system is the management and representation of the company. Members of the management board are appointed by the supervisory board. In a one-tier governance system, this function is performed by executive directors of the company, appointed by the general meeting. As at 31 December 2011, out of the total number of issuers (204), two had a one-tier and 202 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 Croatian Companies Act (Croat.: Zakon o trgovačkim društvima, Official Gazette 111/93, 34/99, 52/00 – Decision of the Constitutional Court of the Republic of Croatia No. U-I-646/1999, U-I-945/1999 of 10 May 2000, 118/03, 107/07 and 146/08, hereinafter referred to as: 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 the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2009, 2010 and 2011, except for issuers in bankruptcy or liquidation on the relevant date according to the data from the court register.⁴ 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 2011, there were a total of 405 management board members in 197 analysed issuers. Compared with 31 December 2010, the total number of management board members declined by 24, while the number of analysed issuers fell by 13, namely from 210 to 197. In comparison to 31 December 2009, the total number of management board members decreased by 73, while the num-

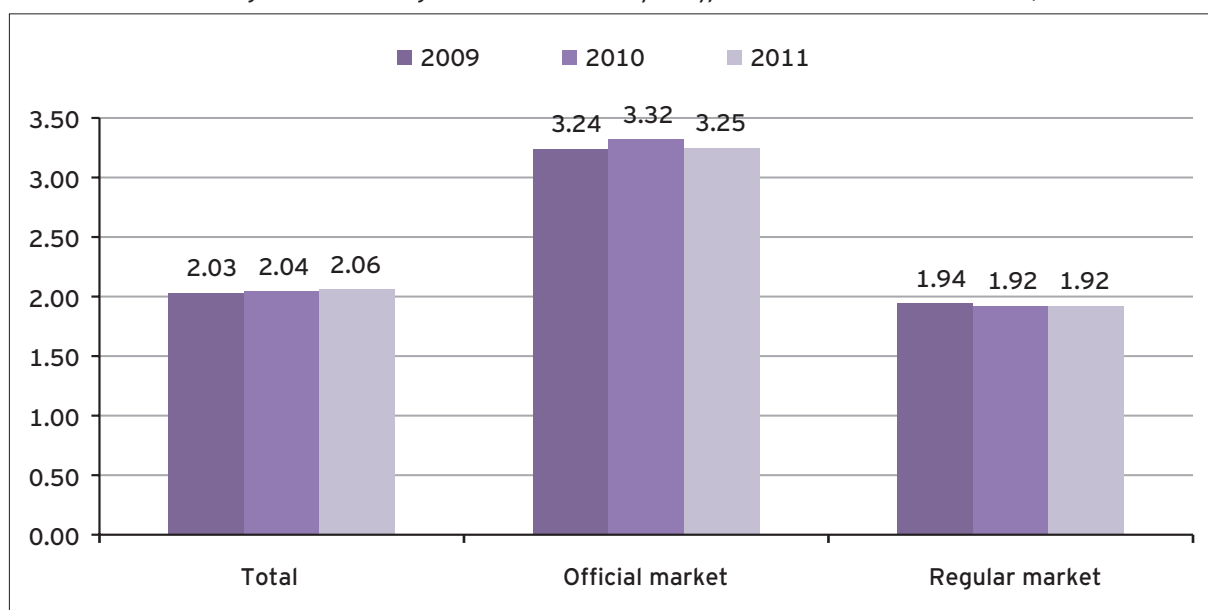
⁴ Data on the number and gender of management board members have been analysed according to the data from the court register in order for all issuers to be encompassed by the analysis (including those which failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in the cases where some issuers failed to report changes to the court register in a timely manner.

ber of analysed issuers fell by 38. As at 31 December 2011, the average number of management board members totalled 2.06, growing by 0.98% compared with 31 December 2010, when it amounted to 2.04.

- As at 31 December 2011, a total of 96 issuers (48.73%) had a single management board member, while as at 31 December 2010 and as at 31 December 2009 a single management board member was reported by 100 (47.62%) and 112 (47.66%) issuers respectively.
- As at 31 December 2009, 2010 and 2011, the maximum number of management board members totalled eight, which was the number of management board members reported by one issuer at the end of 2011 and 2009, and by two issuers at the end of 2010.

Chart 1.7 shows the average number of management board members as at 31 December 2009, 2010 and 2011 with respect to the type of market.

Chart 1.7 The average number of management board members by the type of market as at 31 December 2009, 2010 and 2011



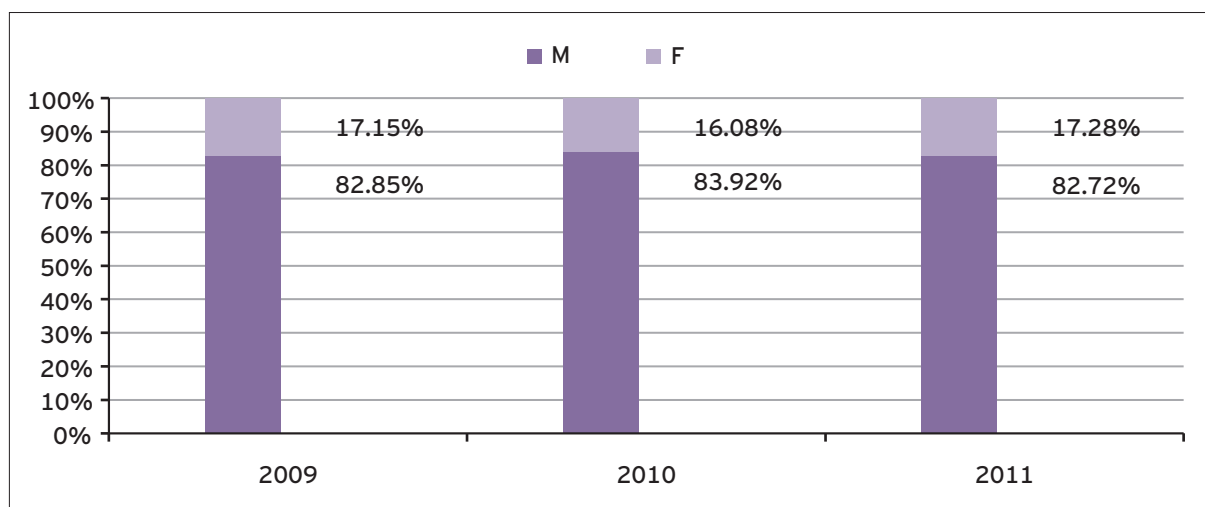
Source: Questionnaire, Zagreb Stock Exchange

- The average number of management board members totalled 2.06 as at 31 December 2011, rising by 0.98% relative to 31 December 2010, when it stood at 2.04, and growing by 1.48% compared with 31 December 2009, when it reached 2.03.
- The average number of management board members on the official market totalled 3.25 as at 31 December 2011, dropping by 2.11% in comparison with 31 December 2010, when it totalled 3.32, and increasing by 0.31% relative to 31 December 2009, when it amounted to 3.24.
- The average number of management board members on the regular market was considerably smaller than on the official market, totalling 1.92 in 2011 and 2010 and reaching 1.94 in 2009.

Gender diversity of management board members

Chart 1.8 presents the share of men and women on management boards of issuers as at 31 December 2009, 2010 and 2011.

Chart 1.8 Proportion of men and women on management boards as at 31 December 2009, 2010 and 2011



Source: court register

- As at 31 December 2011, there were 335 (82.72%) male management board members and 70 (17.28%) female management board members. As at 31 December 2010, there were 360 (83.92%) male management board members and 69 (16.08%) female management board members, while as at 31 December 2009, there were 396 (82.85%) male management board members and 82 (17.15%) female management board members. There were no significant changes in the proportions of male and female management board members in the three years.
- A total of 70 women sat on management boards of a total of 62 issuers, while 135 issuers reported having no female management board members. As at 31 December 2010, a total of 69 women sat on management boards of a total of 57 issuers, whereas 153 issuers reported having no female management board members. As at 31 December 2009, a total of 82 women sat on management boards of a total of 67 issuers, while 168 issuers reported having no female management board members.

The following text presents the analysis of the data delivered in the 2009, 2010 and 2011 Questionnaire.

Rules of procedure of the management board

The management board may adopt rules of procedure, provided its adoption does not fall, according to the statute, within the competence of the supervisory board, or provided it has not been adopted by the supervisory board without it having such competence. The 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 the handling conflicts of interest, the secretariat of the management board, the manner of

calling and conducting meetings, decision-making, agenda, minute-taking and document-keeping and cooperation with the supervisory board.

- In 2011, a total of 59 issuers reported having an internal regulation on management board activities (rules of procedure of the management board), while 77 and 76 issuers reported having such a regulation on 2010 and 2009 respectively.

Meetings of the management board

Most issuers hold formal sessions as necessary, mostly not more often than once a month.

- In 2011, a total of 36 issuers reported having a schedule of meetings of the management board, while 48 issuers reported having such a schedule in 2010 and 2009.
- In 2011, a total of 15 issuers reported having mechanisms for proxy voting at management board meetings, whereas 16 issuers reported having such mechanisms in 2010 and 2009.

Succession planning

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

- A total of 6 issuers reported having established a succession planning process in 2011, whereas 12 issuers reported having established such a process in 2010 and 2009.

Term of office and duration of the management board membership

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

- In 2011, the average duration of the management board membership was 5.68 years, falling by 5.96% compared with 2010, when it was 6.04 years. In 2009, the average duration of the management board membership was 5.66 years.
- The sequence number of the term of office of management board members held steady at an average of 1.97 in 2011 and 2010, growing by 4.23% relative to 2009, when it totalled an average of 1.89.

Resignation of management board members

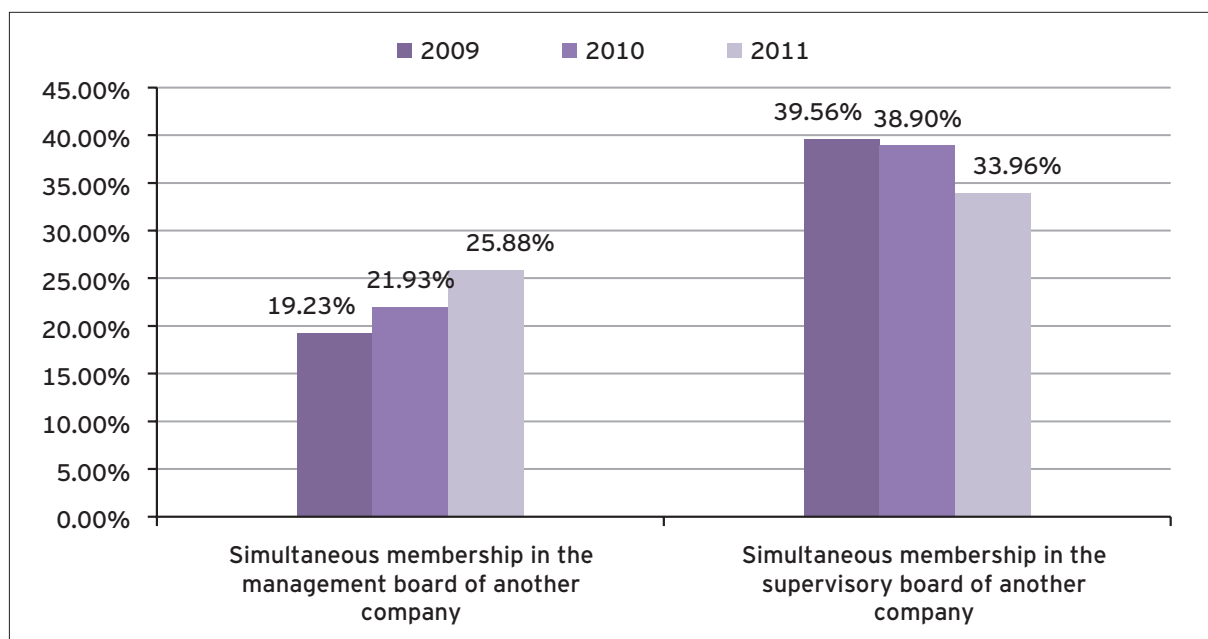
Resignation is one of the commonest ways of terminating a function in a governing body of the issuer. The resignation of the management board member is submitted to the supervisory board in writing.

- In the course of 2011, a total of 19 management board members resigned (no women), of whom five were chairmen of management boards. In 2010, there were also 19 management board members (of whom two were women) who resigned, while 24 management board members resigned in 2009. Management board members resigned due to the transfer to the supervisory board of the issuer, transfer to a function outside the issuer, departure from the Republic of Croatia, personal reasons, termination of employment contract by mutual consent arising from retirement, etc.

Multiple management/supervisory board memberships

Chart 1.9 shows changes in the number of management board members who were at the same time members of management/supervisory boards of other issuers.

Chart 1.9 Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2009, 2010 and 2011



Source: Questionnaire

- Out of 371 analysed management board members (data from the 174 Questionnaires delivered in 2011) 96 or 25.88% were at the same time management board members in another company. In 2010, a total of 383 management board members were analysed (data from the 186 Questionnaires delivered), of whom 84 or 21.93% were at the same time management board members in another company. A total of 364 management board members were analysed in 2009 (data from the 186 Questionnaires delivered), of whom 70 or 19.23% were at the same time management board members in another company.
- In 2011, a total of 126 (33.96%) management board members were at the same time supervisory board members in another company, while a total of 149 (38.90%) and 144 (39.56%) management board members were at the same time supervisory board members in another company in 2010 and 2009 respectively.

1.2.2 The supervisory board⁵

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 Croatian Labour Act (Official Gazette 149/09, 61/11 and 82/12).

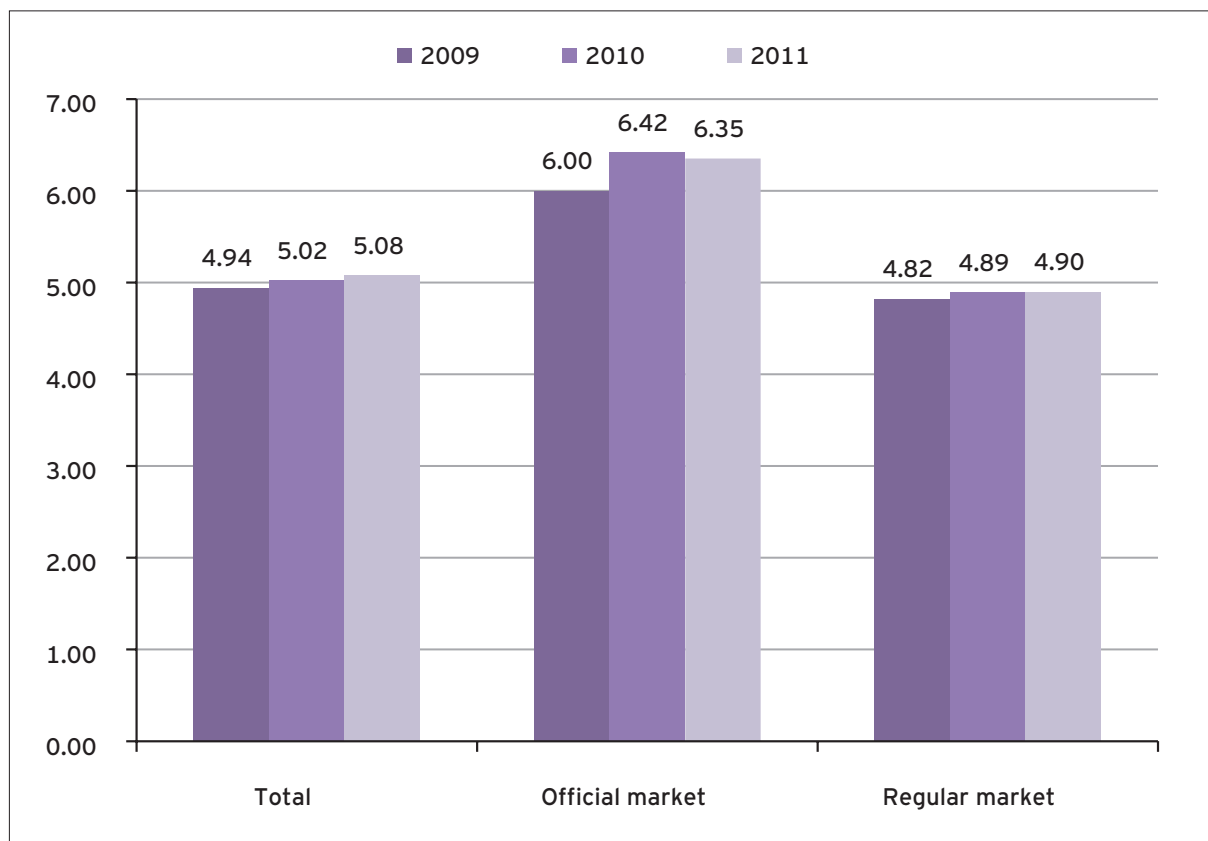
The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2009, 2010 and 2011, except for issuers in bankruptcy or liquidation on the relevant date according to the data from the court register.

- The average number of supervisory board members increased in the three years from 4.94 as at 31 December 2009 to 5.05 as at 31 December 2010 and 2011.
- The minimum number of supervisory board members (3) was reported by 47 issuers as at 31 December 2011, by 48 issuers as at 31 December 2010 and by 59 issuers as at 31 December 2009.
- The maximum number of supervisory board members totalled 13 during the three analysed years, and was reported by only issuer in the same period.

Chart 1.10 shows the average number of supervisory board members as at 31 December 2009, 2010 and 2011 with respect to the type of market.

⁵ Data on the number and gender of supervisory board members have been analysed according to the data from the court register in order for all issuers to be encompassed by the analysis (including those which failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in the cases where some issuers failed to report changes to the court register in a timely manner.

Chart 1.10 The average number of supervisory board members by the type of market as at 31 December 2009, 2010 and 2011



Source: court register

- The total average number of supervisory board members reached 5.08 as at 31 December 2011, growing by 1.20% relative to 31 December 2010, when it totalled 5.02, and rising by 2.83% in comparison with 31 December 2009, when it reached 4.94.
- As at 31 December 2011, the average number of supervisory board members on the official market totalled 6.35, declining by 1.09% compared with 31 December 2010, when it amounted to 6.42, and increasing by 5.83% relative to 31 December 2009, when it stood at 6.00.
- The average number of supervisory board members on the regular market was smaller than on the official market and totalled 4.90 as at 31 December 2011, rising by 0.20% relative to 31 December 2010, when it amounted to 4.89, and increasing by 1.66% relative to 31 December 2009, when it stood at 4.82.

Most of the 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 characteristic of independent supervisory board members is lack of any conflict of interest. The presence of independent supervisory board members contributes to the adoption of objective decisions relating to management board members, the company itself and its shareholders, such as remuneration, new appointments, substantial changes in the ownership structure, anti-takeover measures, large takeovers and audit function.

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

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

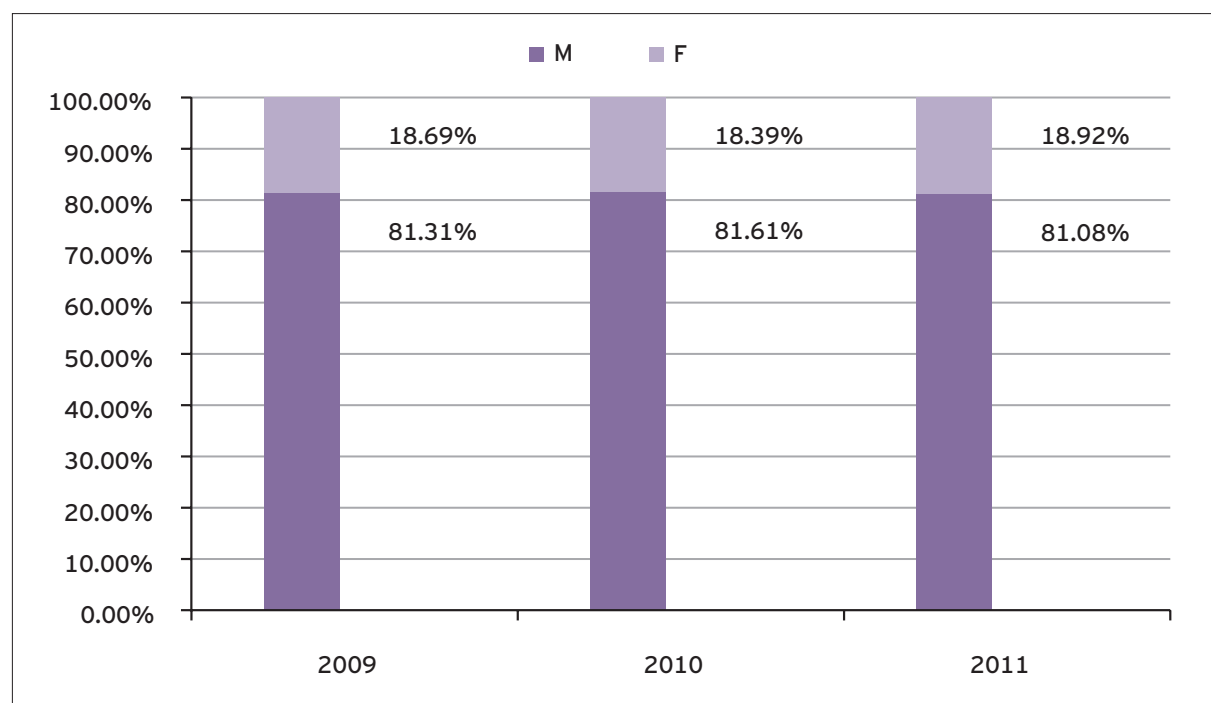
All supervisory board members have equal rights in the decision-making process, irrespective of the said classification.

- According to the data from the 2011 Questionnaire, independent supervisory board members accounted for a 38.68% share in the total number of all analysed members of share issuers' supervisory boards. Employee/trade union representatives made up a 13.05% share, whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it totalled 48.27% of the total number of all supervisory board members.

Gender diversity of supervisory board members

Chart 1.11 shows the proportion of men and women on supervisory boards of issuers in 2009, 2010 and 2011.

Chart 1.11 Proportion of men and women on supervisory boards of issuers in 2009, 2010 and 2011



Source: court register

- In 2011, out of 1,004 analysed supervisory board members, 190 were women, who made up an 18.92% share. In 2010, out of 1,071 analysed supervisory board members, 197 were women, accounting for an 18.39% share. In 2009, there were 216 women out of 1,156 analysed supervisory board members, making up an 18.69% share in the total number of supervisory board members. The average share of women on supervisory boards totalled 18.67% in the three analysed years.

The following text presents the analysis of data according to the answers provided in the Questionnaire for 2009, 2010 and 2011.

Meetings of the supervisory board

- A total of 57 issuers in 2011, and 69 issuers in 2010 and 2009 reported having a schedule of meetings of the supervisory board.
- A total of 55 issuers in 2011, and 52 issuers in 2010 and 2009 reported having mechanisms for proxy voting at supervisory board meetings.

Term of office and duration of the supervisory board membership⁶

- In 2011, the average duration of the supervisory board membership was 5.15 years, falling by 1.53% compared with 2010, when it was 5.23 years, and rising by 9.34% relative to 2009, when it totalled 4.71 years.
- The sequence number of the term of office of supervisory board members totalled an average of 1.96 in 2011, growing by 2.62% compared with 2010, when it amounted to an average of 1.91, and rising by 10.11% relative to 2009, when it stood at an average of 1.78.

Resignation of supervisory board members

- In the course of 2011, a total of 33 (out of 866) supervisory board members resigned before the expiration of their terms of office, of whom seven were women and four were chairmen of supervisory boards. In 2010, there were 46 (out of 961) supervisory board members who resigned, of whom five were women, while 43 (out of 895) supervisory board members resigned in 2009, of whom seven were women.

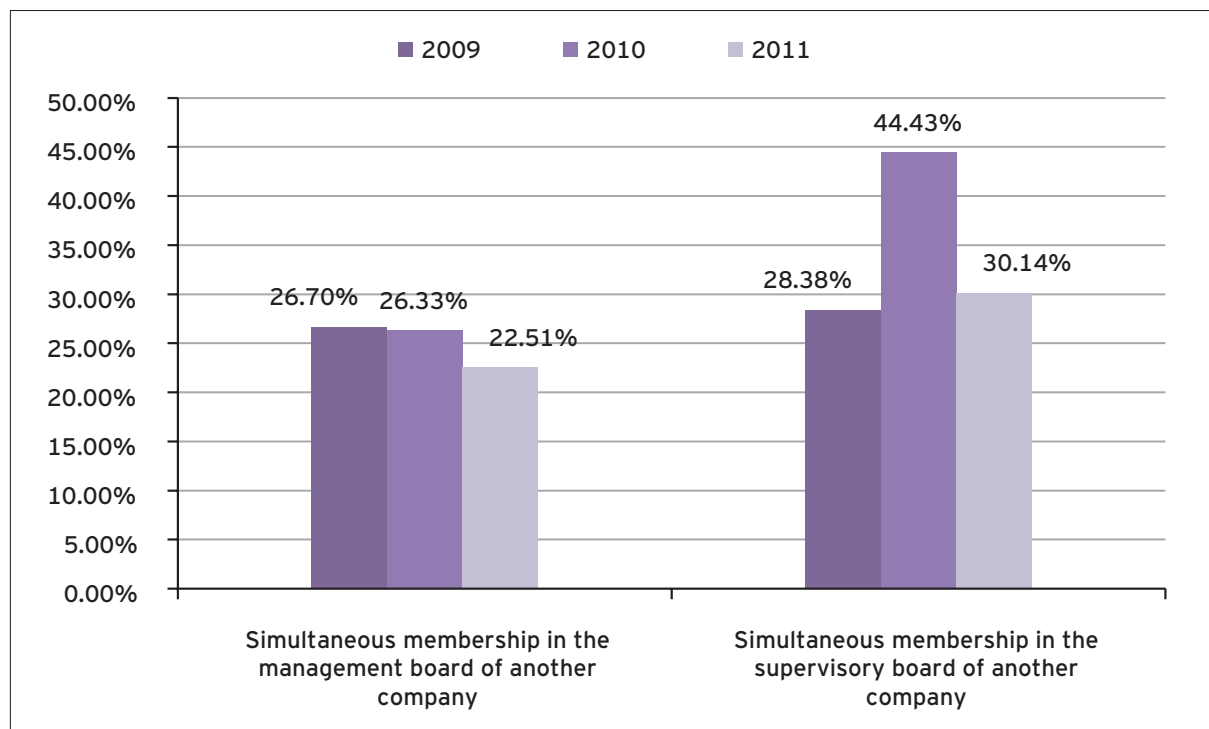
Multiple management/supervisory board memberships

Each member of the supervisory board must notify the issuer of their membership on supervisory boards, boards of directors or management boards of other issuers. Issuers are obliged to keep and regularly update the list of all issuers in which their supervisory board members perform the function of a member of the supervisory board, board of directors or management board.

⁶ The following analysis presents data on the term of office, resignations, and multiple supervisory board memberships according to the data from the 174 Questionnaires delivered. Therefore, the total number of supervisory board members differs with respect to the data from the court register, which relate to all issuers.

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

Chart 1.12 Number of supervisory board members who were at the same time members of management/supervisory boards of other issuers in 2009, 2010 and 2011



Source: Questionnaire

- Out of a total of 866 analysed supervisory board members (data from the 174 Questionnaires delivered in 2011), 195 or 22.51% were at the same time management board members in another company. In 2010, a total of 961 supervisory board members were analysed (data from the 186 Questionnaires delivered), of whom 253 or 26.33% were at the same time management board members in another company. A total of 895 supervisory board members were analysed in 2009 (data from the 186 Questionnaires delivered), of whom 239 or 26.70% were at the same time management board members in another company.
- In 2011, a total of 261 (30.14%) supervisory board members were at the same time supervisory board members in another company, while a total of 307 (44.43%) and 254 (28.38%) supervisory board members were at the same time supervisory board members in another company in 2010 and 2009 respectively.

Supervisory board committees

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

- audit committee,
- nomination committee and
- remuneration committee.

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

- The audit committee was established by the most issuers (46.55% in 2011, 44.62% in 2010 and 40.86% in 2009), and the nomination and remuneration committee was established by ten issuers (5.75% in 2011, 4.84% in 2010 and 5.38% in 2009). The remuneration committee was established by 5.75% issuers in 2011, and by 6.45% and 6.99% issuers in 2010 and 2009 respectively.
- Internal working procedures were established by 36 audit committees, five nomination committees and four remuneration committees.
- Apart from having established the said committees, five issuers reported having set up another committee, whose names were provided by three issuers, namely corporate governance committee, internal control and audit committee and strategy committee.
- In 2011, a total of 25 issuers reported being in the process of preparing a report on the work of committees.

1.2.3 Remuneration

The supervisory board of the issuer is responsible for the adoption of decisions on the remuneration of management and supervisory board members, 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.

1.2.3.1 Remuneration of members of management boards of share issuers

The criteria and amount of remuneration of management board members is determined by the supervisory board. In accordance with Article 247 paragraph 1 of the ZTD, when determining the aggregate income of a particular management board member (salary, profit participation, reimbursement of expenses, payment of insurance premiums, commission 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 condition 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 the particular business year (profit participation, commission, royalties), and
- share options and similar instruments with the effect of long-term incentives.

Table 1.2 presents the number of issuers which reported the average fixed and variable gross amount of remuneration paid to management board members of share issuers, the average amount of other benefits paid to management board members, the average value of options held by management board members and the respective amounts in 2011, 2010 and 2009.

Table 1.2 Amount of remuneration of management board members of share issuers in 2009, 2010 and 2011 (in HRK)

		Average gross amount of remuneration paid to management board members during the year		Average amount of other benefits paid to management board members	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2011	Number of issuers	118	17	10	5
	Amount	574,882	482,458	334,683	640,528
2010	Number of issuers	92	16	9	6
	Amount	470,945	618,455	537,021	1,553,398
2009	Number of issuers	93	16	7	6
	Amount	695,260	1,058,867	107,947	531,372

Source: Questionnaire

- Data on the total gross amount of fixed remuneration paid to management board members were contained in 118 out of 174 Questionnaires (67.82%) delivered for 2011, in 92 out of 186 Questionnaires (49.46%) delivered for 2010 and in 93 (50.00%) Questionnaires delivered for 2009. The amounts ranged from HRK 27 thousand to over HRK 20m in 2011, and from HRK 10 thousand to almost HRK 12.5m in 2009 and 2010. The average fixed amount in all the three analysed years was HRK 580 thousand per single management board member.
- A total of 17 issuers reported the total gross amount of variable remuneration paid to management board members in 2011. The amounts ranged from HRK 13 thousand to over HRK 17m. These amounts were reported by 16 issuers for 2010 and 2009, and ranged from HRK 8 thousand to over HRK 17m. The average variable amount in all the three analysed years was HRK 720 thousand per single management board member.
- Ten issuers reported the total amount of other benefits paid to management board members in 2011, ranging between HRK 1 thousand and HRK 2.2m. The average amount of other benefits in all the three analysed years was HRK 327 thousand per single management board member.
- Five issuers reported the total value of options held by management board members in 2011. The amounts ranged from HRK 18 thousand to almost HRK 9m.
- The total value of options held by management board members was reported by six issuers for 2010 and 2009, and it ranged from HRK 2 thousand to over HRK 17m. The average value of options in all the three analysed years totalled HRK 908 thousand per single management board member.
- A total of 22 issuers in 2011, and 31 and 33 issuers in 2010 and 2009 respectively reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.

Management board remuneration policy

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

- A total of 28 issuers reported having remuneration policy for management board members in place for 2011. Such a remuneration policy was reported by 41 and 40 issuers for 2010 and 2009 respectively.
- Data on remuneration policy for management board members are usually available on the website of the issuer, the Zagreb Stock Exchange, the Agency and the Central Register of Prescribed Information (hereinafter referred to as: CRPI).

Severance pay

- A total of 18 issuers reported total amounts of severance pay for management board members provided for in the contract in 2011, which ranged from HRK 32 thousand to almost HRK 13m. Data on the severance pay for 2010 and 2009 were reported in the form of the number of average salaries; therefore, the values are not comparable. The average amount of severance pay per management board member totalled HRK 625.2 thousand.
- A total of 11 issuers reported total amounts of severance pay given to management board members in 2011, which ranged from HRK 25 thousand to almost HRK 2m. The average amount of severance pay per management board member totalled HRK 432 thousand.

1.2.3.2 Remuneration of members of supervisory boards of share issuers

Pursuant to Article 269 of the ZTD, members of the supervisory board may receive remuneration for their services which may be defined as the participation of 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. The remuneration must be in line with the activities carried out by the supervisory board members and to the performance of the issuer.

- In 2011, a total of 33 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 32 issuers reported that in 2010 and 2009. A total of 95 issuers reported the level of supervisory board member remuneration being determined by the decision of the general meeting, while 122 and 124 issuers reported that for 2010 and 2009 respectively. The other issuers did not provide their answers.

Table 1.3 presents the number of issuers which reported the average fixed and variable gross amount of remuneration paid to supervisory board members of share issuers, the average amount of other benefits paid to supervisory board members, and the respective amounts in 2011, 2010 and 2009.

Table 1.3 Amount of remuneration of supervisory board members of share issuers in 2009, 2010 and 2011 (in HRK)

		Average gross amount of remuneration paid to supervisory board members during the year		Average amount of other benefits paid to supervisory board members
		Fixed remuneration	Variable remuneration	
2011	Number of issuers	123	5	2
	Amount	88,269	115,220	12,322
2010	Number of issuers	113	5	0
	Amount	318,064	796,472	0
2009	Number of issuers	113	5	2
	Amount	70,173	113,285	10,635

Source: Questionnaire

- A total of 123 issuers reported the total gross amount of fixed remuneration paid to supervisory board members in 2011. The amounts ranged from HRK 1 thousand to almost HRK 2m. A total of 113 issuers reported the total gross amount of fixed remuneration paid to supervisory board members in 2010 and 2009, and the amounts ranged between HRK 500.00 and HRK 2.5m. The average fixed amount in all the three analysed years was HRK 159 thousand per single supervisory board member.
- Five issuers reported the total gross amount of variable remuneration paid to supervisory board members in 2011, 2010 and 2009. The amounts ranged between HRK 16 thousand and HRK 1.4m in 2011, and from about HRK 2 thousand to HRK 1.5m in 2010 and 2009. The average variable amount in all the three analysed years was HRK 342 thousand per single supervisory board member.
- The total amount of other benefits paid to supervisory board members in 2011 was reported by only two issuers and totalled about HRK 70 thousand. The average amount of other benefits in all the three analysed years was HRK 8 thousand per single supervisory board member.
- A total of 24 issuers reported the submission of the annual remuneration policy statement relating to supervisory board members to the general meeting.

1.2.4 Related party transactions

- In 2011, a total of 26 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 29 and 30 issuers in 2010 and 2009 respectively.

Table 1.4 sets out the average value of reported transactions during 2009, 2010 and 2011, concluded by the issuer with the following interest groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 1.4 Average value of reported related party transactions in 2009, 2010 and 2011 (in HRK)

		Average gross value of transactions (related party transactions) concluded by the issuer with:			
		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	within the group the issuer belongs to or is its parent
2011	Number of issuers having reported the transaction	53	23	13	65
	Transaction value	311,242,113	4,190,705	5,857,689	506,438,365
2010	Number of issuers having reported the transaction	45	17	15	74
	Transaction value	260,633,182	3,257,705	4,819,829	436,182,269
2009	Number of issuers having reported the transaction	43	18	14	73
	Transaction value	260,628,134	4,475,516	370,726	419,318,842

Source: Questionnaire

- Values of transaction with significant shareholders (above 5% of the initial capital) were reported by a total of 53 out of 174 issuers which delivered the completed Questionnaire for 2011, by 45 out of 186 issuers which delivered the completed Questionnaire for 2010 and by 43 issuers in 2009.

1.2.5 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 2011, a total of 30 issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest, while such a regulation was reported by 31 issuers at the end of 2010 and 2009. The internal regulations contained the following basic provisions relating to conflicts of interest: identifying potential and/or actual conflicts of interest, determining preventive measures, establishing high standards of business conduct, transparency, preventing preferential treatment when concluding contracts, protecting property, preventing bribery and corruption, transactions not in the interest of the company, membership on boards of competing companies, protecting investors through the prevention of use of inside information, monitoring transactions by relevant persons, monitoring arrangements, imposing penalties, etc.
- The number of conflicts of interest was reported by one issuer only in 2011 and 2010.

1.2.6 General meeting

The general meeting is the only governing body of the issuer whose work is open to participation of all shareholders. The main function of the general meeting is to ensure the expression of the shareholders' will. 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 174 completed Questionnaires, three issuers failed to hold the general meeting in 2011. According to the data from 186 Questionnaires completed in 2010, eight issuers failed to hold the general meeting (data lacking for one issuer), whereas five issuers reported not having held the general meeting in 2009 (data lacking for one issuer).
- According to the data from 174 completed Questionnaires, a total of 125 issuers reported having held only one general meeting in 2011, whereas 46 issuers held two or more general meetings. According to the data from 186 Questionnaires completed in 2010, a total of 148 issuers held only one (annual) general meeting, whereas 29 issuers held two or more general meetings. In 2009, a total of 150 issuers held only one general meeting, whereas 30 issuers held more than one general meeting.
- The maximum number of general meetings held in 2011, 2010 and 2009 was three.
- Out of a total of 215 general meetings held during 2011, there were 175 regular and 40 extraordinary general meetings.

Remote voting

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

- Remote voting (e.g. by electronic means) was allowed at ten general meetings held in 2011.

Internal rules of procedure of the general meeting

- A total of 57 issuers reported having internal rules of procedure of the general meeting in place for 2011, out of which two issuers reported changes in their rules of procedure during the year.
- A total of 42 issuers reported having sent the invitation to the general meeting by registered mail.

Participation in the general meeting

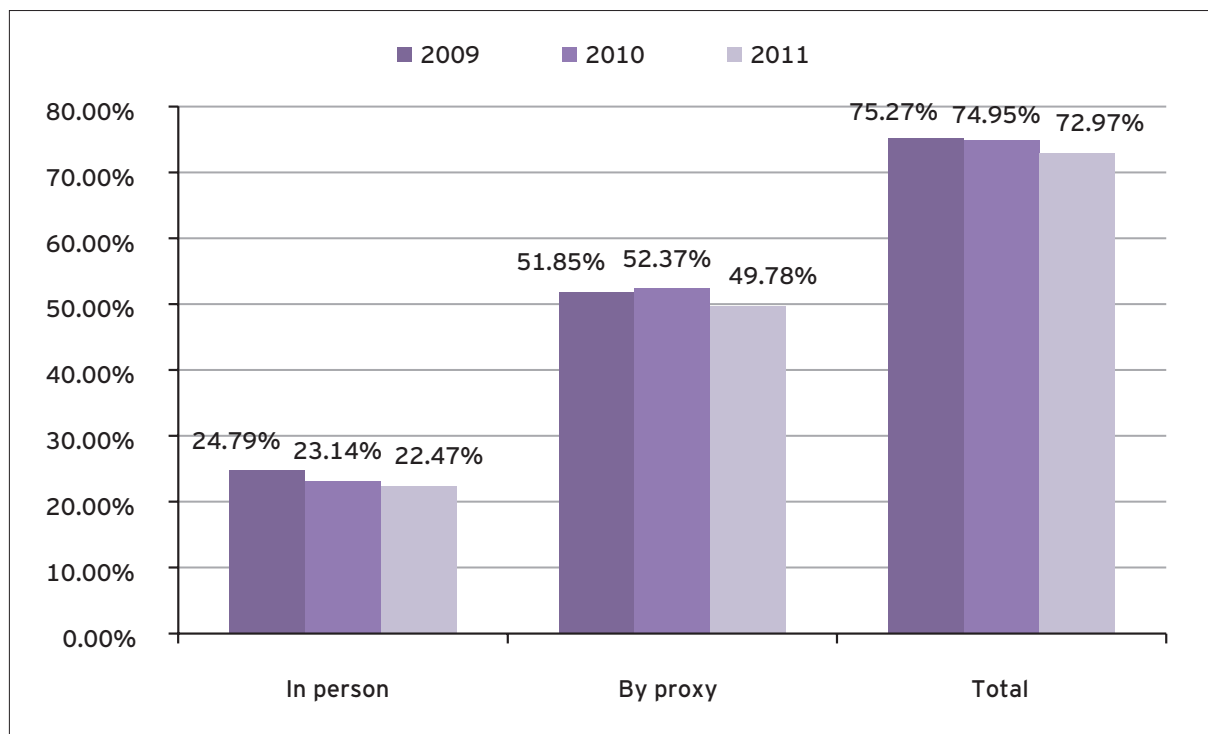
Participation in the work of the general meeting is a fundamental and indefeasible right of shareholders (right to participate). This right may be exercised through a representative (especially in the case of a legal person), but in majority of cases it is exercised by proxy.

All members of the issuer's governing bodies must participate in the work of the general meeting. The obligation to attend the general meeting relates to all members of the management and supervisory

board or board of directors, not only to their members who submit reports or draft decisions. In other words, even those members of the management and supervisory board or board of directors who are not submitters or petitioners are obliged to attend the general meeting.

Chat 1.13 presents the average percentage of the initial capital owned by shareholders who participated in the general meeting and the percentage of the initial capital owned by shareholders who participated in the general meeting in person and by proxy.

Chart 1.13 Participation of shareholders in general meetings during 2009, 2010 and 2011



Source: Questionnaire

- The percentage of the initial capital owned by shareholders who participated in general meetings in 2011 fell by 2.65% relative to the previous year and totalled 72.97%. The data for 2009, 2010 and 2011 point to a downward trend in general meeting participation.
- The percentage of average participation of shareholders in general meetings held in 2009, 2010 and 2011 amounted to 74.40%, out of which a 23.47% share related to participation in person, and a 51.33% share related to participation by proxy.
- The percentage of initial capital owned by members of the management and supervisory board who participated in general meetings held in 2011 in their capacity as shareholders totalled 7.06%.
- The percentage of initial capital owned by institutional investors (referred to in Article 61 of the Croatian Capital Market Act, Official Gazette 88/08, 146/08 and 74/09) which participated in general meetings held in 2011 in their capacity as shareholders amounted to 13.01%.
- The percentage of initial capital owned by shareholders who voted remotely in general meetings held in 2011 totalled 0.28%.

Voting limitations, attendance conditions and decision making

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

- Shareholder voting rights were restricted at 12 general meetings held in 2011. In most of those cases, voting rights were restricted due to the reason referred to in Article 293 paragraph 1 of the ZTD, namely issuance of clearance to members of management and supervisory boards or boards of directors.

Counterproposals

Shareholders may submit their counterproposals, along with an explanation, to the draft decision contained in the invitation to the general meeting provided by the management and/or supervisory board or board of directors on a certain point on the agenda, not later than two weeks prior to the general meeting.

- Counterproposals were submitted for 38 general meetings held in 2011. The most counterproposals were submitted by shareholders with less than 5% of the initial capital (11), followed by shareholders with more than 5% and less than 25% of the initial capital (7). Four counterproposals were submitted by institutional investors and two by management board members in their capacity as shareholders. Ten issuers did not provide any answer to this matter.
- A total of 20 issuers reported that all the counterproposals had been adopted.

1.3 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 itself, including that for the corporate governance.

1.3.1 Internal audit

Pursuant to the Corporate Governance Code, internal auditors' task is to carry out internal control activities and 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.

Effective internal audit and audit committee mechanisms must be in place in order to ensure good corporate governance in the interest of different shareholders.

- A total of 66 or 37.93% of the issuers who submitted the Questionnaire for 2011 reported having an internal audit system in place. A total of 34.41% and 33.87% of the 186 issuers who submitted the completed Questionnaire for 2010 and 2009 respectively reported having an internal audit system in place. (Ten issuers did not provide their answers.)
- A total of 105 or 60.34% of the issuers who submitted the Questionnaire for 2011 reported having an internal control system in place. A total of 61.29% and 60.75% of the 186 issuers who submitted the completed Questionnaire for 2010 and 2009 respectively reported having an internal control system in place. (Eight issuers did not provide their answers.)

1.3.2 Managing company risks

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

- In 2011, a total of 47 issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- A total of 41 issuers reported having appointed a person in charge for risk management.
- A total of 65 issuers reported some of the risks having materialised during the year. The most common materialised risks were the liquidity, currency, market and credit risk. According to the issuers,

the following were the reasons for the risks being materialised: changes in exchange rates and interest rates, political environment, economic crisis in the country and worldwide, problems in the collection of receivables, unemployment, losses on business operations, termination of production etc.

- According to the issuers, the most frequent business risks (according to the groups provided) were:
 - liquidity risk (17.82%)
 - liquidity, credit, interest rate and operational risk (13.79%),
 - liquidity, credit and interest rate risk (12.07%),
 - macroeconomic environmental risk (10.34%),
 - liquidity, credit, interest rate, operational, political and macroeconomic environmental risk (5.17%).

1.3.3 External audit

Pursuant to the Corporate Governance Code, companies must have external auditors, who represent an important corporate governance tool. The basic 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 an auditor who is not related through ownership or other interests with the company and does not provide any services to the company.

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

- A total of 55 different audit companies were reported in the 174 Questionnaires submitted at the end of 2011. The largest number of issuers making use of services of the same audit company was 24.
- The average length of the time period during which issuers used services of the same audit company was 6.98, 6.67 and 6.44 years for 2011, 2010 and 2009 respectively.
- The average length of the time period during which issuers used services of the same certified auditor in the same company was 5.33, 5.39 and 5.35 years for 2011, 2010 and 2009 respectively.
- A total of 162 issuers reported the gross amount paid to the external audit company for auditing services provided in 2011. The amount totalled an average of HRK 545 thousand, ranging from HRK 12 thousand to almost HRK 5m.
- A total of 163 issuers reported the annual amount paid to the audit company for auditing services provided in 2010. The amounts ranged from HRK 5 thousand to over HRK 6.5m.
- The said amounts were reported by 169 issuers in 2009, and ranged between HRK 10 thousand and 4m.
- In 2011, four issuers reported family or business relations between the external audit company and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

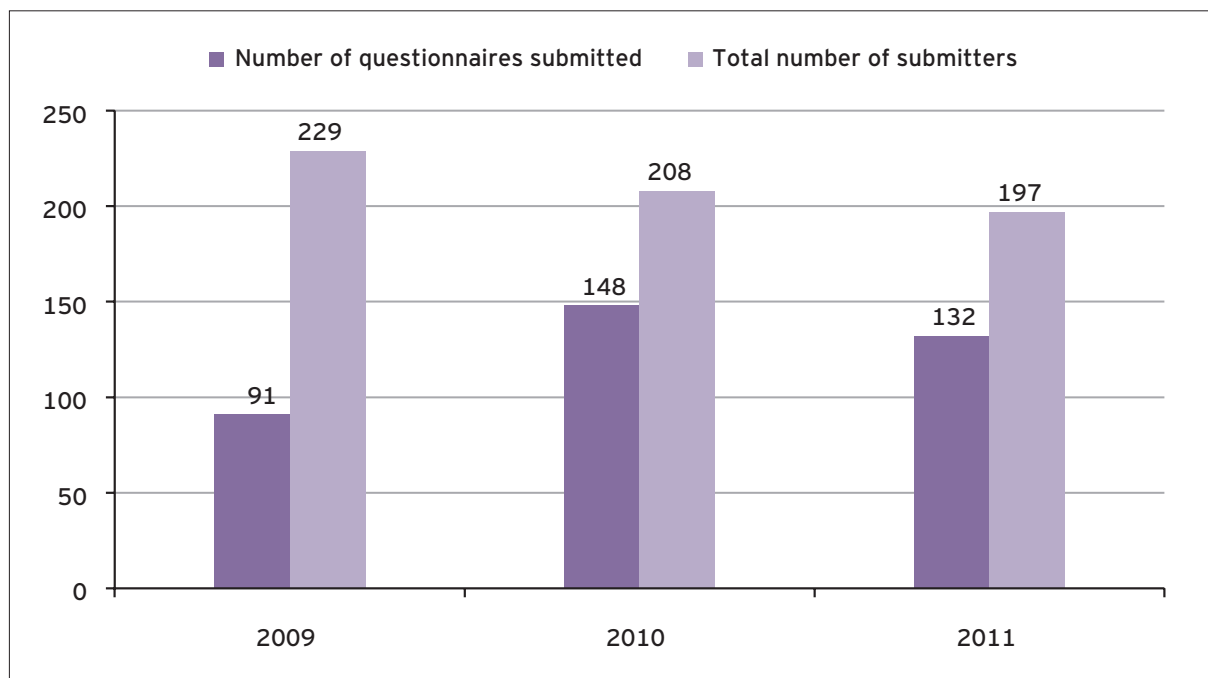
1.4 Code of Corporate Governance

Pursuant to the Zagreb Stock Exchange Rules, issuers with shares admitted to trading on the regulated market of the Zagreb Stock Exchange are obliged to apply the Code of Corporate Governance (hereinafter referred as: Code), drawn up by the Zagreb Stock Exchange and the Agency. If issuers fail to implement the recommendations contained in the Code, they must provide information on recommendations they failed to apply and reasons for failing to apply them. The purpose of the Code is to offer recommendations to the joint stock companies on good governance, introduction and implementation of best business practices, to provide governing bodies of issuers with instructions on how to act in certain events, to include provisions in the statutes which have proved to be useful in practice, etc.

The obligation to complete a questionnaire which is an integral part of the Code applies to all issuers with shares admitted to trading on the regulated market, except to closed-end investment funds. Issuers falling within the scope of the Code meet their obligation by publishing fully completed annual questionnaire which is an integral part of the Code on their website and by submitting it to the Zagreb Stock Exchange, which publishes it on its website, as well.

Chart 1.14 shows the number of issuers which submitted the annual questionnaire to the Zagreb Stock Exchange in 2009, 2010 and 2011.

Chart 1.14 Number of submitted questionnaires from the Code in 2009, 2010 and 2011



Source: Zagreb Stock Exchange

- The questionnaire contained in the Code was submitted by 132 issuers or 67.01% submitters in 2011 (by 31 July 2011), 148 issuers or 71.15% submitters in 2010 and 91 issuers or 39.74% submitters in 2009.

Table 1.5 shows the number of annual questionnaires by groups of activities submitted in 2009, 2010 and 2011.

Table 1.5 Number of questionnaires from the Code by groups of activities submitted in 2009, 2010 and 2011

Group of activities	2009			2010			2011		
	TOTAL	Questionnaire submitted	%	TOTAL	Questionnaire submitted	%	TOTAL	Questionnaire submitted	%
FINANCIAL SECTOR									
Banks	16	11	68.75	14	12	85.71	14	14	100.00
Insurance	6	5	83.33	6	5	83.33	6	5	83.33
NON-FINANCIAL SECTOR									
Agriculture	8	4	50.00	7	5	71.43	7	6	85.71
Industry									
a. Shipbuilding	4	3	75.00	4	3	75.00	4	3	75.00
b. Wood industry	5	0	0.00	4	3	75.00	3	1	33.33
c. Energy	1	0	0.00	1	0	0.00	1	1	100.00
d. Pharmaceuticals	3	1	33.33	3	2	66.67	3	2	66.67
e. Food, beverage and tobacco	30	10	33.33	25	19	76.00	25	16	64.00
f. Chemical industry	10	3	30.00	8	7	87.50	8	5	62.50
g. Metalworking industry	12	2	16.67	12	5	41.67	10	4	40.00
h. Textile industry	10	2	20.00	9	5	55.56	8	4	50.00
i. Other industries	6	4	66.67	6	4	66.67	6	3	50.00
Construction industry	14	5	35.71	13	10	76.92	12	6	50.00
Property	4	3	75.00	4	2	50.00	4	2	50.00
Telecommunications	5	3	60.00	5	4	80.00	5	4	80.00
Transport	13	2	15.38	12	9	75.00	12	7	58.33
Trade	21	11	52.38	20	16	80.00	19	14	73.68
Tourism	57	21	36.84	51	35	68.63	46	33	73.91
Other activities	4	1	25.00	4	2	50.00	4	1	25.00
TOTAL (without closed-end investment funds)	229	91	39.74	208	148	71.15	197	132	67.01

Source: Zagreb Stock Exchange

- Out of the 132 issuers which delivered the questionnaire from the Code, the largest number (in absolute terms) was made up by issuers from the tourism industry, followed by issuers from the food, beverage and tobacco industry, trade and banking sector. In relative terms, a 100% share of issuers which delivered the questionnaire was reported only by the banking and energy sector (comprising only one issuer). These sectors were followed by agriculture with an 85.71% share (6 out of 7 issuers),

insurance with an 83.33% share (5 out of 6 issuers), telecommunications with an 80.00% share (4 out of 5 issuers), shipbuilding with a 75.00% share (3 out of 4 issuers), tourism with a 73.91% share (34 out of 46 issuers) and trade with a 73.68% share (14 out of 19 issuers). The relative share of issuers from other activities which submitted the questionnaire totalled 70%. All the data relate to the questionnaires submitted for the year 2011.

- According to the data from the questionnaires delivered for 2011, a total of 94 issuers reported having published the questionnaire on their websites.
- In addition to this Code, a total of 37 issuers reported applying another corporate governance code, namely the Code of Corporate Governance of Companies in which the Republic of Croatia Has Shares or Units, the Code of Business Ethics of the Croatian Chamber of Commerce, the Code of Insurance and Reinsurance Business Ethics, the Code of Investment Funds or issuers' own corporate governance codes.

1.5 Relations with investors

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

1.5.1 Website of the issuer

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

- According to the data from 174 Questionnaires submitted in 2011, a total of 169 share issuers (97.13%) reported having their website in Croatian, and 102 issuers (58.62%) reported having their website in English as well. According to the data from 186 Questionnaires submitted in 2010, a total of 179 issuers (96.24%) reported having their website in Croatian, and 111 issuers (59.68%) reported having their website in English as well.

Issuers are obliged to publish on their websites all the information they are required to disclose under the law or the statute.

- According to the data for 2011, a total of 143 issuers (82.18%) reported publishing prescribed transparency information on their websites. A total of 145 issuers (77.96%) reported publishing that information in 2010.

Issuers are also obliged to publish on their websites all material facts, financial statements, calendar of significant events, ownership structure, CVs of members of the management and supervisory board and board of directors and data on the person in charge of investor relations.

- In 2011, a total of 45 issuers (25.86%) reported having a separate organisational unit or employees exclusively in charge of public (investor) relations. In 2010, a total of 44 issuers (23.66%) provided the same answer, which points out to a positive trend in the development of public (investor) relations.
- In 2011, a total of 20 issuers (11.49%) reported having a function in charge of monitoring the position of the issuer on the capital market (preparation of analyses, assessment of market position etc.). Nine issuers (4.84%) provided the same answer in 2010.
- A total of 13 issuers (7.47%) reported having concluded a contract with a market maker. Nine issuers (4.84%) reported having concluded such a contract in 2010.
- In 2011, a total of 49 issuers (28.16%) reported having published the calendar of significant events on their website. In 2010, a total of 48 issuers (25.81%) provided the same answer.

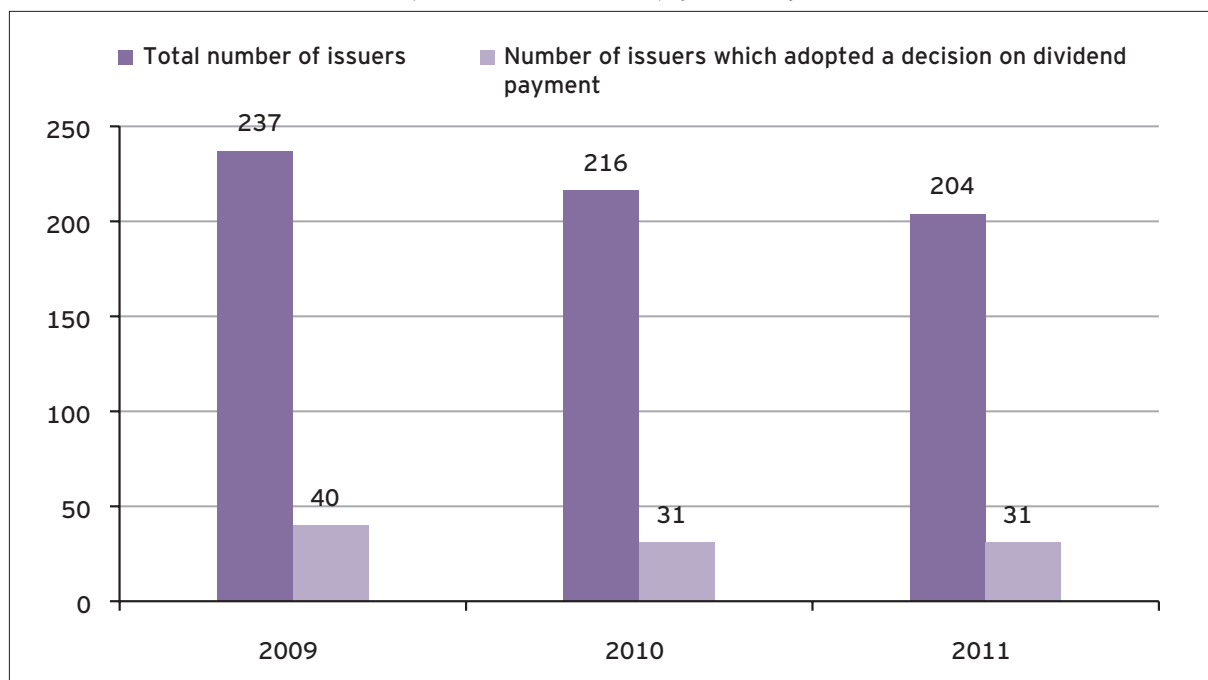
- A total of 27 issuers reported having held one or more press conferences during 2011. The largest number of press conferences held by one issuer was 37. The most common reasons for convening press conferences were presentations of business results (including financial data) and significant activities, signing of important contracts, presentations of products, new brands and promotions, announcements of investments and events, ownership restructuring, capital increase through a public offering, sponsorships, etc.

1.5.2 Dividend payments

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

Chart 1.15 shows the relation between the total number of issuers and issuers which adopted a decision on dividend payment during 2009, 2010 and 2011.

Chart 1.15 Number of issuers which adopted a decision on dividend payment during 2009, 2010 and 2011



Source: CDCC

- In 2011, out of 204 share issuers, 31 issuers (15.20%) adopted a decision on dividend payment for a total of 35 shares. In 2010, the same number of issuers adopted a decision on dividend payment for 34 shares (14.35% of all issuers). A decision on dividend payment was adopted by 40 issuers (16.88%) for a total of 45 shares in 2009.

1.5.3 Submission of financial statements of the issuer

The following analysis relates to the submission of financial statements of issuers with shares admitted to trading on the regulated market of the Zagreb Stock Exchange to the CRPI, in the following periods:

- annual report for 2009 (hereinafter referred to as: AFR 2009),
- quarterly report for the first quarter 2010 (hereinafter referred to as: Q1-2010),
- quarterly report for the second quarter 2010 (hereinafter referred to as: Q2-2010),
- quarterly report for the third quarter 2010 (hereinafter referred to as: Q3-2010),
- quarterly report for the fourth quarter 2010 (hereinafter referred to as: Q4-2010),
- annual report for 2010 (hereinafter referred to as: AFR 2010),
- quarterly report for the first quarter 2011 (hereinafter referred to as: Q1-2011),
- quarterly report for the second quarter 2011 (hereinafter referred to as: Q2-2011),
- quarterly report for the third quarter 2011 (hereinafter referred to as: Q3-2011),
- quarterly report for the fourth quarter 2011 (hereinafter referred to as: Q4-2011), and
- annual report for 2011 (hereinafter referred to as: AFR 2011).

The following text provides statistical data on the submission of financial statements of equity and bond issuers on the regulated market, in absolute and relative terms, with regard to the total number of submitters of AFR 2009, Q1-2010, Q2-2010, Q3-2010, Q4-2010, AFR 2010, Q1-2011, Q2-2011, Q3-2011, Q4-2011 and AFR 2011.

The obligation to submit financial statements relates to the financial statements submitted in the xls form, containing the following:

1. balance sheet,
2. profit and loss account,
3. cash flow statement,
4. statement on changes in equity,
5. notes to the financial statements.

The analysis has been carried out according to the following categories:

- timely submission
- belated submission (one or more days)
- failure to submit.

Table 1.6 presents statistical data on the submission of financial statements of share issuers on the regulated market, in absolute and relative terms, with regard to the number of submitters.

Table 1.6 Statistical data on the submission of financial statements of share issuers on the regulated market for AFR 2009, Q1-2010, Q2-2010, Q3-2010, Q4-2010, AFR 2010, Q1-2011, Q2-2011, Q3-2011, Q4-2011 and AFR 2011

Time period	Number of share issuers	Timely submission		Belated submission		Failure to submit	
		Absolute amount	%	Absolute amount	%	Absolute amount	%
AFR 2009	225	177	78.67	47	20.89	1	0.44
Q1-2010	225	159	70.67	65	28.89	1	0.44
Q2-2010	219	185	84.47	33	15.07	1	0.46
Q3-2010	217	193	88.94	23	10.60	1	0.46
Q4-2010	215	186	86.51	28	13.02	1	0.47
AFR 2010	215	167	77.67	47	21.86	1	0.47
Q1-2011	215	180	83.72	34	15.81	1	0.47
Q2-2011	211	184	87.20	25	11.85	2	0.95
Q3-2011	207	176	85.02	29	14.01	2	0.97
Q4-2011	201	146	72.64	53	26.37	2	1.00
AFR 2011	198	163	82.32	30	15.15	5	2.53
On average			81.62		17.59		0.79

Source: CRPI

- In all the reporting periods, an average of 81.62% of all submitters (share issuers) submitted their financial statements on time, while 17.59% of them were one or more days late for the submission. An average of 0.79% of the submitters failed to submit their financial statements.

2 Annual Report on Corporate Governance of Bond Issuers

Introduction

- At the end of 2011, a total of 16 bonds were issued by 14 different issuers. Twelve issuers issued one bond each and two issuers issued two bonds each.
- The interest rate ranged between 5.0000% and 12.0000% and totalled an average of 7.5161%.
- Two issuers listed their corporate bonds on the official market of the Zagreb Stock Exchange for the first time.
- Four issuers delisted their corporate bonds from the official market, or specifically, their bonds came due in the course 2011.
- At the end of 2011, one bond issuer belonged to the financial and 13 issuers to the non-financial sector. The majority of issuers (4) belonged to the telecommunications industry, two issuers to transport and trade industry respectively and one issuer each was from the energy, pharmaceuticals, construction, tourism and other industries.

2.1 Capital of corporate bond issuers

2.1.1 Initial capital

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

Table 2.1 Initial capital of bond issuers as at 31 December 2009, 2010 and 2011

Bond issuers	Number of issuers				2009	2010	2011
	2009	2010	2011				
With listed shares	5	5	3	Initial capital	2,385,485,400	2,390,961,600	631,588,700
				Market capitalisation	837,907,772	833,960,000	306,576,680
Without listed shares	10	11	11	Initial capital	24,092,023,048	25,000,850,448	22,996,963,848
				Market capitalisation	3,006,146,344	3,534,636,174	2,877,066,455
TOTAL	15	16	14	Initial capital	26,477,508,448	27,391,812,048	23,628,552,548
				Market capitalisation	3,844,054,116	4,368,596,174	3,183,643,135

Source: court register, Zagreb Stock Exchange

- At the end of 2011, the number of bond issuers decreased from 16 to 14, or by 12.50% relative to 2010.
- Out of 14 bond issuers, only three also listed their shares on the regulated market of the Zagreb Stock Exchange (Ingra d.d., Jadranka d.d. and OT-optima telekom d.d.), while in the previous two years shares were listed by five bond issuers.
- At the end of 2011, the total initial capital of all corporate bond issuers decreased by 13.74% compared to the previous year. The initial capital of corporate bond issuers with listed shares fell by 73.58%, whereas an 8.02% decrease in the initial capital was reported by corporate bond issuers without listed shares.
- At end-2011, the total market capitalisation of all corporate bond issuers decreased by 27.12% relative to the previous year. Market capitalisation of corporate bond issuers with listed shares fell by 63.24%, whereas an 18.60% fall in market capitalisation was reported by corporate bond issuers without listed shares.

2.1.2 Ownership structure of bond issuers

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

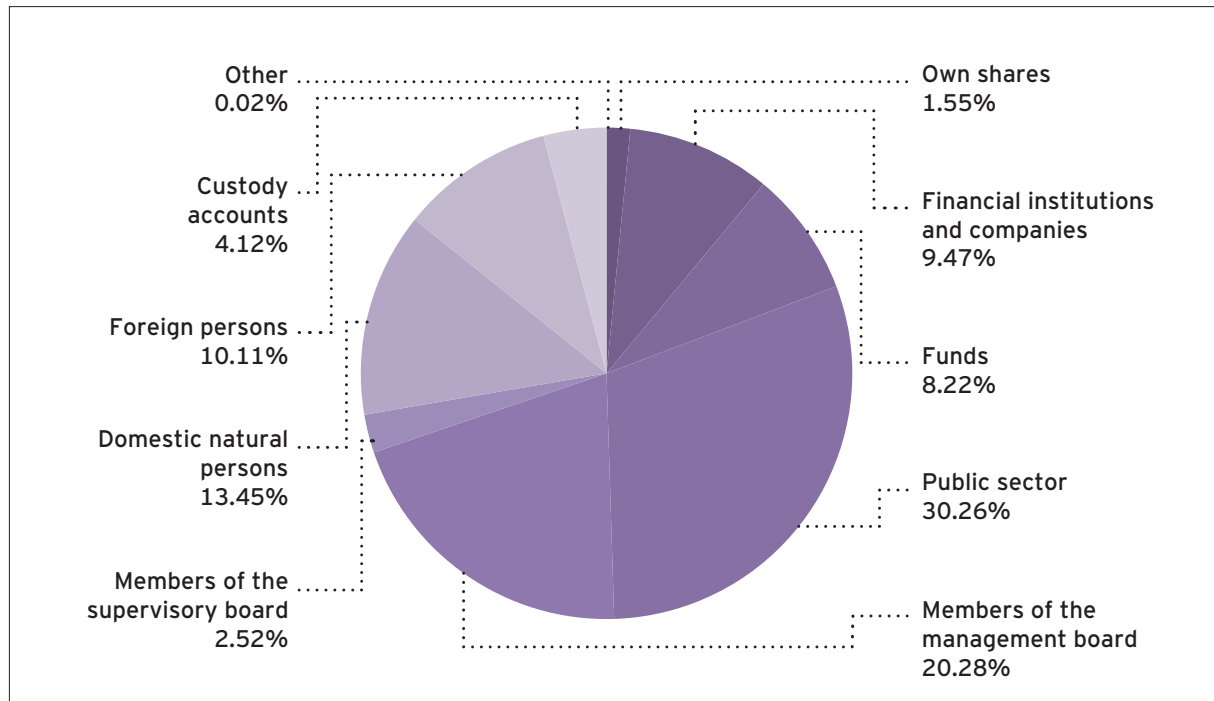
The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to one group only.

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 2011 by the above mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31 December 2011



Source: CDCC

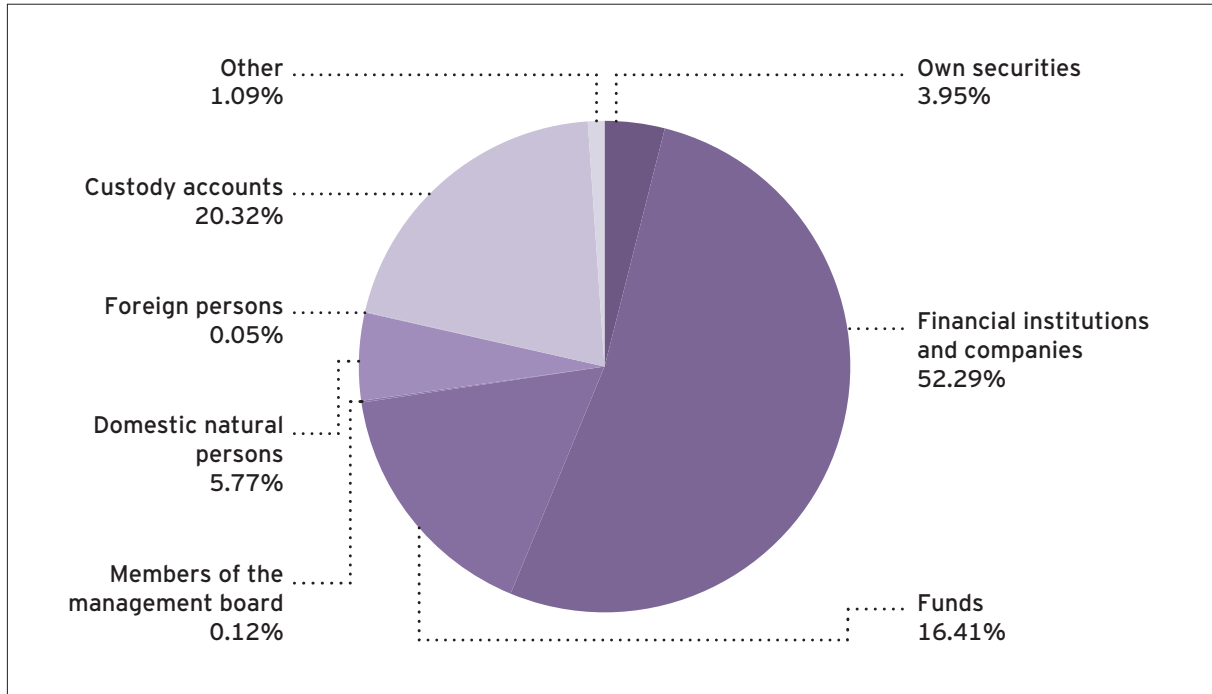
- The ownership structure of corporate bond issuers established as joint-stock companies was dominated by the public sector or the Republic of Croatia with a 30.26% share, followed by members of management boards of issuers with a 20.28% share, domestic natural persons with a 13.45% share, foreign persons with a 10.11% share, financial institutions and companies with a 9.47% share, funds with an 8.22% share, custody accounts with a 4.12% share, supervisory board members with a 2.52% share, own shares with a 1.55% share, and the “other” category with a 0.02% share.

2.1.3 Ownership structure of bondholders

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

Chart 2.2 presents the structure of holders of corporate bonds as at 31 December 2011 by the said categories.

Chart 2.2 Structure of holders of corporate bonds as at 31 December 2011



Source: CDCC

- Financial institutions and companies were holders of corporate bonds accounting for the largest share (52.29%) in the total structure, and were followed by custody accounts with a 20.32% share, funds with a 16.41% share, domestic natural persons with a 5.77% share, own shares with a 3.95% share, management board members with a 0.12% share, foreign persons with a 0.05% share and the “other” category with a 1.09% share.

2.2 Governing bodies of corporate bond issuers

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

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

2.2.1 The management board

This chapter presents an analysis of data on members of the management board of bond issuers established as joint-stock companies (which includes Jadrolinija, which has a special legal form), as at 31 December 2009, 2010 and 2011.

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 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 (and has included Jadrolinija, which has a special legal form).

The following analysis presents the number of members of the management board of joint-stock companies – corporate bond issuers, totalling 13, 14 and 11 at the end of 2009, 2010 and 2011 respectively.

Chart 2.3 shows the total number of members of the management board of bond issuers as at end of 2009, 2010 and 2011.

Chart 2.3 Total number of management board members as at 31 December 2009, 2010 and 2011



Source: court register, HANFA

- As at 31 December 2011, the total number of members of the management board of corporate bond issuers was 35, decreasing by 35.19% in comparison with 2010, when there were three issuers more and a total of 54 management board members. The number fell by 31.37% in comparison with 2009, when there were two issuers more and a total of 51 management board members.
- In all the three analysed years (as at 31 December), two bond issuers had only one management board member.
- As at 31 December 2011, the largest number of management board members was 6, which was the number of management board members reported by one bond issuer only. As at 31 December 2010 and 2009, the largest number of management board members was eight, which was the number of management board members reported by one bond and share issuer only.

Chart 2.4 shows the average number of members of the management board of corporate bond issuers as at 31 December 2009, 2010 and 2011.

Chart 2.4 The average number of members of the management board of bond issuers as at 31 December 2009, 2010 and 2011



Source: court register, HANFA

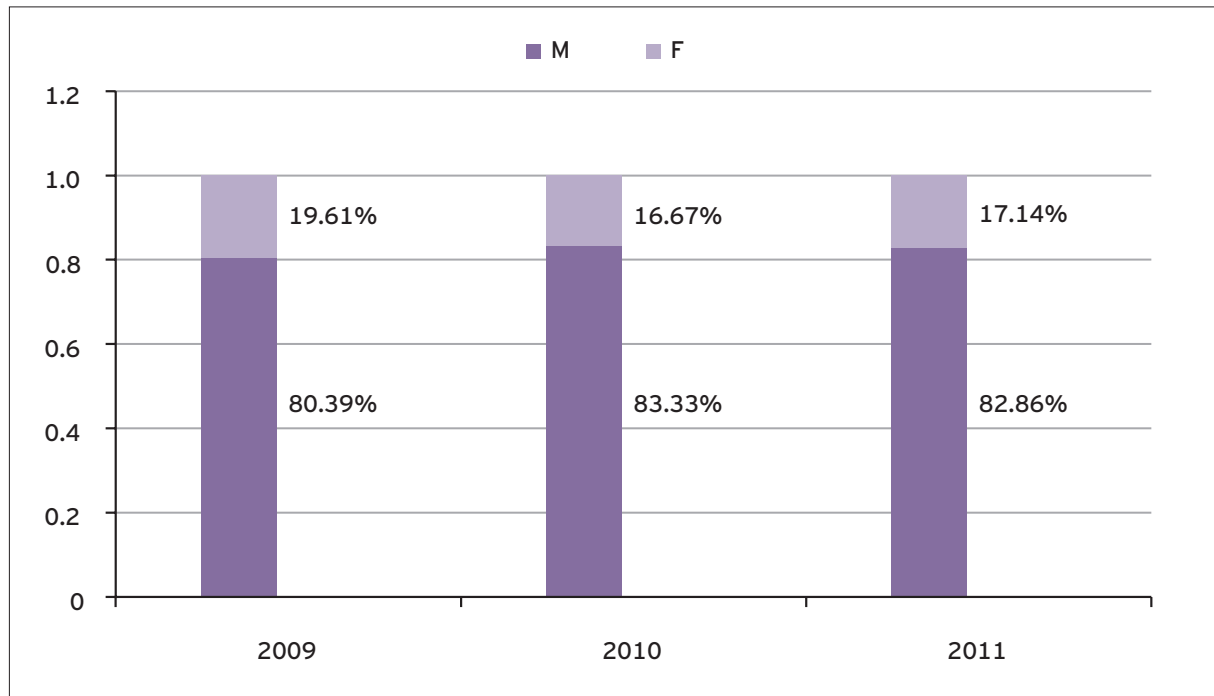
- As at 31 December 2011, the average number of members of the management board of corporate bond issuers totalled 3.18, declining compared to 31 December 2010, when the average number of management board members amounted to 3.86 (a 17.62% decrease), and falling relative to 31 December 2009, when the number stood at 3.92 (an 18.88% decrease).

Gender structure

- As at 31 December 2011, six women sat on management boards of corporate bond issuers, 33.33% fewer than in 2010, and 40.00% fewer than in 2009.
- Only six (out of 11 analysed) corporate bond issuers reported having female management board members as at 31 December 2011. As at 31 December 2010, seven issuers reported having female management board members, while as at 31 December 2009, eight issuers reported having female management board members.
- As at 31 December 2011, all the six issuers had one female management board member. Out of seven issuers as at 31 December 2010, six had one female management board and one issuer had three female management board members. As at 31 December 2009, out of eight issuers, seven reported having one female management board member, and one issuer reported having three female management board members.

Chart 2.5 presents the share of women on management boards of corporate bond issuers as at 31 December 2009, 2010 and 2011.

Chart 2.5 Proportion of women on management boards of corporate bond issuers as at 31 December 2009, 2010 and 2011



Source: court register, HANFA

- The proportion of women on management boards of corporate bond issuers amounted to an average of 17.81% in all the three analysed years.
- Only one (and the same) corporate bond issuer had a chairwoman of the management board in all the three analysed years.

Rules of procedure of the management board

- Nine corporate bond issuers reported having an internal regulation on management board activities (rules of procedure of the management board) for the year 2011, of which four issuers reported changes in the internal procedure occurring during the year.

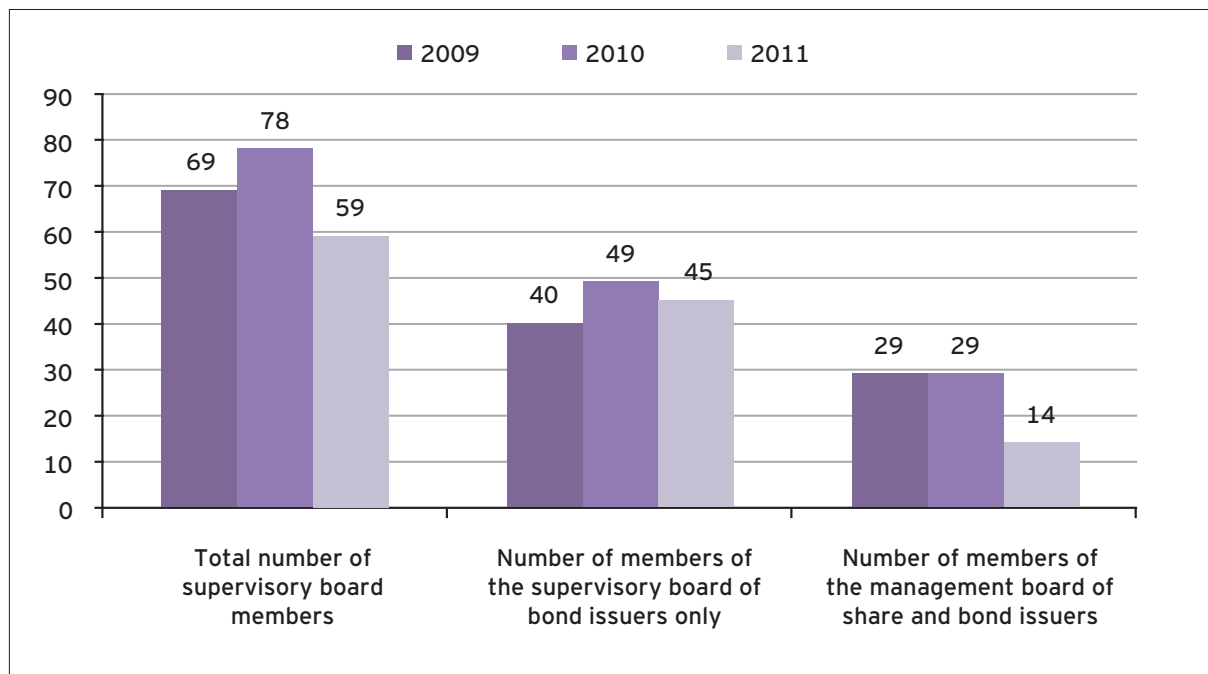
Meetings of the management board

- In 2011, seven corporate bond issuers reported having a schedule of meetings of the management board, of which two issuers reported having mechanisms for proxy voting at management board meetings.

2.2.2 The supervisory board

Chart 2.6 presents the total number of members of the supervisory board of corporate bond issuers at the end of 2009, 2010 and 2011.

Chart 2.6 The total number of supervisory board members as at 31 December 2009, 2010 and 2011

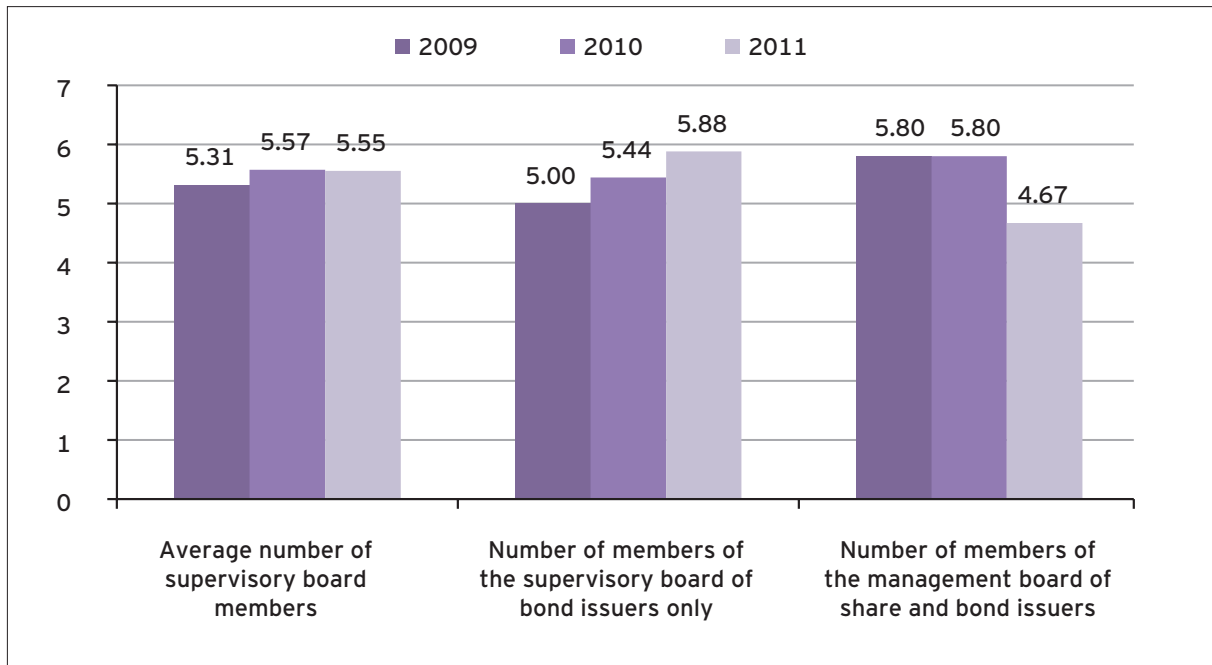


Source: court register

- As at 31 December 2011, the total number of members of the supervisory board of corporate bond issuers reached 59, decreasing by 24.36% relative to 2010, when there were three issuers more and a total of 78 supervisory board members, and falling by 14.49% in comparison with 2009, when there were two issuers more and a total of 69 supervisory board members.

Chart 2.7 shows the average number of members of the supervisory board of corporate bond issuers as at 31 December 2009, 2010 and 2011.

Chart 2.7 The average number of members of the supervisory board of corporate bond issuers as at 31 December 2009, 2010 and 2011



Source: court register

- As at 31 December 2011, the average number of members of the supervisory board of corporate bond issuers totalled 5.55, declining by 0.36% compared to 2010, when it reached 5.57, and decreasing by 4.52% relative to 2009, when it stood at 5.31.

Gender diversity

Chart 2.8 shows the proportion of women on supervisory boards of corporate bond issuers as at 31 December 2009, 2010 and 2011.

Chart 2.8 Proportion of women on supervisory boards of corporate bond issuers as at 31 December 2009, 2010 and 2011



Source: court register

- The proportion of women on supervisory boards of corporate bond issuers rose by 7.41%, from 20.51% in 2010 to 22.03% in 2011, pointing to a growing trend in all the three analysed years.

Supervisory board committees

- Seven issuers reported having established the audit committee in 2011 and 2010, whereas six issuers reported having established the audit committee in 2009.
- Two corporate bond issuers reported having established the remuneration committee at the end of 2011, 2010 and 2009.
- Two corporate bond issuers reported having established the nomination committee at the end of 2011, 2010 and 2009.

Internal working procedures of the committees

- Five out of seven issuers in 2011, five out of seven issuers in 2011, and five out of six issuers in 2009 reported having established internal working procedures for the audit committee.
- Both issuers which reported having established the remuneration committee also reported having established their internal working procedures.

Meetings

- In the course of 2011, audit committees held two meetings on average, of which the number of meetings attended by all members of the committee amounted to an average of 1.67.
- One issuer reported having held one remuneration committee meeting in 2011.
- One issuer reported having held one nomination committee meeting in 2011.

Other committees

- In 2011, two issuers reported having set up another committee, whose names were nomination and remuneration committee and credit committee. In 2010 and 2009, two issuers reported having set up another committee, namely a corporate governance committee and a development committee.
- In 2011, two issuers reported being in the process of preparing a report on the work of committees. Data contained in the report on the work of committees relate to their structure, number of meetings, agenda, terms of office, attendance, conclusions and recommendations. In 2010 and 2009, one issuer reported being in the process of preparing a report on the work of committees.

2.2.3 Remuneration

2.2.3.1 Remuneration of members of management boards of corporate bond issuers

In 2011, two out of 14 corporate bond issuers reported having a remuneration policy for management board members, whereas eight issuers reported having such a policy in 2010 and 2009.

Table 2.2 presents the number of issuers which reported the average fixed and variable gross amount of remuneration paid to members of the management board 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 and the respective amounts in 2011, 2010 and 2009.

Table 2.2 Amount of remuneration of management board members of corporate bond issuers in 2009, 2010 and 2011 (in HRK)

		Average gross amount of remuneration paid to management board members during the year		Average amount of other benefits paid to management board members during the year	Average value of options held by management board members
		Fixed remuneration	Variable remuneration		
2011	Number of issuers	12	2	1	1
	Amount	655,232	427,524	3,030,868	30,000,000
2010	Number of issuers	12	3	0	3
	Amount	564,449	279,010	0	10,663,618
2009	Number of issuers	11	4	1	3
	Amount	645,849	505,987	24,988	7,559,342

Source: Questionnaire

- The total gross amount of fixed remuneration paid to management board members during 2011 was reported by 12 out of 14 issuers (85.71%) and totalled an average of HRK 655 thousand. A total of 12 out of 16 issuers (75.00%) reported the amount for 2010, which reached an average of HRK 564 thousand. In 2009, the amount was reported by a total of 11 out of 15 issuers (73.33%), and stood at an average of HRK 646 thousand. The average amount of fixed remuneration in all the three analysed years was HRK 622 thousand.
- Two out of 14 issuers (14.29%) reported the total gross amount of variable remuneration paid to management board members during 2011, which reached an average of HRK 428 thousand. A total of three out of 16 issuers (18.75%) reported the amount for 2010, which stood at an average of HRK 279 thousand. In 2009, the amount was reported by four out of 15 issuers (26.67%), and totalled an average of HRK 506 thousand. The average amount of variable remuneration in all the three analysed years was HRK 404 thousand.
- The amount of other benefits paid to management board members during the year was reported by one issuer in 2011 (HRK 3,031 thousand) and by one issuer in 2009 (HRK 25 thousand).
- The value of options (market value of shares underlying the options) held by management board members was reported by one issuer in 2011 and three issuers each in 2010 and 2009.
- Two issuers in 2011 and four issuers each in 2010 and 2009 reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.

2.2.3.2 Remuneration of members of supervisory boards of corporate bond issuers

- In 2011, six corporate bond issuers (42.86%) reported the level of supervisory board member remuneration being determined by the general meeting and one issuer (7.14%) reported that level being prescribed by the statute. The other issuers either failed to provide their answers or provided the “other” category as an answer. In 2010, ten issuers (62.50%) reported the level of supervisory board

member remuneration being determined by the general meeting and one issuer (6.25%) reported the remuneration level being prescribed by the statute. The other issuers did not provide their answers. In 2009, nine issuers (60.00%) reported the level of supervisory board member remuneration being determined by the general meeting and two issuers (13.33%) reported the remuneration level being prescribed by the statute. The other issuers did not provide their answers.

Table 2.3 shows the number of issuers which reported the average fixed and variable gross amount of remuneration paid to members of the supervisory board of corporate bond issuers, the average amount of other benefits paid to supervisory board members and the respective amounts in 2011, 2010 and 2009.

Table 2.3 Amount of remuneration of members of supervisory boards of corporate bond issuers in 2011, 2010 and 2009

		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	
2011	Number of issuers	3	0	1
	Amount	50,001	0	62,508
2010.	Number of issuers	11	0	0
	Amount	60,207	0	0
2009	Number of issuers	9	1	0
	Amount	90,800	75,895	0

Source: Questionnaire

- The total gross amount of fixed remuneration paid to members of the supervisory board of corporate bond issuers in 2011 was reported by three out of 14 issuers (21.43%) and totalled an average of HRK 50 thousand. A total of 11 out of 16 issuers (68.75%) reported that amount in 2010, which stood at an average of HRK 60 thousand. Nine out of 15 (60.00%) issuers reported the amount for 2009, which totalled an average of HRK 91 thousand. The average amount of fixed remuneration in all the three analysed years was HRK 67 thousand.
- None of the issuers reported the total gross amount of variable remuneration paid to members of the management board of corporate bond issuers in 2011 or 2010. That amount was reported by one issuer in 2009, and totalled an average of HRK 76 thousand.
- One issuer reported the average amount of other benefits paid to supervisory board members in 2011, reaching HRK 63 thousand.
- Four issuers in 2011 and five issuers each in 2010 and 2009 reported the submission of the annual remuneration policy statement relating to supervisory board members to the general meeting.

2.2.4 Transactions with related persons

- In 2011, three issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by six issuers in 2010 and by five issuers in 2009.

Table 2.4 sets out the value of reported transaction during 2009, 2010 and 2011, concluded by the issuer with the following interest 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 2009, 2010 and 2011

		Gross value of transactions (related party transactions) concluded by the issuer with			
		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	within the group the issuer belongs to or is its parent
2011	Number of issuers having reported the transaction	3	3	1	3
	Average transaction value (in HRK)	3,499,375,157	22,910,909	71,689,663	683,295,318
2010	Number of issuers having reported the transaction	6	3	1	7
	Average transaction value (in HRK)	73,570,825	13,624,267	7,488,015	384,616,797
2009	Number of issuers having reported the transaction	5	3	1	7
	Average transaction value (in HRK)	90,351,211	14,033,366	10,737,474	202,324,677

Source: Questionnaire

- In 2011, the highest average transaction value related to transactions concluded by issuers with shareholders owning more than 5% of the initial capital of the issuer. In 2010 and 2009, the largest number of transactions was concluded by the issuer within the group the issuer belongs to or is its parent.

2.2.5 Conflicts of interest

- In 2011, five issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest. Such a regulation was reported by six issuers in 2010 and by four issuers in 2009. The internal regulations contained the following basic provisions relating to conflicts of interest: legality of business operations, professionalism, expertise, conscientiousness, objectivity, independence, non-discrimination and impartiality, responsibility, ethical principles and transparency of business operations.
- The number of conflicts of interest was reported by one issuer in 2009, 2010 and 2011.

2.3 Audit and control

2.3.1 Internal audit and control

- In 2011, seven out of 14 issuers (50.00%) reported having an internal control system in place.
- In 2011, eight out of 14 issuers (57.14%) reported having an internal audit system in place.

2.3.2 Managing company risks

- In 2011, five issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- In 2011, five issuers reported having appointed a person in charge for risk management.
- According to the issuers, the most frequent business risks were liquidity, credit and interest rate risks.
- Four issuers reported the currency, credit, liquidity or macroeconomic environmental risk having materialised during 2011. According to the issuers, the following were the reasons for the risks being materialised: exchange rate growth, problems in the collection of receivables, decrease in economic activity, and the overall economic situation in the country and worldwide.

2.3.3 External audit

- In 2011, corporate bond issuers used services of eight different external audit companies.
- At the end of 2011, the average length of the time period during which issuers used services of the same external audit company was 5.36 years.
- At the end of 2011, the average length of the time period during which issuers used services of the same certified auditor in the same audit company was 4.21 years.
- Twelve out of 14 issuers reported the gross amount paid to the external audit company for auditing services provided in 2011. The amounts ranged from HRK 40 thousand to almost HRK 2m.
- Four issuers reported the gross amount paid to the external audit company for other services provided in 2011. The amounts ranged between HRK 4 thousand and HRK 135 thousand.
- None of the corporate bond issuers reported relations between the external audit company and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

List of Tables

Table 1.1.	Issuers by groups of activities as at 31 December 2009, 2010 and 2011	13
Table 1.2.	Amount of remuneration of management board members of share issuers in 2009, 2010 and 2011 (in HRK)	33
Table 1.3.	Amount of remuneration of supervisory board members of share issuers in 2009, 2010 and 2011 (in HRK)	35
Table 1.4.	Average value of reported related party transactions in 2009, 2010 and 2011 (in HRK) ...	36
Table 1.5.	Number of questionnaires from the Code by groups of activities submitted in 2009, 2010 and 2011	43
Table 1.6.	Statistical data on the submission of financial statements of share issuers on the regulated market for AFR 2009, Q1-2010, Q2-2010, Q3-2010, Q4-2010, AFR 2010, Q1-2011, Q2-2011, Q3-2011, Q4-2011 and AFR 2011	48
Table 2.1.	Initial capital of bond issuers as at 31 December 2009, 2010 and 2011	52
Table 2.2.	Amount of remuneration of management board members of corporate bond issuers in 2009, 2010 and 2011 (in HRK)	64
Table 2.3.	Amount of remuneration of members of supervisory boards of corporate bond issuers in 2011, 2010 and 2009	65
Table 2.4.	Average value of reported related party transactions in 2009, 2010 and 2011	66

List of Charts

Chart 1.1.	Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2009, 2010 and 2011	14
Chart 1.2.	Distribution of capital by market capitalisation group as at 31 December 2009, 2010 and 2011	16
Chart 1.3.	Ownership structure of share issuers as at 31 December 2011	17
Chart 1.4.	Origin of the capital of issuers as at 31 December 2009, 2010 and 2011	18
Chart 1.5.	Concentration of the largest shareholder by market capitalisation groups as at 31 December 2010 and 2011	20
Chart 1.6.	Top ten shareholder concentration by market capitalisation groups as at 31 December 2010 and 2011	21
Chart 1.7.	The average number of management board members by the type of market as at 31 December 2009, 2010 and 2011	23
Chart 1.8.	Proportion of men and women on management boards as at 31 December 2009, 2010 and 2011	24
Chart 1.9.	Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2009, 2010 and 2011	26
Chart 1.10.	The average number of supervisory board members by the type of market as at 31 December 2009, 2010 and 2011	28
Chart 1.11.	Proportion of men and women on supervisory boards of issuers in 2009, 2010 and 2011	29
Chart 1.12.	Number of supervisory board members who were at the same time members of management/supervisory boards of other issuers in 2009, 2010 and 2011	31
Chart 1.13.	Participation of shareholders in general meetings during 2009, 2010 and 2011	38
Chart 1.14.	Number of submitted questionnaires from the Code in 2009, 2010 and 2011	42
Chart 1.15.	Number of issuers which adopted a decision on dividend payment during 2009, 2010 and 2011	46

Chart 2.1.	Ownership structure of corporate bond issuers as at 31 December 2011	54
Chart 2.2.	Structure of holders of corporate bonds as at 31 December 2011	55
Chart 2.3.	Total number of management board members as at 31 December 2009, 2010 and 2011 ..	57
Chart 2.4.	The average number of members of the management board of bond issuers as at 31 December 2009, 2010 and 2011	58
Chart 2.5.	Proportion of women on management boards of corporate bond issuers as at 31 December 2009, 2010 and 2011	59
Chart 2.6.	The total number of supervisory board members as at 31 December 2009, 2010 and 2011	60
Chart 2.7.	The average number of members of the supervisory board of corporate bond issuers as at 31 December 2009, 2010 and 2011	61
Chart 2.8.	Proportion of women on supervisory boards of corporate bond issuers as at 31 December 2009, 2010 and 2011	62



HANFA
HRVATSKA AGENCIJA ZA NADZOR
FINANCIJSKIH USLUGA

