

**ANNUAL REPORT ON
CORPORATE GOVERNANCE**

2012

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

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

Prepress: Michel d.o.o.

ISSN 1849-2673

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

Contents

Introduction	4
1 Annual Report on Corporate Governance of Share Issuers	5
1.1 Introduction	5
1.2 Capital and origin of capital	9
1.2.1 Initial capital	9
1.2.2 Ownership structure	9
1.2.3 Origin of issuers' capital	11
1.3 Issuers' governing bodies	12
1.3.1 Management board	12
1.3.2 Supervisory board	17
1.3.3 Remuneration	21
1.3.4 Remuneration of management board members of share issuers	21
1.3.5 Remuneration of supervisory board members of share issuers	24
1.3.6 Remuneration of the senior management of share issuers	25
1.3.7 Related party transactions	26
1.3.8 Conflicts of interest	26
1.3.9 General meeting	27
1.4 Audit and control	30
1.4.1 Internal audit and control	30
1.4.2 Managing company risks	31
1.4.3 External audit	32
1.5 Investor relations	32
1.5.1 Website of the issuer	33
1.5.2 Dividend payments	33
2 Annual Report on Corporate Governance of Bond Issuers	34
2.1 Capital and origin of capital of corporate bond issuers	34
2.1.1 Ownership structure of bond issuers	35
2.1.2 Ownership structure of bondholders	37
2.2 Issuers' governing bodies	37
2.2.1 Management board	38
2.2.2 Supervisory board	41
2.3 Remuneration	45
2.3.1 Remuneration of management board members	45
2.3.2 Remuneration of supervisory board members	46
2.3.3 Related party transactions	47
2.3.4 Conflicts of interest	47
2.4 Audit and control	48
2.4.1 Internal audit and control	48
2.4.2 Managing company risks	48
2.4.3 External audit	48
List of tables	49
List of charts	50

Introduction

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

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

Sources of Data

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

The Questionnaire for the Preparation of the 2012 Annual Report on Corporate Governance (hereinafter: Questionnaire) was intended for all the issuers with securities admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2012. It comprises a comprehensive list of questions about general data on the issuer, own shares, management and supervisory board structure, management and supervisory board meetings, supervisory board committees, management and supervisory board members' remuneration and options, all general meetings held, Code of Corporate Governance¹, internal and external control, risks, conflicts of interest, dividend payments, etc.

The Decision amending the Decision on the form and manner of submission of data from the Questionnaire for the Preparation of the Annual Report on Corporate Governance to the Croatian Financial Services Supervisory Agency, adopted by Hanfa at the meeting of its Board held on 22 March 2013, extended the deadline for the submission of the Questionnaires by issuers until 30 June 2013. In spite of that, a total of 33 issuers failed to submit their completed Questionnaires.

2012 Capital Market

In 2012, the capital market was still affected by the financial and economic crisis. The total turnover on the Zagreb Stock Exchange declined by 35%, due to a significant decrease (44%) in regular equity turnover compared to 2011, with share indices stagnating over the period. At the end of the year, the stock indices Crobex and Crobex10 reached the levels almost equalling those recorded in 2011. The bond market reported positive results, owing to an increasing interest in the purchase of government bonds of the Republic of Croatia prior to the EU accession. A considerable number of shares (21) were removed from trading on the regular market, as a result of the initiation of bankruptcy proceedings against issuers, decisions adopted in general meetings, transformation of joint-stock companies into limited liability companies and the squeeze-out of minority shareholders.

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

The Financial Operations and Pre-Bankruptcy Settlement Act entered into force in the second half of 2012. By the end of the year, pre-bankruptcy settlement proceedings had been initiated against two issuers, whereas several issuers submitted their proposals to the Financial Agency for the initiation of pre-bankruptcy settlement proceedings. First results of pre-bankruptcy settlement proceedings on the capital market and number of issuers are expected to be seen in the year 2013.

1 Annual Report on Corporate Governance of Share Issuers

1.1 Introduction

Out of 184 issuers admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2012, 151 submitted their completed Questionnaires. The total market capitalisation of issuers which submitted their data amounted to HRK 121.2bn or 98.16% of the market capitalisation of all listed issuers. On the same date, five issuers were undergoing bankruptcy proceedings, three were undergoing winding-up proceedings, and two issuers were undergoing pre-bankruptcy settlement proceedings.

Number of issuers and number of shares

In 2012, the number of issuers on the regulated market continued its downward trend.

As at 31 December 2012, the number of issuers totalled 184, falling by 9.80% compared to the previous year, when there were 204 issuers admitted to trading (20 more), or by 14.82% in comparison with 31 December 2010, when there were 216 issuers admitted to trading.

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

In the course of 2012, the number of admitted ordinary shares declined by 20 or 9.76% (from 205 as at 31 December 2011 to 185 as at 31 December 2012). The number of admitted preference shares decreased by 1, totalling 15 as at 31 December 2012.

Shares not yet traded

By 31 December 2012, 16 admitted shares of 12 different issuers had not been traded on the Zagreb Stock Exchange, 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), 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 Vodoprivreda Zagreb d.d. (VDZG-R-A), and ordinary share of Sunce osiguranje d.d. (SCOS-R-A).

The number of admitted shares that had not been traded fell by four relative to 31 December 2011, due to the removal from trading of ordinary shares of Dalmacijavino d.d. (DLVN-R-A), removal from trading of ordinary shares of Regeneracija d.d. (RGNC-R-A), removal from trading of ordinary shares of Tekstilstroj d.d. (TSTR-R-A) and removal from trading of preference shares of Hoteli Croatia d.d. (HCRC-P-A). During 2012, and until the moment of the removal of the said shares from trading, they had not been traded on the Zagreb Stock Exchange.

Admissions

There were no admissions of shares of new issuers either on the official or on the regular market in 2012, just as there were no such admissions in 2011.

In 2012, 21 issuers withdrew their shares from the regular and none from the official market; in 2011, 12 issuers withdrew their shares from the regular and none from the official market; while in 2010, 21 issuers withdrew their shares from the regular and none from the official market. In the course of the previous year, one issuer transferred from the regular to the official market (Uljanik d.d).

Sector division

a) Classification into the financial and non-financial sector

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

At the end of 2012, out of a total of 184 share issuers, 27 (14.67%) issuers, or 20 issuers excluding closed-ended investment funds, belonged to the financial, and the remaining 157 (85.33%) to the non-financial sector. At the end of 2011, out of a total of 204 share issuers, 27 (13.24%) issuers, or 20 issuers excluding closed-ended 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, there were 28 (12.96%) issuers from the financial and 188 (87.04%) 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-ended 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 2010, 2011 and 2012.

Table 1.1 Issuers by groups of activities as at 31 December 2010, 2011 and 2012

Group of activities	Number of issuers			
	2010	2011	2012	Change 2012/2011
FINANCIAL SECTOR				
Banks	14	14	14	0
Insurance	6	6	6	0
Closed-ended investment funds	8	7	7	0
NON-FINANCIAL SECTOR				
Agriculture	7	7	7	0
Industry				
a. Shipbuilding	4	4	4	0
b. Wood industry	4	3	3	0
c. Energy	1	1	1	0
d. Pharmaceuticals	3	3	3	0
e. Food, beverage and tobacco	25	25	22	-3
f. Chemical industry	8	8	5	-3
g. Metalworking industry	12	10	8	-2
h. Textile industry	9	8	5	-3
i. Other industries	6	6	1	-5
Construction industry	13	12	12	0
Property	4	4	4	0
Telecommunications	5	5	5	0
Transport	12	12	10	-2
Trade	20	19	19	0
Tourism	51	46	44	-2
Other activities	4	4	4	0
TOTAL	216	204	184	-20

Source: Hanfa, Zagreb Stock Exchange

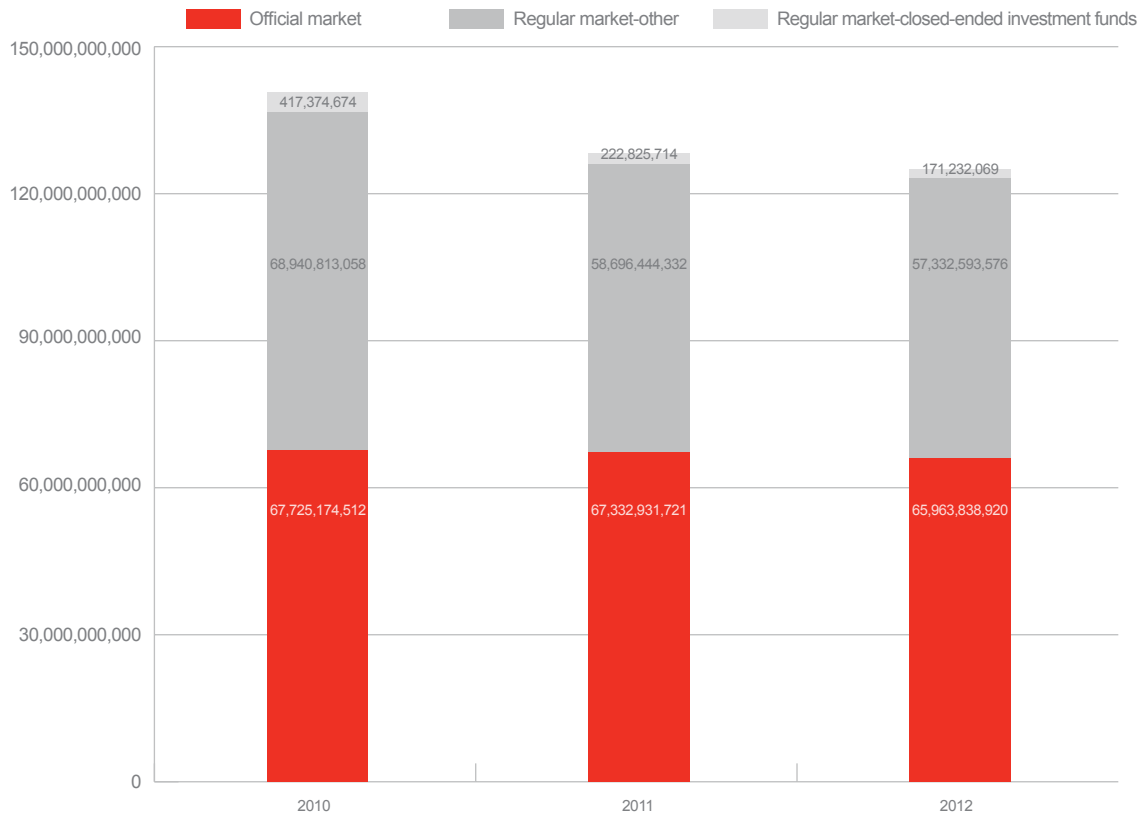
At the end of 2012, the largest number of issuers belonged to the tourism industry (a total of 44, 46 and 51 issuers at the end of 2012, 2011 and 2010 respectively), followed by issuers from the food industry (a total of 22, 25 and 25 issuers at the end of 2012, 2011 and 2010 respectively) and from trade (a total of 19, 19 and 20 issuers at the end of 2012, 2011 and 2010 respectively).

All the 20 issuers which removed their shares from trading on the regulated market in 2012 belonged to the non-financial sector. The removals were mostly due to the bankruptcy of issuers (9 issuers), meaning that issuers' shares were removed from trading on the regulated market at the request of the trustee in bankruptcy. Six issuers removed their shares from trading on the regulated market based on the decision of the general meeting. Two issuers removed their shares from the regulated market as a result of the squeeze-out of minority shareholders, another two due to the acquisition of issuers, and one issuer transformed into a limited liability company. In 2012, the General Meeting of Hoteli Croatia d.d. adopted a decision on the withdrawal of preferential treatment for 402,500 preference shares having the ticker symbol HCRC-P-A and their conversion into ordinary registered shares having the ticker symbol HCRC-R-A. As a consequence, the Zagreb Stock Exchange adopted a decision on the removal of preference shares HCRC-P-A from trading.

Market capitalisation

Chart 1.1 shows the changes in market capitalisation by types of market in 2010, 2011 and 2012.

Chart 1.1 Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2010, 2011 and 2012



Source: Zagreb Stock Exchange

- In 2012, the total market capitalisation of the official market declined by 2.03%, reaching HRK 65.96bn as at 31 December 2012.
- In 2012, the total market capitalisation of the regular market decreased by 35.17%, amounting to HRK 57.5bn as at 31 December 2012.
- Market capitalisation of issuers which submitted their 2012 Questionnaires (151 issuers) stood at HRK 121.2bn as at 31 December 2012.

1.2 Capital and origin of capital

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

1.2.1 Initial capital

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

At end-2012, the initial capital of 184 share issuers totalled HRK 66.4bn, falling compared to end-2011, when 204 issuers recorded their initial capital in the amount of HRK 68.6bn or 3.31% more. In comparison with 2010, when there were 31 admitted issuers more, the initial capital rose by HRK 0.3bn.

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

In the course of 2012, six issuers increased their initial capital, whereas 12 issuers decreased their initial capital. Out of those issuers, two both decreased and increased their initial capital. The total initial capital increase reached HRK 1.15bn, while the total initial capital decrease amounted to HRK 1.3bn.

1.2.2 Ownership structure²

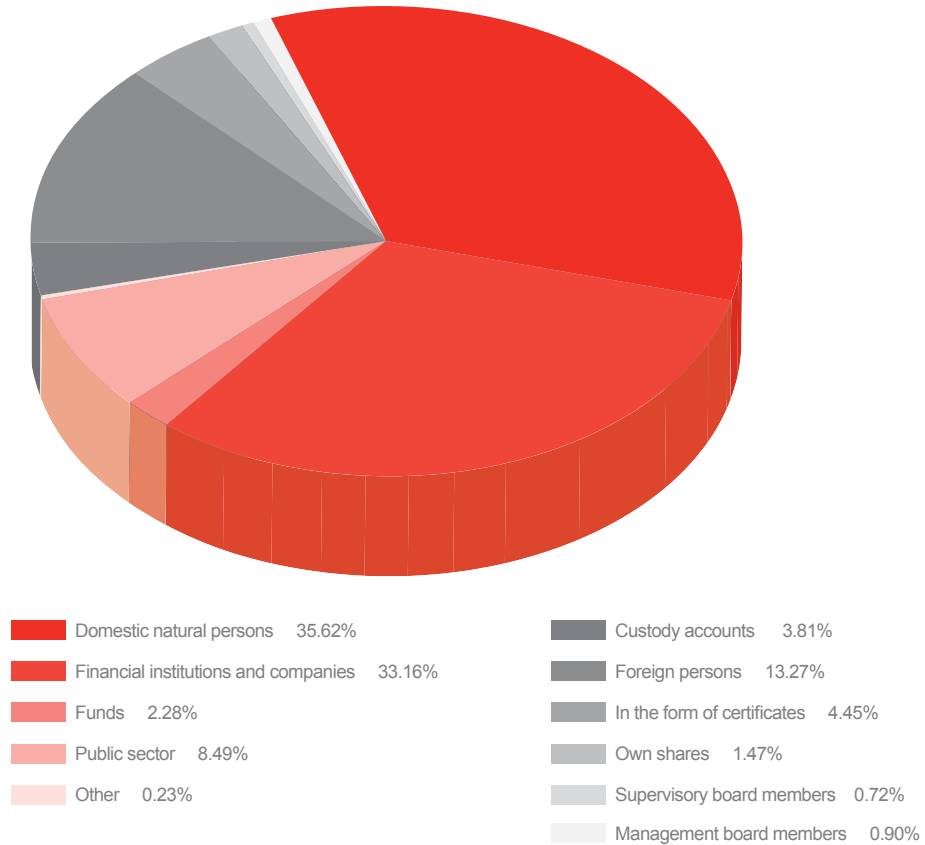
Data on the ownership structure of share issuers have been provided on the basis of information received from the CDCC. The ownership structure has been analysed by groups of shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated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

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

² The proportion of all shares of individual issuers in the initial capital is calculated first, followed by the calculation of the average of all issuers.

Chart 1.2 presents the ownership structure of share issuers as at 31 December 2012 by the above mentioned groups.

Chart 1.2 Ownership structure of share issuers as at 31 December 2012



Source: CDCC

- As at 31 December 2013, the ownership structure of share issuers was dominated by domestic natural persons with a 35.62% share (22.06% in 2011) and financial institutions and companies with a 33.16% share (33.35% in 2011). The public sector or the Republic of Croatia decreased its share from 14.66% in 2011 to 8.49%. A significant decline in the share in the issuers' ownership structure was also recorded by management board members (from 3.29% to 0.9%) and supervisory board members (from 4.39% to 0.72%).

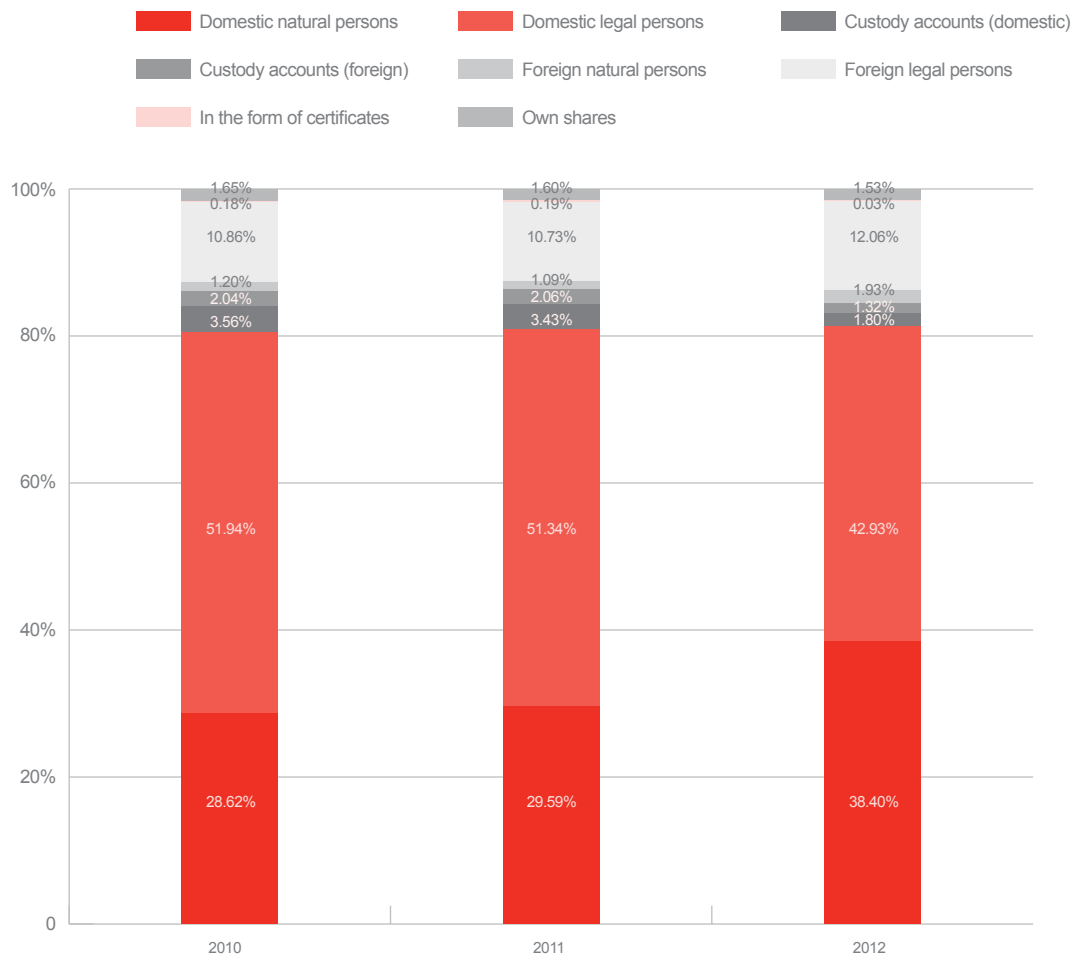
1.2.3 Origin of issuers' capital

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

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

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

Chart 1.3 Origin of issuers' capital as at 31 December 2010, 2011 and 2012



Source: CDCC

- The largest share in the ownership of shares was still accounted for by domestic legal persons with a 42.93% share (51.34% and 51.94% share in 2011 and 2010 respectively). However, their ownership share fell considerably compared with the previous years, whereas the share of domestic natural persons rose to 38.40% (29.59% and 28.62% in 2011 and 2010 respectively).
- The share of domestic capital totalled 83.13% (85.79% in 2011 and 85.77% in 2010), whereas foreign capital accounted for a 15.31% share (13.87% in 2011 and 14.10% in 2010).

1.3 Issuers' governing bodies

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

1.3.1 Management board³

The function of a management board in a two-tier governance system is the management and representation of the company. Members of the management board are appointed by the supervisory board. In a one-tier governance system, this function is performed by executive directors of the company, appointed by the general meeting. As at 31 December 2012, out of the total number of issuers (184), two had a one-tier and 182 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, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 144/12; hereinafter: ZTD), does not stipulate the minimum number of management board members. Only natural persons with full legal capacity may be appointed members of the management board.

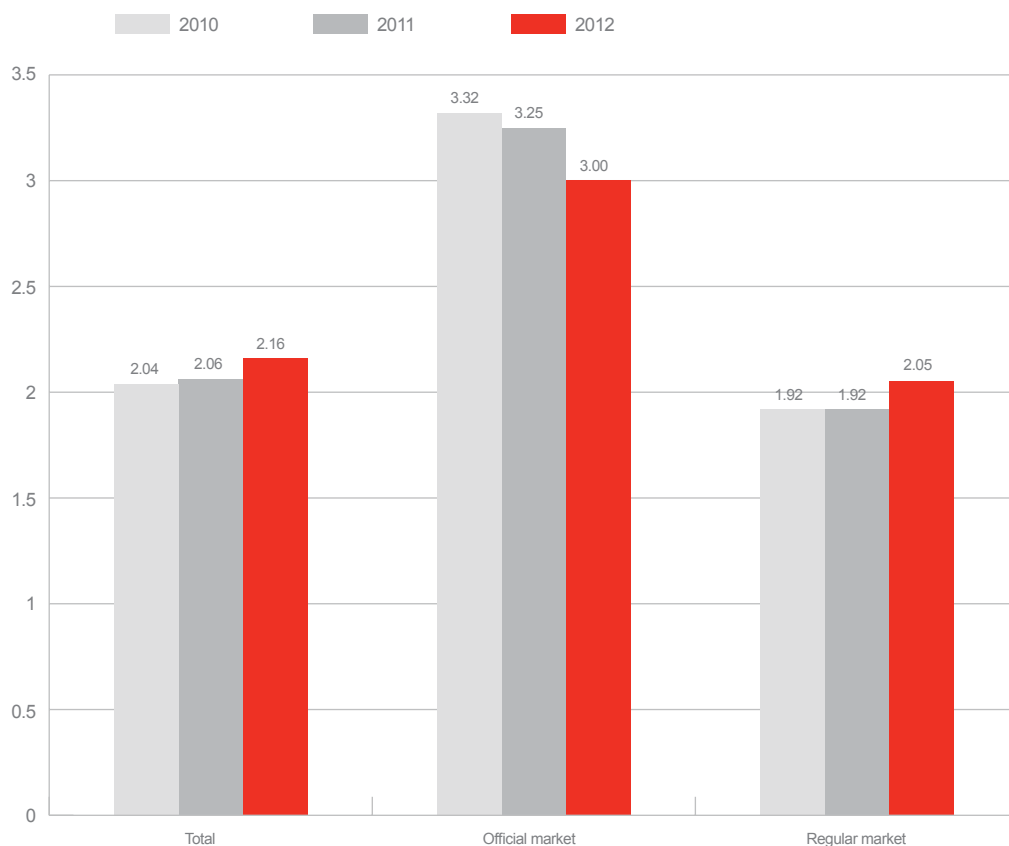
The analysis comprises all issuers of shares admitted to trading on the regulated market of the Zagreb Stock Exchange as at 31 December 2010, 2011 and 2012, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies. The ratio of the number of management board members to the number of issuers analysed in this Report is an important tool for the interpretation of data.

³ Data on the number, gender and residence (domestic residents/foreign residents) of management board members have been analysed based on the data from the register of companies in order for all issuers to be encompassed by the analysis (including those which failed to deliver the Questionnaire). It should be pointed out that there might be certain discrepancies in the numbers in cases where some issuers failed to report changes to the register of companies in a timely manner.

- As at 31 December 2012, there were a total of 381 management board members in 176 analysed issuers (an average of 2.16 management board members per issuer). As at 31 December 2011, the average number of management board members totalled 2.06, whereas as at 31 December 2010, it amounted to 2.04.
- As at 31 December 2012, a total of 77 issuers (43.75%) had a single management board member, while as at 31 December 2011 and as at 31 December 2010 a single management board member was reported by 96 (48.73%) and 100 (47.62%) issuers respectively.
- As at 31 December 2012, the maximum number of management board members totalled seven (eight management board members were reported by one issuer in 2011, and by two issuers in 2010).

Chart 1.4 shows the average number of management board members as at 31 December 2010, 2011 and 2012 with respect to the type of market

Chart 1.4 Average number of management board members by the type of market as at 31 December 2010, 2011 and 2012



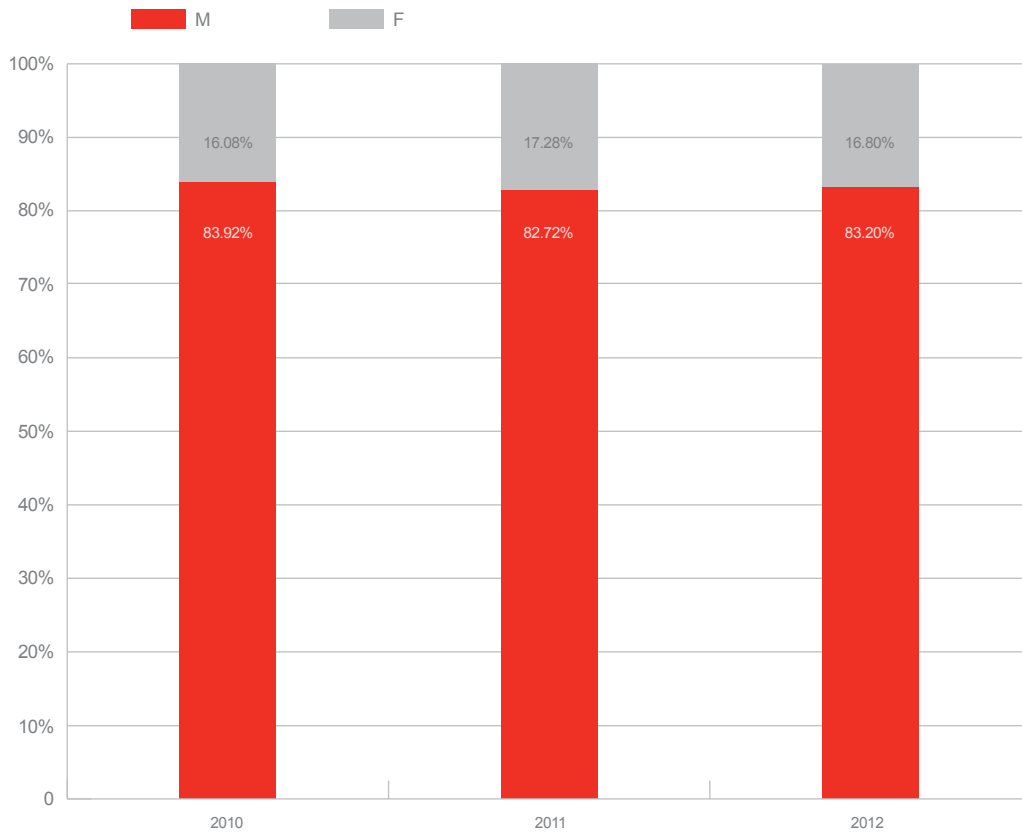
Source: register of companies, Zagreb Stock Exchange

- As at 31 December 2012, the average number of management board members totalled 2.16, rising by 4.85% relative to 31 December 2011. The average number of management board members on the official market dropped by 7.69% relative to 31 December 2011, while on the regular market it rose by 6.77%.

Gender diversity of management board members

Chart 1.5 presents the proportion of men to women on management boards of issuers as at 31 December 2010, 2011 and 2012.

Chart 1.5 Proportion of men to women on management boards as at 31 December 2010, 2011 and 2012



Source: register of companies

- As at 31 December 2012, there were 317 (83.20%) male management board members and 64 (16.80%) female management board members.
- The largest share of female management board members was recorded in the insurance sector (38.46%), followed by the property and fund industry (36.36%), wood industry (33.33%) and the banking sector (28.89%).

One of the goals of the National Policy on Gender Equality (2011-2015), adopted by the Croatian Parliament at its session on 15 July 2011 (Official Gazette 88/11), is to create gender balance in the process of appointing supervisory and management board members of companies in the public and private sector, by ensuring that the share of the under-represented gender, pursuant to the Act on Gender Equality, does not fall below 40%.

The data provided in this report show that the share of women on management boards of issuers is still lagging far behind the intended share, with the year 2012 even recording a slight decrease in the number of female management board members.

The following text presents the analysis of the data delivered in the 2012, 2011 and 2010 Questionnaires.

Rules of procedure of the management board

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

- In 2012, a total of 61 issuers reported having an internal regulation on management board activities (rules of procedure of the management board), while 59 and 77 issuers reported having such a regulation on 2011 and 2010 respectively.

Meetings of the management board

- A total of 81 issuers submitted their data on the number of management board meetings held in 2012, which ranged between 1 and 246, with the average number totalling 39.
- A total of 40 issuers reported having a schedule of meetings of the management board in 2012, while 36 and 48 issuers reported having such a schedule in 2011 and 2010 respectively.
- In 2012, a total of 17 issuers reported having mechanisms for proxy voting at management board meetings, whereas 15 and 16 issuers reported having such mechanisms in 2011 and 2010 respectively.

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 ten issuers reported having established a succession planning process in 2012, whereas six and twelve issuers reported having established such a process in 2011 and 2010 respectively.

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 2012, the average duration of the management board membership was 5.75 years, whereas in 2011 and 2010, it was 5.68 and 6.04 years respectively.
- The sequence number of the term of office of management board members was 2.01 in 2012, while it totalled an average of 1.97 in 2011 and 2010.

Resignation of management board members

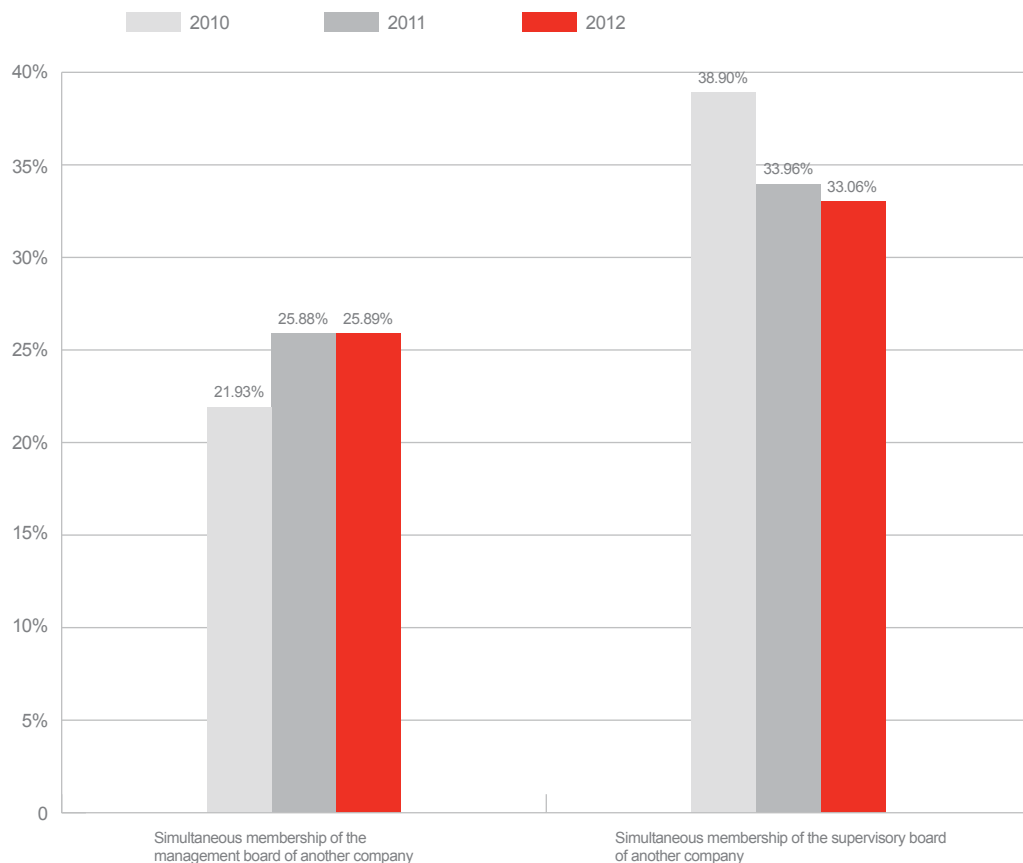
Resignation is one of the commonest ways of terminating a function in a governing body of the issuer. Resignation of the management board member is submitted to the supervisory board in writing.

- In the course of 2012, a total of 26 management board members resigned (of whom two were women). In 2011 and 2010, there were 19 management board members who resigned (of whom no women in 2011 and two women in 2010). Reasons for the resignations were mostly linked to personal issues.
- Most of the management board members who resigned came from the tourism industry (6), followed by those from the property and fund industry (5) and the construction industry (3).

Multiple management/supervisory board memberships

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

Chart 1.6 Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2010, 2011 and 2012



Source: Questionnaire

- Out of 336 analysed management board members (according to data from the 151 Questionnaires delivered in 2012), 87 or 25.89% were at the same time management board members in another company. (In 2011 and 2010, a total of 25.88% and 21.93% management board members respectively were at the same time management board members in another company.)
- In 2012, a total of 111 (33.06%) management board members were at the same time supervisory board members in another company, while a total of 126 (33.96%) and 149 (38.90%) management board members were at the same time supervisory board members in another company in 2011 and 2010 respectively.

1.3.2 Supervisory board⁴

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

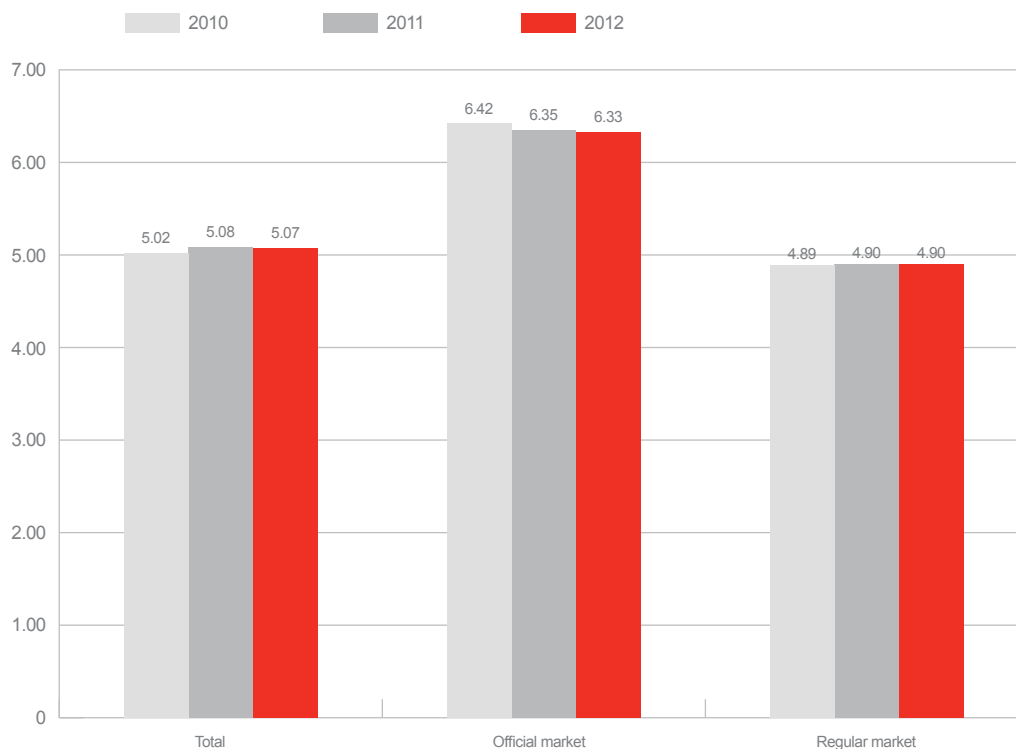
The following analysis comprises all the issuers of shares admitted to the regulated market of the Zagreb Stock Exchange as at 31 December 2010, 2011 and 2012, except for issuers undergoing bankruptcy or winding-up proceedings on the relevant date according to the data from the register of companies.

- The average number of supervisory board members increased slightly over the three analysed years, from 5.05 as at 31 December 2010 and 2011 to 5.07 as at 31 December 2012.
- The minimum number of supervisory board members (3) was reported by 40 issuers as at 31 December 2012, by 47 issuers as at 31 December 2011 and by 48 issuers as at 31 December 2010.
- The maximum number of supervisory board members totalled 13 in all the three analysed years, and was reported by only one issuer in this period.
- The average number of supervisory board members of issuers on the official and regular market also changed slightly or equalled the number recorded in 2011 and 2010.

Chart 1.7 shows the average number of supervisory board members as at 31 December 2010, 2011 and 2012 with respect to the type of market.

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

Chart 1.7 Average number of supervisory board members by the type of market as at 31 December 2010, 2011 and 2012



Source: register of companies, Zagreb Stock Exchange

Pursuant to the Code of Corporate Governance, the majority of supervisory board members must be independent, and must not have any business, family or other relationships with the company, majority shareholder or group of majority shareholders or with members of the management board or supervisory board or majority holder.

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

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

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

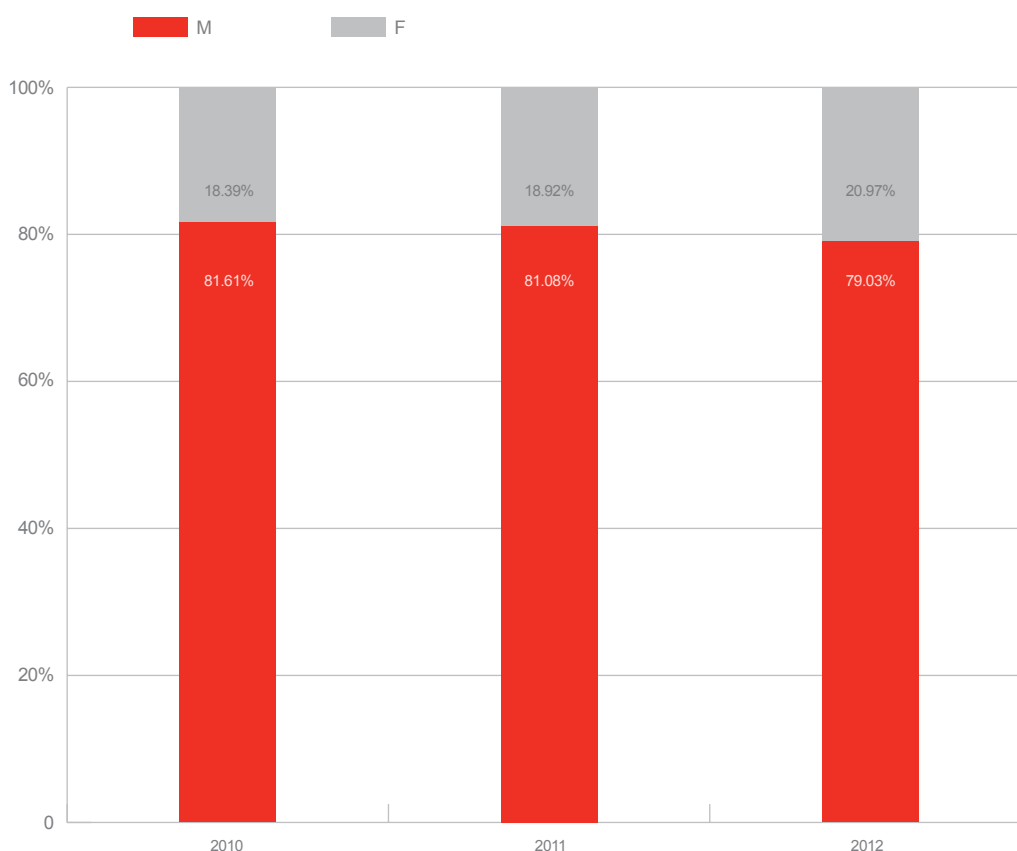
All supervisory board members have equal rights in the decision-making process, irrespective of the said classification.

- According to the data from the 2012 Questionnaire, independent supervisory board members accounted for a 39.87% share in the total number of members of share issuers' supervisory boards (the share totalled 38.68% in 2011). Employee/trade union representatives made up an 11.92% share (13.05% in 2011), whereas the largest share was accounted for by representatives of significant shareholders/group of shareholders and it amounted to 48.21% (48.27% in 2011) of the total number of all supervisory board members.

Gender diversity of supervisory board members

Chart 1.8 shows the proportion of men to women on supervisory boards of issuers in 2010, 2011 and 2012.

Chart 1.8 Proportion of men to women on supervisory boards of issuers in 2010, 2011 and 2012



Source: register of companies

- In 2012, out of 887 analysed supervisory board members, 186 were women, who made up a 20.97% share. The average share of women on supervisory boards totalled 19.43% in all the three analysed years.
- The share of women on supervisory boards rose by 10.84% relative to end-2011.
- In 2012, the share of women on supervisory boards was by 39.06% larger than the share of women on management boards.

The following text presents the analysis of data based on the answers provided in the 2012, 2011 and 2010 Questionnaires.

Meetings of the supervisory board

- A total of 54 issuers in 2012, 57 issuers in 2011 and 69 issuers in 2010 reported having a schedule of meetings of the supervisory board.
- A total of 57 issuers in 2012, 55 issuers in 2011 and 52 issuers in 2010 reported having mechanisms for proxy voting at supervisory board meetings.
- A total of 89 issuers (58.94% of issuers which submitted their Questionnaires) reported having an internal regulation on supervisory board activities.
- In 2012, supervisory boards held an average of 7.95 meetings, with the number of the meetings ranging from 1 to 92.

Term of office and duration of the supervisory board membership⁵

- The average duration of the supervisory board membership did not change significantly over the observed period. At end-2012, it totalled 5.22 years, in 2011 it was 5.15 years, whereas in 2010 it amounted to 5.23 years.
- In 2012, the sequence number of the term of office of supervisory board members totalled an average of 1.98, in 2011, it amounted to an average of 1.96, whereas in 2010 it totalled an average of 1.91.

Resignation of supervisory board members

In the course of 2012, a total of 29 supervisory board members resigned before the expiration of their terms of office, of whom 7 were women and 11 were chairmen of supervisory boards. Reasons for the resignations were mostly linked to personal issues.

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.

⁵ The following analysis presents data on terms of office, resignations, and multiple supervisory board memberships based on the information from the 151 Questionnaires submitted. Therefore, the total number of supervisory board members differs with respect to the data from the register of companies, which relate to all issuers.

- In 2012, the audit committee was established by most of the issuers (76 issuers or 50.33% of the issuers which submitted their 2012 Questionnaire; 46.55% of the issuers in 2011, and 44.62% of the issuers in 2010). The remuneration committee was established by 12 issuers and the nomination committee by ten issuers.
- Internal working procedures were established by 39 audit committees (51.32%), four nomination committees (40.00%) and seven remuneration committees (58.33%).
- Apart from having established the said committees, four issuers reported having set up another committee (corporate governance committee, internal control and audit committee, strategy and stakeholder group committee, and strategic development committee).
- During 2012, a total of 26 issuers reported being in the process of preparing a report on the work of committees.

1.3.3 Remuneration

The supervisory board of the issuer is responsible for the adoption of decisions on the remuneration of management and supervisory board directors, which must be in line with the long-term interests of issuers and their shareholders. It is considered a good governance practice to ensure a transparent relationship between the governance and remuneration policies and performance of the company, for the purpose of which issuers should publicly disclose a remuneration statement and allow shareholders to express their views on the remuneration policy.

1.3.4 Remuneration of management board members of share issuers

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

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

- fixed remuneration, which is invariable and does not depend on the performance of the company (salary, reimbursement of travel and other expenses, payments of life and health insurance premiums, additional retirement premiums, etc.),
- variable remuneration, which is linked to the performance of the company in a particular business year (profit participation, commission, royalties), and
- share options and similar instruments with the effect of long-term incentives.

Table 1.2 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of share issuers, the average amount of other benefits paid to management board members, the average value of options held by management board members and the respective amounts paid in 2012, 2011 and 2010. The

amounts shown in Table 1.2 are average amounts paid to the entire management board (not to a single management board member).

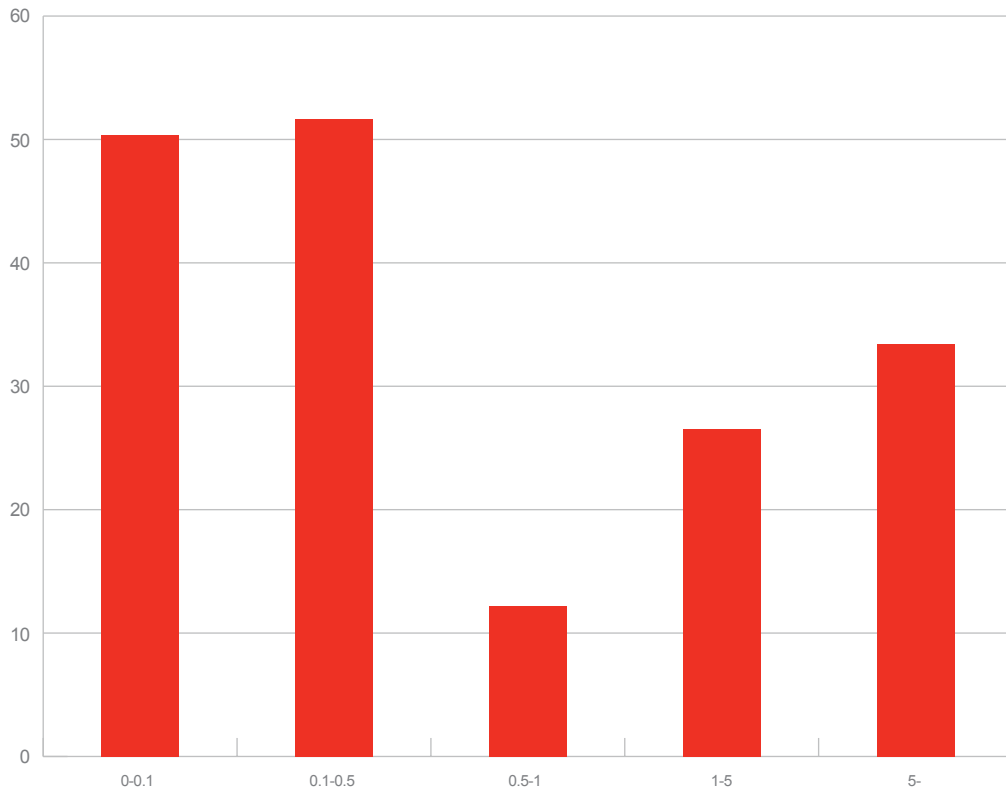
Table 1.2 Amount of remuneration of management board members of share issuers in 2012, 2011 and 2010 (in HRK)

		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		
2012	Number of issuers	104	13	7	5
	Amount	1,664,924	3,106,514	499,834	3,881,929
2011	Number of issuers	118	17	10	5
	Amount	574,882	482,458	334,683	640,528
2010	Number of issuers	92	16	9	6
	Amount	470,945	618,455	537,021	1,553,398

Source: Questionnaire

- In 2012, gross amounts of fixed remuneration paid to management board members ranged between HRK 40.3 thousand and HRK 13.4m.
- The highest nominal amounts of remuneration were paid to management board members of issuers from the banking sector, followed by issuers from the tourism industry, food industry and telecommunications. The lowest nominal amounts of remuneration were paid to management board members of issuers from the wood industry, metalworking industry and textile industry.
- Gross amounts of variable remuneration ranged from HRK 34.6 thousand to HRK 19m. Both the highest and the lowest gross amounts of variable remuneration were paid to management board members from the banking sector.
- The total value of options held by management board members ranged from HRK 1.14m to over HRK 9.93m.
- The average amount of other benefits paid to management board members ranged between HRK 66.4 thousand and HRK 1.16m.
- A total of 23 issuers reported the submission of the annual remuneration policy statement relating to management board members to the general meeting in 2012.

Chart 1.9 Total gross amount of fixed remuneration paid to management board members in 2012 (in HRK million) with respect to the market capitalisation of issuers (in HRK billion)



Source: Questionnaire, Zagreb Stock Exchange

In 2012, issuers with a market capitalisation of HRK 0-0.1bn paid to their management board members an average gross fixed amount totalling HRK 824.5 thousand; issuers with a market capitalisation of HRK 0.1-0.5bn paid to their management board members an average gross fixed amount reaching HRK 1.9m, issuers with a market capitalisation of HRK 0.5-1bn paid to their management board members an average gross fixed amount totalling HRK 1.8m, issuers with a market capitalisation of HRK 1-5bn paid to their management board members an average gross fixed amount reaching HRK 4.26m, and issuers with a market capitalisation larger than HRK 5bn paid to their management board members an average gross fixed amount totalling HRK 11.27m.

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 27 issuers reported having a remuneration policy for management board members in place for 2012. Such a remuneration policy was reported by 28 and 41 issuers for 2011 and 2010 respectively.

- Data on remuneration policy for management board members are usually available on the website of the issuer, the Zagreb Stock Exchange, and Hanfa, i.e. the Officially Appointed Mechanism for the Central Storage of Regulated Information (OAM).

Severance pay

- A total of 19 issuers reported total amounts of severance pay for management board members provided for in contracts in 2012, which ranged from HRK 51.2 thousand to HRK 14.18m.
- A total of nine issuers reported total amounts of severance pay given to management board members in 2012, which ranged from HRK 100 thousand to HRK 5.5m.
- In 2012, the highest total amount of gross severance pay was given to management board members of an issuer from the transport sector, followed by an issuer from the food industry and another issuer from the transport sector.

1.3.5 Remuneration of supervisory board members of share issuers

Pursuant to Article 269 of the ZTD, members of the supervisory board may receive remuneration for their services which may be defined as the participation by the supervisory board member in the profit of the issuer. The remuneration is determined by the statute or by the decision of the general meeting of the issuer, and it must be in line with the activities carried out by the supervisory board members and to the performance of the issuer.

- In 2012, a total of 30 issuers reported the level of supervisory board member remuneration being prescribed by the statute, whereas 78 issuers reported the level of supervisory board member remuneration being determined by the decision of the general meeting. The other issuers did not provide their answers.

Table 1.3 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to supervisory board members of share issuers, the average amount of other benefits paid to supervisory board members, the average value of options held by supervisory board members and the respective amounts paid in 2012, 2011 and 2010. The amounts shown in Table 1.3 are average amounts paid to the entire supervisory board (not to a single supervisory board member).

Table 1.3 Amount of remuneration of supervisory board members of share issuers in 2012, 2011 and 2010 (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	
2012	Number of issuers	106	5	2
	Amount	389,518	772,636	93,508
2011	Number of issuers	123	5	2
	Amount	88,269	115,220	12,322
2010	Number of issuers	113	5	0
	Amount	318,064	796,472	0

Source: Questionnaire

- In 2012, a total of 106 issuers reported the total gross amount of fixed remuneration paid to supervisory board members, which ranged from HRK 22.9 thousand to HRK 2.07m.
- Five issuers reported the total gross amount of variable remuneration paid to supervisory board members, which ranged between HRK 16 thousand and HRK 1.53m.
- A total of 25 issuers reported the submission of the annual remuneration policy statement relating to supervisory board members to the general meeting in 2012.

1.3.6 Remuneration of the senior management of share issuers

- The total gross amount of fixed remuneration paid to the senior management in 2012 was reported by 85 issuers, with the amounts ranging between HRK 104.8 thousand (an issuer from the textile industry) and HRK 36.3m (an issuer from the banking sector). The average gross amount of fixed remuneration paid to senior management totalled HRK 4.38m.
- The total gross amount of variable remuneration paid to the senior management was reported by 12 issuers, with the amounts ranging between HRK 59.5 thousand and HRK 17.9m.
- The total value of options held by the senior management was reported by only two issuers, with the values ranging from HRK 353.7 thousand to HRK 2.4m.
- The total amount of severance pay for the senior management provided for in contracts was reported by 14 issuers, with the amounts ranging from HRK 1 to HRK 17.08m.
- The total gross amount of severance pay given to the senior management was reported by seven issuers, with the amounts ranging from HRK 8 thousand to HRK 3.97m.
- The total amount of other benefits paid to the senior management was reported by 12 issuers, with the amounts ranging from HRK 25.8 thousand to HRK 1.5m.

1.3.7 Related party transactions

In 2012, a total of 32 issuers reported having an internal regulation in place for cases of related party transactions. Such a regulation was reported by 26 and 29 issuers in 2011 and 2010 respectively.

Table 1.4 sets out the average value of reported transactions during 2010, 2011 and 2012, concluded by the share issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 1.4 Average value of reported related party transactions in 2010, 2011 and 2012 (in HRK)

		Average gross value of related party transactions concluded by the issuer with:			
		shareholders with more than 5% of the initial capital of the issuer	management and supervisory board members of the issuer	senior management of the issuer	within the group the issuer belongs to or is its parent
2012	Number of issuers having reported the transaction	49	19	13	61
	Transaction value	359,391,905	2,511,358	4,794,418	439,989,719
2011	Number of issuers having reported the	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	45	17	15	74
	Transaction value	260,633,182	3,257,705	4,819,829	436,182,269

Source: Questionnaire

1.3.8 Conflicts of interest

Conflicts of interest arise if a member of the management or supervisory board or board of directors is not impartial with respect to the subject under consideration, and may affect the decision-making process on the basis of interests which differ from interests of the issuer.

- At the end of 2012, a total of 30 issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest. The internal regulations contained the following basic provisions relating to conflicts of interest: identifying potential and/or actual conflicts of interest, transparency, preventing bribery and corruption, protecting investors through the prevention of use of inside information, monitoring transactions by relevant persons, etc.

- The majority of 30 issuers which reported having an internal regulation in place to identify, prevent and report conflicts of interest came from the banking sector (ten), followed by the property and fund industry (five) and the tourism industry (four).
- In 2012, two cases of conflicts of interest were reported by one issuer, whereas the other issuers did not report any conflicts of interest. Persons involved in the reported conflicts of interest abstained from voting on entering related party transactions.

1.3.9 General meeting

The general meeting is the only governing body of the issuer whose work is open to participation by all shareholders. The main function of the general meeting is to ensure expressing 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 the 151 completed Questionnaires, six issuers failed to hold the general meeting in 2012. According to the data from 174 Questionnaires completed in 2011, three issuers failed to hold the general meeting, whereas eight issuers reported not having held the general meeting in 2010.
- Four issuers reported their reasons for failing to hold the general meeting in 2012, namely the conduct of the pre-bankruptcy settlement proceedings, winding up of the company, business operations that did not allow for the general meeting to be held, and the fact that the general meeting was to be held in 2013.
- According to the data from 151 completed Questionnaires, a total of 109 issuers reported having held only one general meeting, 32 issuers held two general meetings, whereas four issuers held three general meetings in 2012.
- The maximum number of general meetings held in 2012, 2011 and 2010 was three.
- Out of a total of 185 general meetings held during 2012, there were 141 regular and 44 extraordinary general meetings.

Remote voting

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

- Remote voting (e.g. by electronic means) was provided for at eight general meetings held by five issuers in 2012.

Internal rules of procedure of the general meeting

- A total of 54 issuers reported having rules of procedure of the general meeting in place for 2012, of which five issuers reported changes in their rules of procedure during the year.
- A total of 31 issuers reported having sent the invitation to the general meeting by registered mail.

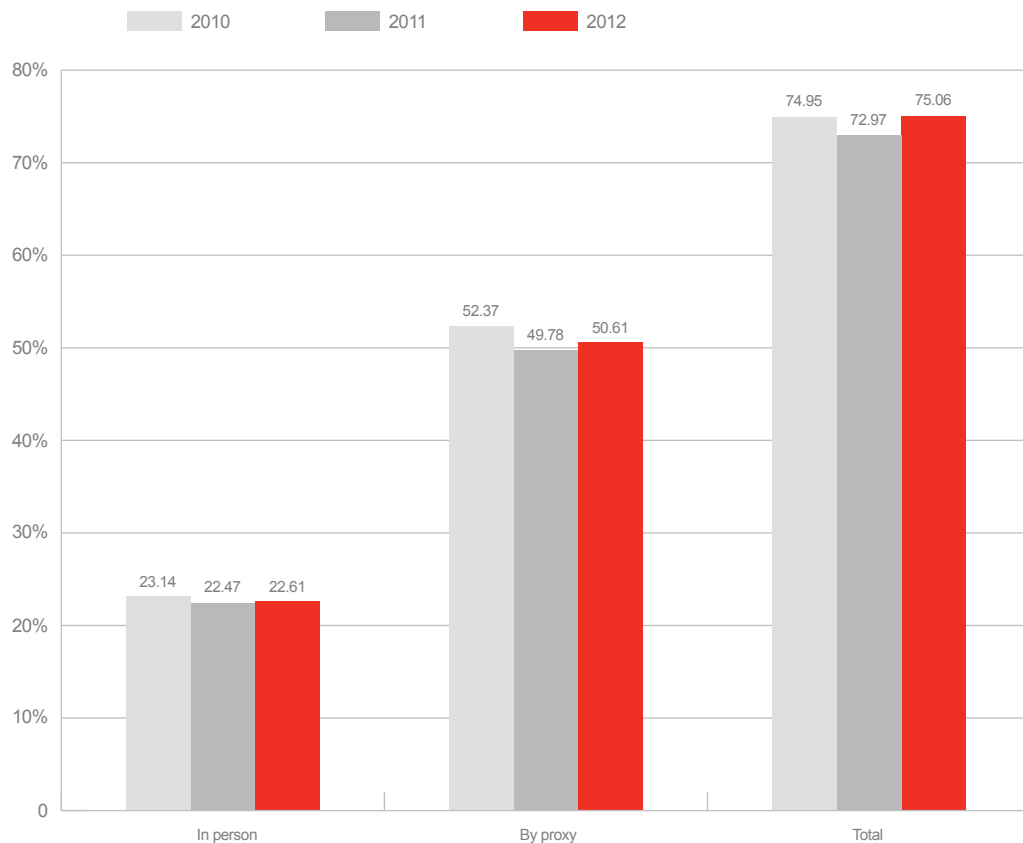
Participation in the general meeting

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.

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

Chart 1.10 Participation by shareholders in general meetings during 2010, 2011 and 2012



Source: Questionnaire

- The percentage of the initial capital held by shareholders who participated in general meetings in 2012 rose by 2.86% relative to the previous year and totalled 75.06%.
- General meetings held in 2012 were attended by an average of 25.46 shareholders.

- The percentage of average participation by shareholders in general meetings held in 2010, 2011 and 2012 amounted to 74.33%, out of which a 22.74% share related to participation in person, and a 50.92% share related to participation by proxy.
- The percentage of initial capital held by members of the management and supervisory board who participated in general meetings held in 2012 in their capacity as shareholders totalled 8.26%.
- The percentage of initial capital held by shareholders who voted remotely in general meetings held in 2012 totalled 0.39%.

Voting limitations, attendance conditions and decision making

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

- Shareholder voting rights were restricted for some shareholders at 13 general meetings held in 2012. In most of those cases, voting rights were restricted due to the reason referred to in Article 293 paragraph 1 of the ZTD, namely issuance of clearance to members of management or supervisory boards or boards of directors. Pursuant to the said provision, voting rights may not be exercised by any person on his own behalf or on behalf of another person in the process of adopting a decision on whether the person should be issued clearance, on releasing the person from an obligation or on exercising rights claimed by the company with respect to that person.

1.4 Audit and control

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

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

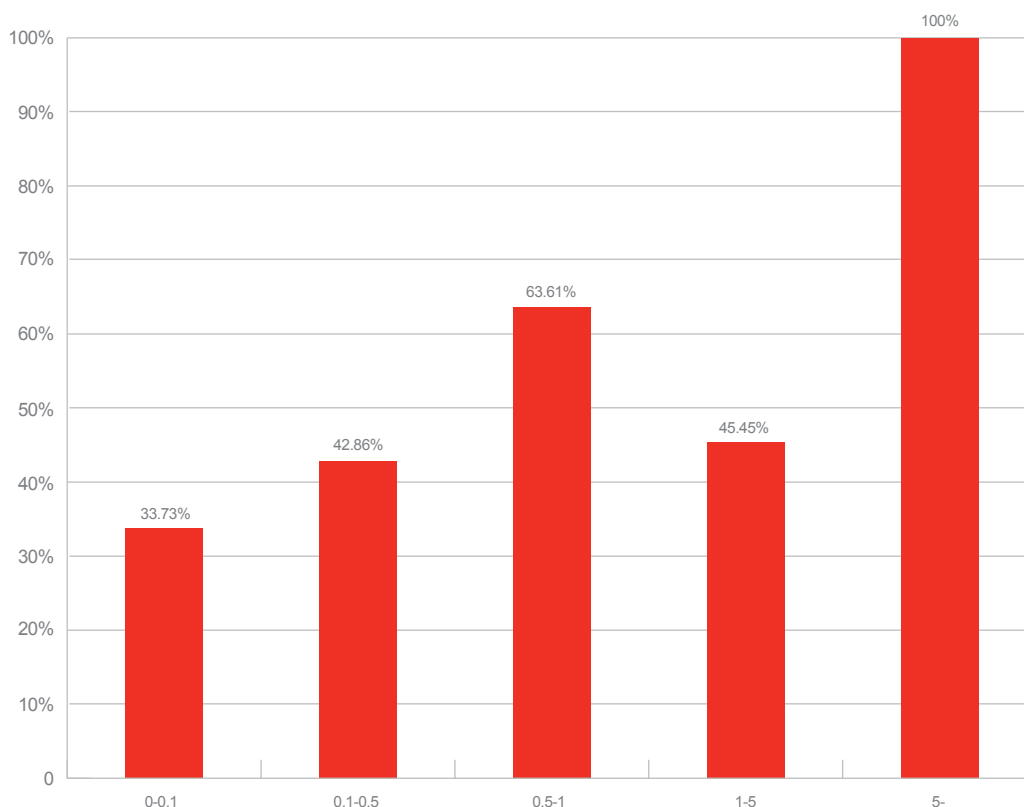
1.4.1 Internal audit and control

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

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

- A total of 62 or 41.06% of the issuers which submitted the 2012 Questionnaire reported having an internal audit system in place. A total of 37.93% and 34.41% of the issuers which submitted the Questionnaire for 2011 and 2010 respectively reported having an internal audit system in place.
- As at 31 December 2012, a total of 62 issuers having an internal audit system in place had a total market capitalisation of HRK 95.4bn. The total market capitalisation of 151 issuers which submitted their 2012 Questionnaires reached HRK 121.2bn as at 31 December 2012.
- Most of the issuers having an internal audit system in place belonged to the tourism industry and the banking sector (14 issuers from each of the sectors), followed by issuers from the food industry (seven issuers) and the insurance sector (six issuers).
- A total of 101 or 66.89% of the issuers which submitted the 2012 Questionnaire reported having an internal control system in place. A total of 60.34% and 61.29% of the issuers which submitted the 2011 and 2010 Questionnaire respectively reported having such a system in place.
- These data point to the growing awareness among the issuers of the importance of internal audit and control system.

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



Source: Questionnaire, Zagreb Stock Exchange

1.4.2 Managing company risks

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

- In 2012, a total of 46 issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- A total of 39 issuers reported having appointed a person in charge for risk management.
- A total of 54 issuers reported some of the risks having materialised during the year 2012. 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 having materialised: changes in exchange rates, economic and financial crisis, political environment, problems in the collection of receivables, etc.
- According to the data contained in the Questionnaires, materialised risks were mostly reported by issuers from the food industry and the banking sector (eight issuers from each of the

sectors), followed by issuers from the tourism industry (seven issuers), property and fund industry (five issuers) and the construction industry and the insurance sector (four issuers from each of the sectors).

1.4.3 External audit

Pursuant to the Corporate Governance Code, companies must have external auditors, who represent an important corporate governance tool. The 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 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 true and fair presentation of financial statements.

- A total of 44 different audit firms were reported in the 151 Questionnaires submitted at the end of 2012. The largest number of issuers using services of the same audit firm was 20.
- A total of 50 issuers used services of the largest audit firms (the Big Four).
- The average length of the time period during which issuers used services of the same audit firm was 6.81 years.
- The average length of the time period during which issuers used services of the same certified auditor in the same audit firm was 4.94 years.
- A total of 139 issuers reported the gross amount paid to the external audit firm for auditing services provided in 2012. The amount totalled an average of HRK 271,092, ranging from HRK 12 thousand to almost HRK 3.8m. The average gross amount paid to the external audit firm reached HRK 545 thousand.
- A total of 16 issuers reported having paid the external audit firm for services other than auditing services provided in 2012. The average gross amount totalled HRK 161,432, ranging from HRK 12.5 thousand to almost HRK 1.4m. The following were the services other than auditing services provided in 2012: special audit, translation services, audit of a merger, consultations, expert lectures, etc.
- None of the issuers reported family or business relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

1.5 Investor relations

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

1.5.1 Website of the issuer

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

- According to the data from the 151 Questionnaires submitted in 2012, a total of 149 share issuers (98.68%) reported having their website in Croatian, and 93 issuers (61.59%) reported having their website in English as well.
- Out of the two issuers which did not have their own website, one belonged to the wood industry and one to the construction industry. Their total capitalisation amounted to HRK 64.15m at end-2012.
- A total of 49 issuers (32.45%) reported having a separate organisational unit or employees exclusively in charge of public (investor) relations. Such a unit or organisation in charge solely for public (investor) relations was mostly reported by issuers from the tourism industry (ten issuers), food industry (eight issuers) and the banking sector (six issuers).
- Four issuers reported having concluded a contract with a market maker. Their total market capitalisation reached HRK 4.02bn at the end of 2012. Three of those issuers formed part of the Crobex index (Atlantic Grupa d.d., Ledo d.d. and AD-Plastik d.d.)
- A total of 44 issuers (29.14%) reported having published the calendar of significant events on their website. In 2011, 28.16% of the issuers provided the same answer.
- A total of 29 issuers reported having held one or more press conferences during 2012. The largest number of press conferences held by one issuer was 25. The most common reasons for convening a press conference were presentations of business results (including financial data) and significant activities, signing of important contracts, presentations of products, promotions, announcements of investments and events, 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. In addition to that, the management board may, subject to the consent of the supervisory board, adopt a decision on advance dividend payment.

- According to the data from the 151 Questionnaires submitted, 31 issuers (20.53%) adopted a decision on dividend payment in 2012.
- The average amount of dividend per share totalled HRK 42.40.
- Most of the issuers which adopted a decision on dividend payment in 2012 belonged to the food industry (six issuers), tourism industry (five issuers) and the banking sector (four issuers).
- The total market capitalisation of issuers which adopted a decision on dividend payment in 2012 reached HRK 96.08bn. Among those issuers, the largest market capitalisation was reported by an issuer from the energy sector (HRK 39.2bn), and the smallest by an issuer from the sector industry – other industries (HRK 6.3m).

2 Annual Report on Corporate Governance of Bond Issuers

- At the end of 2012, a total of 15 bonds were issued by 14 different issuers.
- The interest rate ranged between 5.0000% and 12.0000% and totalled an average of 7.6917%.
- Two issuers listed their corporate bonds on the official market of the Zagreb Stock Exchange for the first time.
- Four issuers removed their corporate bonds from the official market, or more specifically, their bonds came due in the course 2012. These bonds were not replaced by any new bonds.
- At the end of 2012, one bond issuer belonged to the financial and 13 issuers to the non-financial sector. The majority of bond issuers (four) from the non-financial sector belonged to the telecommunications industry, two issuers to the trade and construction industry respectively and one issuer each was from the energy sector, pharmaceutical and transport industry.
- As at 31 December 2012, none of the corporate bond issuers was undergoing bankruptcy or pre-bankruptcy settlement proceedings.

2.1 Capital and origin of capital of corporate bond issuers

Initial capital

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

Table 2.1 Initial capital of corporate bond issuers as at 31 December 2010, 2011 and 2012

Bond issuers	Number of issuers				2010	2011	2012
	2010	2011	2012				
with admitted shares	5	3	3	Initial capital	2,390,961,600	631,588,700	494,276,000
				Market capitalisation	833,960,000	306,576,680	236,244,592
without admitted shares	11	11	11	Initial capital	25,000,850,448	22,996,963,848	22,882,547,500
				Market capitalisation	3,534,636,174	2,877,066,455	1,434,075,625
TOTAL	16	14	14	Initial capital	27,391,812,048	23,628,552,548	23,376,823,500
				Market capitalisation	4,368,596,174	3,183,643,135	1,670,320,218

Source: register of companies, Zagreb Stock Exchange

- Out of 14 bond issuers, only three also listed their shares on the regulated market of the Zagreb Stock Exchange.
- At the end of 2012, the total initial capital of all corporate bond issuers decreased by 1.07% compared to the previous year. The initial capital of corporate bond issuers with admitted shares fell by 21.74%, whereas a 0.5% decrease in the initial capital was reported by corporate bond issuers without admitted shares.
- The total market capitalisation of corporate bonds issuers decreased by 47.53% relative to the previous year. Market capitalisation of corporate bond issuers with admitted shares fell by 22.94%, whereas a 50.16% fall in market capitalisation was reported by corporate bond issuers without admitted shares.

2.1.1 Ownership structure of bond issuers

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

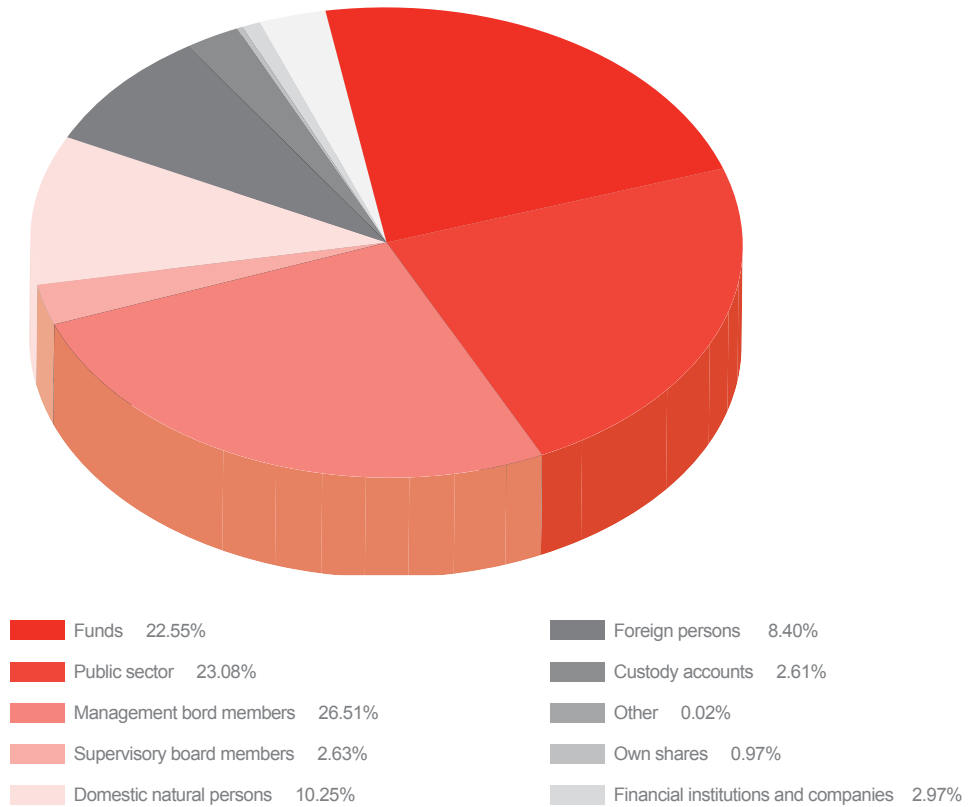
The ownership structure has been analysed by groups of the shareholders, with the sum of all groups making 100% of the ownership structure, meaning that one shareholder can be allocated to a single group only.

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

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

Chart 2.1 presents the ownership structure of corporate bond issuers as at 31 December 2012 by the above mentioned groups.

Chart 2.1 Ownership structure of corporate bond issuers as at 31 December 2012



Source: CDCC

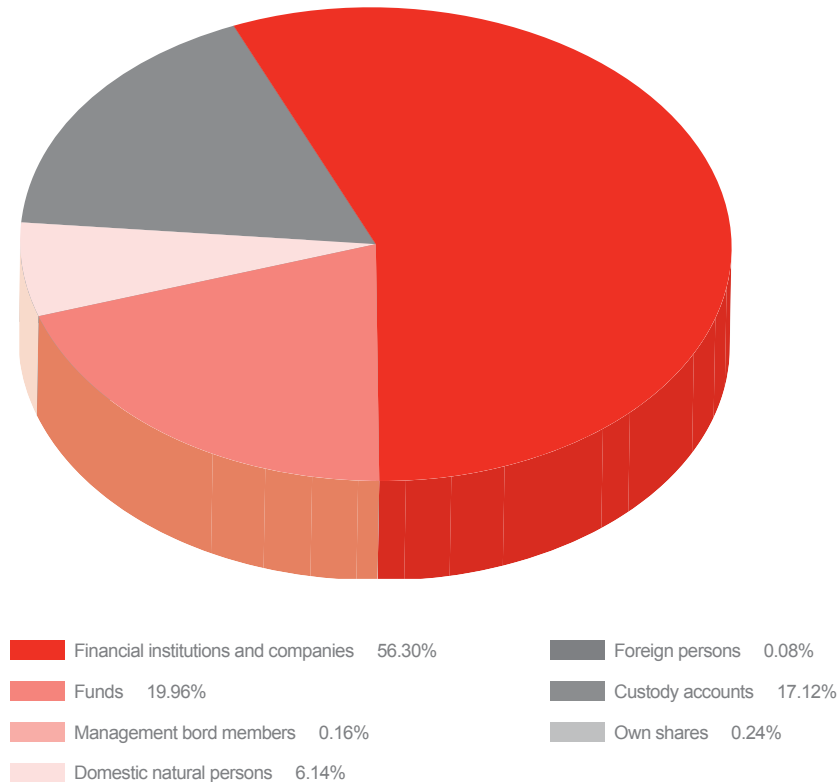
- As opposed to the previous year, the ownership structure of corporate bond issuers established as joint-stock companies was dominated by management board members with a 26.51% share, followed by the public sector, which fell to a 23.08% share, from a 30.26% share recorded in the preceding year.

2.1.2 Ownership structure of bondholders

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

Chart 2.2 presents the structure of holders of corporate bonds as at 31 December 2012 by the defined categories.

Chart 2.2 Structure of holders of corporate bonds as at 31 December 2012



Source: CDCC

- As in 2011, financial institutions and companies were holders of corporate bonds accounting for the largest share (56.30%) in the total ownership structure, and were followed by funds and custody accounts.

2.2 Issuers' governing bodies

This chapter presents an analysis of data on governing bodies of bond issuers, 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 Management board

The following text presents an analysis of data on management board members of bond issuers established as joint-stock companies, as at 31 December 2010, 2011 and 2012.

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

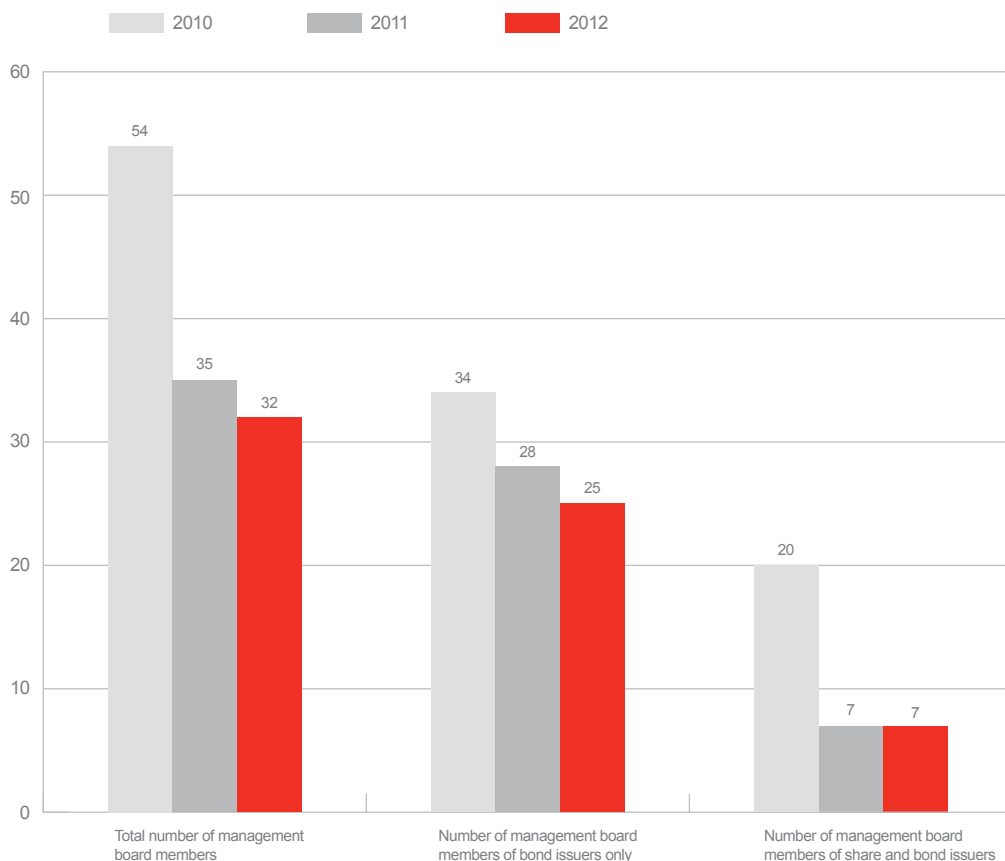
Only natural persons with full legal capacity may be appointed members of the management board.

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

The following analysis shows the number of management board members of joint-stock companies – corporate bond issuers, totalling 14 at the end of 2010 and 11 at the end of 2011 and 2012.

Chart 2.3 shows the total number of management board members of bond issuers as at 31 December 2010, 2011 and 2012.

Chart 2.3 Total number of management board members as at 31 December 2010, 2011 and 2012

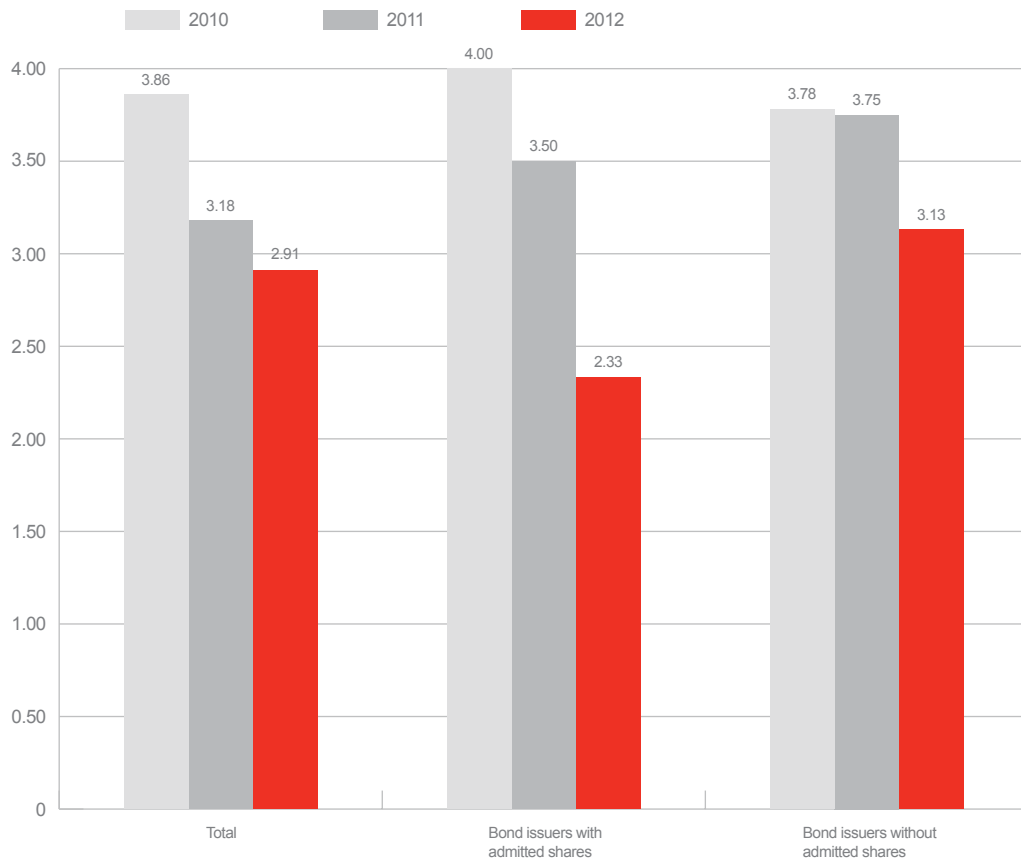


Source: register of companies, Hanfa

- As at 31 December 2012, the maximum number of management board members was 6, which was the number of management board members reported by one bond issuer only. The largest number of issuers (four) had three management board members each.

Chart 2.4 shows the average number of management board members of corporate bond issuers as at 31 December 2010, 2011 and 2012.

Chart 2.4 The average number of management board members of bond issuers as at 31 December 2010, 2011 and 2012



Source: register of companies, Hanfa

- In the observed period, the average number of management board members of corporate bond issuers fell below three (and totalled 2.91) for the first time at the end of 2012.

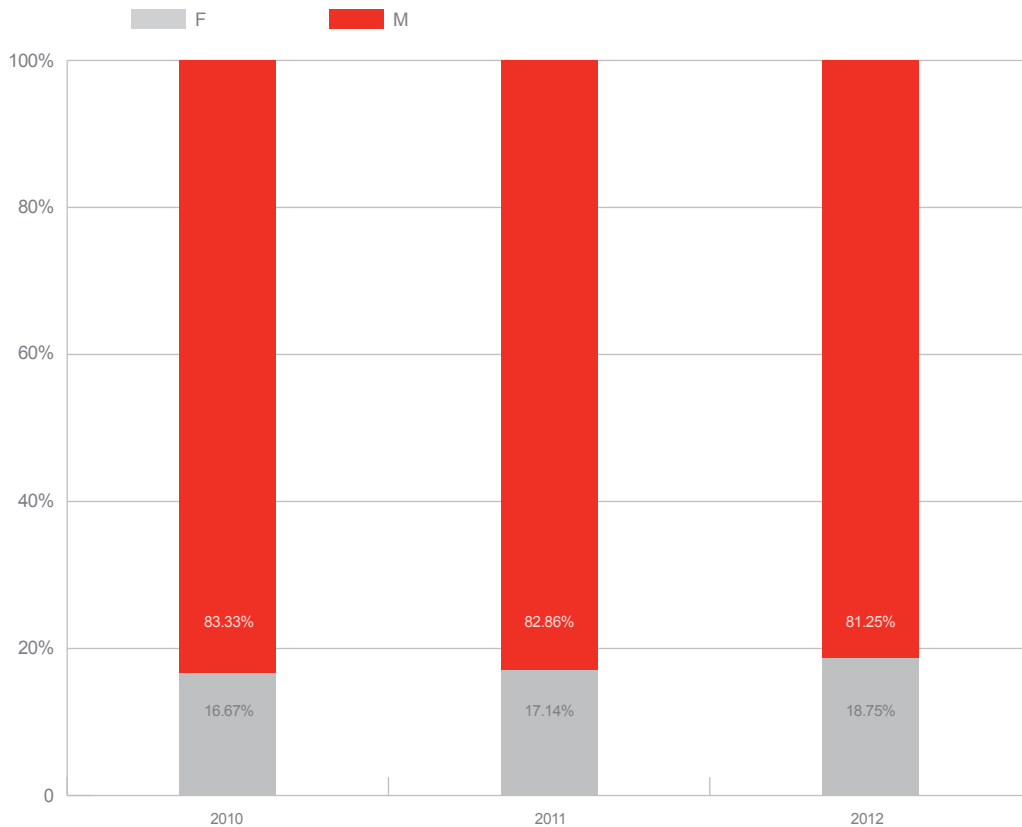
Gender diversity

- As at 31 December 2012, six women sat on management boards of corporate bond issuers.
- Only five (out of 11 analysed) corporate bond issuers reported having female management board members as at 31 December 2012.

- Out of five issuers which had female management board members as at 31 December 2012, four had one female management board and one issuer had two female members of the management board, which consisted of three members. One issuer had one management board member, who was female.

Chart 2.5 presents the share of women on management boards of corporate bond issuers as at 31 December 2010, 2011 and 2012.

Chart 2.5 Proportion of women on management boards of corporate bond issuers as at 31 December 2010, 2011 and 2012



Source: register of companies, Hanfa

- The proportion of women on management boards of corporate bond issuers amounted to an average of 17.52% for all the three analysed years.
- Only one corporate bond issuer had a chairwoman of the management board at the end of 2012.

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 2012, of which two issuers reported changes in the internal procedure occurring during the year.

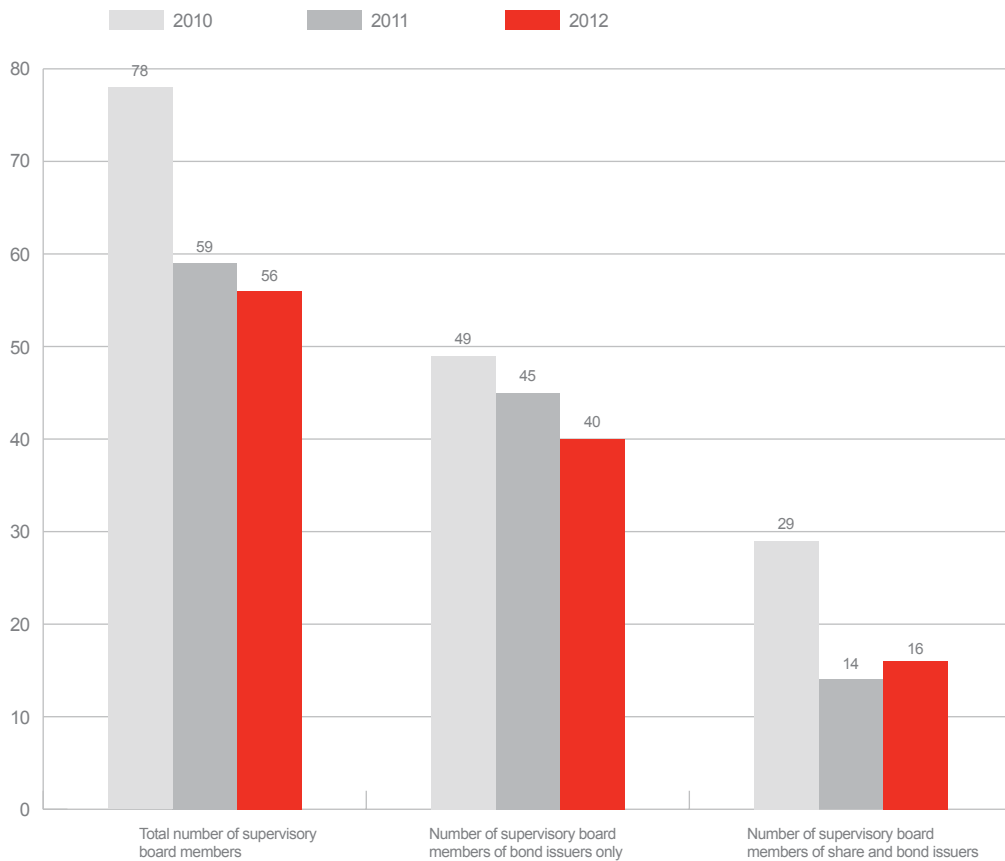
Meetings of the management board

- In 2012, six corporate bond issuers reported having a schedule of meetings of the management board, of which three issuers reported having mechanisms for proxy voting at management board meetings.

2.2.2 Supervisory board

Chart 2.6 presents the total number of supervisory board members of corporate bond issuers at the end of 2010, 2011 and 2012.

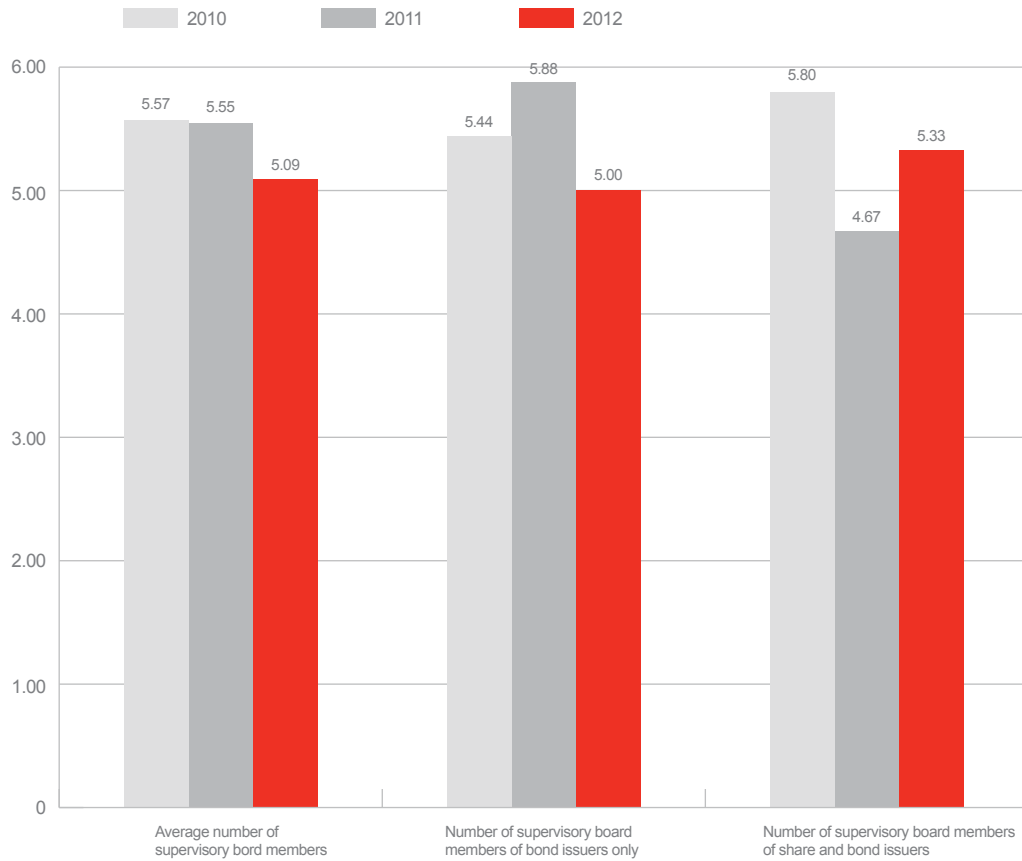
Chart 2.6 The total number of supervisory board members as at 31 December 2010, 2011 and 2012



Source: register of companies

Chart 2.7 shows the average number of supervisory board members of corporate bond issuers as at 31 December 2010, 2011 and 2012.

Chart 2.7 Average number of supervisory board members of corporate bond issuers as at 31 December 2010, 2011 and 2012



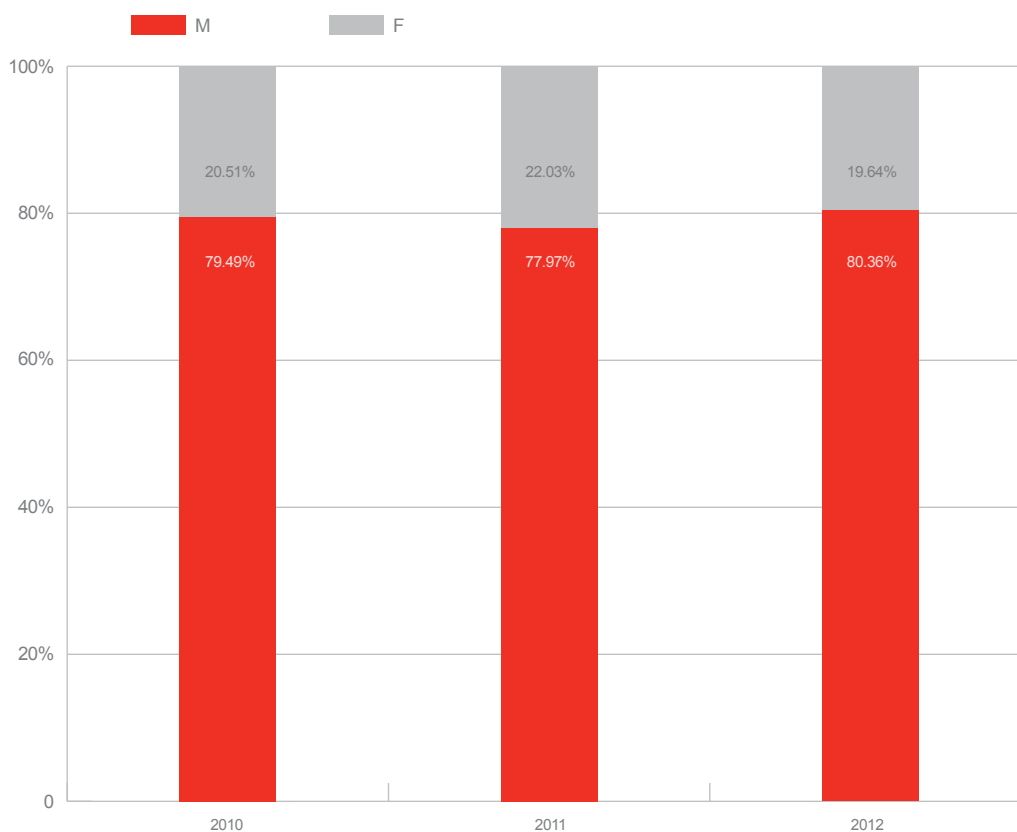
Source: register of companies

- The average number of supervisory board members of corporate bond issuers continued to fall (-8.29% compared to the end of 2011).

Gender diversity

Chart 2.8 shows the proportion of women on supervisory boards of corporate bond issuers as at 31 December 2010, 2011 and 2012.

Chart 2.8 Proportion of women on supervisory boards of corporate bond issuers as at 31 December 2010, 2011 and 2012



Source: register of companies

- In the observed period, the proportion of women on supervisory boards of corporate bond issuers totalled 20.73%, slightly exceeding the average number of women on management boards of corporate bond issuers in the same period (17.52%), but still being far from the defined gender-balanced representation.

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

Supervisory board committees

- Six issuers reported having an audit committee in place, three corporate bond issuers reported having a remuneration committee in place, whereas two corporate bond issuers reported having a nomination committee in place in 2012.

Internal working procedures of the committees

- Five out of six issuers which had an audit committee in place in 2012 reported having established internal working procedures for the audit committee.
- Two out of three issuers which reported having a remuneration committee in place also reported having established its internal working procedures. All the issuers which had a nomination committee in place reported having established its internal working procedures.

Meetings

- Five out of six issuers which had an audit committee in place reported the committee meetings having been held in 2012. The average number of audit committee meetings during the year was three. Three out of five issuers which had an audit committee in place reported four committee meetings having been held in 2012.
- One issuer reported three remuneration committee meetings having been held in 2012.
- One issuer reported three nomination committee meetings having been held in 2012.

Other committees

- In 2012, three issuers reported having set up another committee, whose names were corporate governance committee (two issuers) and credit committee.
- Two issuers reported preparation of a report on the work of committees, with reports of one issuer being available to the public (Atlantic Grupa d.d.).

2.3 Remuneration

2.3.1 Remuneration of management board members

In 2012, four corporate bond issuers reported having a remuneration policy for management board members, whereas two and eight issuers reported having such a policy in 2011 and 2010 respectively.

Table 2.2 presents the number of issuers which reported the average gross amount of fixed and variable remuneration paid to management board members of corporate bond issuers, the average amount of other benefits paid to management board members and the average value of options held by management board members, as well as the respective amounts in 2012, 2011 and 2010.

Table 2.2 Amount of remuneration of management board members of corporate bond issuers in 2012, 2011 and 2010 (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		
2012	Number of issuers	13	2	1	2
	Amount	2,674,849	2,069,916	5,892,847	46,896,957
2011	Number of issuers	12	2	1	1
	Amount	655,232	427,524	3,030,868	30,000,000
2010	Number of issuers	12	3	0	3
	Amount	564,449	279,010	0	10,663,618

Source: Questionnaire

- A significant increase in average amounts paid to management board members in all the analysed categories was recorded in comparison to 2011.
- Three issuers reported the submission of the annual remuneration policy statement relating to management board members to the general meeting.
- Two issuers reported using options as a method of remunerating and motivating management board members, with one issuer reporting the amount totalling HRK 90m, and the other HRK 3.8m.

2.3.2 Remuneration of supervisory board members

- In 2012, six corporate bond issuers reported the level of supervisory board member remuneration being determined by the general meeting and two issuers reported that level being prescribed by the statute. The other issuers either failed to provide their answers.

Table 2.3 shows the number of issuers which reported the average gross amount of fixed and variable remuneration paid to supervisory board members of corporate bond issuers, the average amount of other benefits paid to supervisory board members, as well as the respective amounts in 2012, 2011 and 2010.

Table 2.3 Amount of remuneration of supervisory board members of corporate bond issuers in 2012, 2011 and 2010

		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	
2012	Number of issuers	9	0	0
	Amount	336,428	0	126,656,34
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

Source: Questionnaire

- As in the previous year, corporate bond issuers did not pay any variable remuneration to supervisory board members. However, in 2012, the amount of fixed remuneration paid to supervisory board members increased almost sevenfold relative to 2011.
- Four issuers reported the submission of the annual remuneration policy statement relating to supervisory board members to the general meeting.

2.3.3 Related party transactions

- In 2012, three issuers reported having an internal regulation in place for cases of related party transactions.

Table 2.4 sets out the value of reported transactions during 2010, 2011 and 2012, concluded by the issuer with the following stakeholder groups: shareholders with more than 5% of the initial capital of the issuer, management and supervisory board members of the issuer, senior management of the issuer and within the group the issuer belongs to or is its parent.

Table 2.4 Average value of reported related party transactions in 2010, 2011 and 2012

		Gross value of 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
2012	Number of issuers having reported the transaction	5	4	2	3
	Average transaction value (in HRK)	2,195,173,621	21,978,025	36,174,739	616,632,660
2011	Number of issuers having reported the transaction	3	3	1	3
	Average transaction value (in HRK)	3,499,375,157	22,910,909	71,689,663	683,295,318
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

Source: Questionnaire

- As in 2011, during the year 2012, the highest average transaction value by far was related to transactions concluded by issuers with shareholders owning more than 5% of the initial capital of the issuer.

2.3.4 Conflicts of interest

- In 2012, five issuers reported having an internal regulation in place to identify, prevent and report conflicts of interest (five and six issuers reported having such regulation in place in 2011 and 2010 respectively). 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, zero tolerance to corruption, responsibility, ethical principles and transparency of business operations.
- No conflicts of interest were reported by issuers in 2012.

2.4 Audit and control

2.4.1 Internal audit and control

- In 2012, seven out of 14 issuers reported having an internal control system in place.
- Eight out of 14 issuers reported having an internal audit system in place.

2.4.2 Managing company risks

- In 2012, four issuers reported having an internal regulation in place for the identification, management and prevention of risks.
- Seven issuers reported having appointed a person in charge for risk management. In the majority of cases, such a person performs the function of a finance director (two) or management board member (two).
- According to the issuers, the most frequent business risks were liquidity, credit, interest rate and operational risks. Two issuers also reported facing political and macroeconomic risks.
- Six issuers (two more than in 2011) reported the liquidity (three issuers), currency (one issuer), credit (one issuer), or macroeconomic risk (one issuer) having materialised during 2012. According to the issuers, the following were the reasons for the risks being materialised: decrease in economic activity and the overall economic situation in the country, illiquidity, problems in the collection of receivables and liabilities for foreign currency loans.

2.4.3 External audit

- In 2012, a total of 14 corporate bond issuers used services of nine different external auditors. Three issuers had the same external auditor.
- At the end of 2012, the average length of the time period during which issuers used services of the same external audit firm was 5.86 years (5.36 years in 2011).
- At the end of 2012, the average length of the time period during which issuers used services of the same certified auditor in the same audit firm was 4.46 years (4.21 years in 2011).
- A total of 13 out of 14 issuers reported the gross amount paid to the external audit firm for auditing services provided in 2012. The amounts ranged from HRK 47.1 thousand to HRK 1.8m. External auditors were paid an average of HRK 297 thousand by issuers for auditing services provided in 2012.
- Four issuers reported the gross amount paid to the external audit firm for other services provided in 2012. The amounts ranged between HRK 3 thousand and HRK 78.8 thousand.
- None of the corporate bond issuers reported relations between the external audit firm and auditor and the issuer, i.e. management and supervisory board members and senior management of the issuer.

List of tables

Table No.	Title	Page
1 Annual Report on Corporate Governance of Share Issuers		
1.1	Issuers by groups of activities as at 31 December 2010, 2011 and 2012	7
1.2	Amount of remuneration of management board members of share issuers in 2012, 2011 and 2010 (in HRK)	22
1.3	Amount of remuneration of supervisory board members of share issuers in 2012, 2011 and 2010 (in HRK)	25
1.4	Average value of reported related party transactions in 2010, 2011 and 2012 (in HRK)	26
2 Annual Report on Corporate Governance of Bond Issuers		
2.1	Initial capital of corporate bond issuers as at 31 December 2010, 2011 and 2012	34
2.2	Amount of remuneration of management board members of corporate bond issuers in 2012, 2011 and 2010 (in HRK)	45
2.3	Amount of remuneration of supervisory board members of corporate bond issuers in 2012, 2011 and 2010	46
2.4	Average value of reported related party transactions in 2010, 2011 and 2012	47

List of charts

Chart No.	Title	Page
1 Annual Report on Corporate Governance of Share Issuers		
1.1	Market capitalisation of the regulated market of the Zagreb Stock Exchange as at 31 December 2010, 2011 and 2012	8
1.2	Ownership structure of share issuers as at 31 December 2012	10
1.3	Origin of issuers' capital as at 31 December 2010, 2011 and 2012	11
1.4	Average number of management board members by the type of market as at 31 December 2010, 2011 and 2012	13
1.5	Proportion of men to women on management boards as at 31 December 2010, 2011 and 2012	14
1.6	Number of management board members who were at the same time members of management/supervisory boards of other issuers in 2010, 2011 and 2012	16
1.7	Average number of supervisory board members by the type of market as at 31 December 2010, 2011 and 2012	18
1.8	Proportion of men to women on supervisory boards of issuers in 2010, 2011 and 2012	19
1.9	Total gross amount of fixed remuneration paid to management board members in 2012 (in HRK million) with respect to the market capitalisation of issuers (in HRK billion)	23
1.10	Participation by shareholders in general meetings during 2010, 2011 and 2012	28
1.11	Share of issuers having an internal audit system in place with respect to market capitalisation (in HRK billion)	31
2 Annual Report on Corporate Governance of Bond Issuers		
2.1	Ownership structure of corporate bond issuers as at 31 December 2012	36
2.2	Structure of holders of corporate bonds as at 31 December 2012	37
2.3	Total number of management board members as at 31 December 2010, 2011 and 2012	38
2.4	The average number of management board members of bond issuers as at 31 December 2010, 2011 and 2012	39
2.5	Proportion of women on management boards of corporate bond issuers as at 31 December 2010, 2011 and 2012	40
2.6	The total number of supervisory board members as at 31 December 2010, 2011 and 2012	41
2.7	Average number of supervisory board members of corporate bond issuers as at 31 December 2010, 2011 and 2012	42
2.8	Proportion of women on supervisory boards of corporate bond issuers as at 31 December 2010, 2011 and 2012	43