RESULTS OF RESEARCH

“Reporting on Corporate Social Responsibility by Leading Croatian Firms 2009”
&
“First Annual Survey of Corporate Governance Codex Disclosure Statement”
In the highly competitive and globalized business market of the future, good corporate governance and transparent reporting are the additional value of every company.

Zagreb School of Economics and Management (ZSEM) is continuously trying to provide its students high quality knowledge and skills needed to succeed in the competitive global market. Among the mentioned, we also try to provide our students with good ethical and moral values in business, and responsibility towards mankind, society and nature, by fostering tolerance, dialogue, and understanding of differences.

ZSEM also organizes Executive Education programs to increase the abilities of leadership among individual and organizations, being fully aware of the need for continuous investment in education. For several years, Zagreb School of Economics and Management has been organizing seminar on Corporate Governance. The goal of this seminar is to provide its participants with skills for implementing better corporate governance practices on-the-job.

Along with educating, ZSEM is carrying out research projects on corporate governance. Once a year ZSEM monitors the extent to which Croatian firms are providing the public, including potential investors, with the information they need to make informed decisions about the companies’ corporate governance and corporate social responsibility. Our overall aim is to promote an improved investment climate in Croatia.

This year again we are presenting data and practices of best Croatian companies hoping that this will guide and inspire other Croatian companies to improve their reporting practice.

We find good corporate governance and strengthened role of the supervisory board important factor of economic growth and only by continuous work on educating and researching corporate governance, results can be expected.

Hereby we present you with our research.

Ph.D. Đuro Njavro, Dean
RESULTS OF RESEARCH
“Reporting on Corporate Social Responsibility by Leading Croatian Firms”

September 2009

Leslie Matthews Šulenta
Director of consulting firm:
International Business Strategies, LLC, Zagreb
leslie.sulenta@consulting-mps.com

Mirna Ćorić
Lecturer, Department of Economics and Management
Zagreb School of Economics and Management
mima.coric@zsem.hr

Mirna Koričan
Lecturer, Department of Management
Zagreb School of Economics and Management
mirna.korican@zsem.hr
Note:

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Leslie Matthews Šulenta
Director of Consulting Firm:
Međunarodne poslovne strategije, d.o.o., Zagreb
leslie.sulenta@consulting-mps.com

Leslie runs a consulting firm which specializes in financial consulting and professional training both in Croatia and abroad. She has worked in more than a dozen developing countries, training and advising banking and finance professionals in government and the private sector. Her clients have included the World Bank, IMF, EBRD, European Commission, Asian Development Bank, USAID, and numerous central banks, private banks and corporations.

Mirna Ćorić
Lecturer, Department of Management and Marketing
Zagreb School of Economics and Management
mirna.coric@zsem.hr

Mirna Ćorić has been working in higher education for the past few years, in the fields of management, marketing, operations management and strategic management. Career highlights include academic aspects of 8 years spent abroad living and studying. She holds her M.Sc. in General Management with specialization in Marketing Management with Bocconi University, Italy. Mirna has research interest in fields that combine management and marketing with technological fields and digital developments, as well as human resource management, cross cultural aspects of management and internationalization.

Mirna Koričan
Lecturer, Department of Management
Zagreb School of Economics and Management
mirna.korican@zsem.hr

Mirna Koričan joined ZSEM in 2003, after a short career in a market research company. She started as an assistant in the Management department, now lecturing in the field of management, strategy and human resources. She holds her MA in the field of psychology and has an MBA. She finished several additional executive education seminars abroad and in Croatia. Mirna Koričan is also an author of several research papers in the field of HRM, management, organizational behavior and strategy. She also participated in the translation of several books.
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1. Overview of recent CSR Reporting Initiatives in Croatia and Survey Results

The last two years have witnessed much progress in the field of Corporate Social Responsibility (CSR) reporting in Croatia. Several big firms are leading the way toward the implementation of world class best practices, with some companies adopting the Global Reporting Initiative (GRI) standards for corporate sustainability and others adopting the standards of the Global Compact (GC). The organization Croatian Business Council for Sustainable Development (HR PSOR) and others have begun providing independent opinions about the contents of CSR and sustainability reports.

Of the 45 leading firms we surveyed this year, 7 published detailed reports on their sustainability / CSR initiatives in accordance with either GRI or GC international standards. These firms stand out from the crowd and could be compared well in their CSR reporting with major firms in Western markets.

The survey’s general conclusions are:

- Average total scores stayed flat at 6 (out of 30 possible) this year, or 20% of the maximum possible score.
- For the first time, in certain categories the quality of CSR reporting decreased rather than increased as it has in all previous surveys.
- The best firm in this year’s survey earned an all-time high score of 25 of maximum possible 30 points, “raising the bar” for future contenders for the top spot.

There are several possible reasons for the mixed results we see in certain categories. Some possible explanations are offered in this report.
2. Companies surveyed

Starting with our first Corporate Social Responsibility survey in 2004, we have surveyed the online (website) reporting practices and reporting in Annual Reports of about 40 of the leading Croatian companies. Our objective is to review all of the most important public companies, which we define as:

- Publicly traded companies, meaning those with shares, commercial paper, or bonds listed on the stock market
- Companies of a ‘public nature’, such as public utilities and major financial institutions

In each of the four surveys, the group of surveyed companies has changed somewhat alongside changes in the markets, as some firms drop out and others move into the top tier in terms of market capitalization and trading turnover.

The companies in this year’s survey accounted for 86% of market capitalization at year-end and 78% of turnover on the Zagreb stock exchange in 2008. A list of the firms included in the survey is found at the end of this publication.

3. Findings of survey

3.1. Flat overall scores with mixed results in various categories

Companies’ average total scores this year are identical to those of our previous survey, and still quite low. As shown on figure 1, out of a maximum possible score of 30, the average score for the 45 companies in our sample was 6. In our most recent survey the average total score was also 6, but it had been moving upward each year.
Figure 1:
Average score - all companies

There is a big difference in the results achieved by the best firms and the majority of firms in the survey. If we separate the results for the top ten firms each year and compare those results to all the other firms (usually about 35 others), it’s clear that there is a group of leaders and a larger group of laggards in terms of CSR reporting. (See below.)

Figure 2:
Average result - Website and Annual Report
The above chart also illustrates that the group of leaders – the top ten firms – did not improve in its overall CSR reporting this year according to our methodology. It seems that the same small group of winners continues to perform at a high level, while the rest of the firms continue to progress but at a slow pace.

In the three categories of CSR reporting, the results vary, as shown below and explained in more detail later:

**Figure 3:** Average CSR reporting score 2004 - 2009

The quality of reporting on Corporate Governance Reporting has improved markedly. We attribute this to the introduction of a corporate governance code in 2007 by the Zagreb Stock Exchange. It requires all listed firms to publicly disclose in detail their corporate governance practices. Refer to our separate study, First Annual Survey of Corporate Governance Code Disclosure Statements, for details on those disclosures.

The chart on figure 2 also shows that the quality of reporting on environmental matters, on the other hand, declined slightly. The quality of social policy reporting also dropped this year as compared to the previous survey.

These results are analyzed in more depth in the following sections.
3.2. More firms have CSR reporting media (websites and annual reports)

At the beginning of our analysis, let’s take a look at the number of leading companies which publicly disclose in the form of annual reports and websites. Each year since we began conducting this research, a higher percentage of surveyed companies publish the ‘CSR reporting tools’ we use for our survey: annual reports and websites.

As the above chart illustrates, once again 51% of the surveyed companies publish their annual reports on their websites. All (100%) of the companies analyzed in this year’s survey have websites, which is a clear improvement since previous years. Eight of the 45 firms surveyed, or 18%, issued a separate, detailed report on their websites about their corporate social responsibility or “sustainability” activities.
3.3. Corporate governance reporting improved

Corporate governance reporting on websites improved significantly

Generally there is a significant rising trend in the percentage of firms that disclose details on their websites about their corporate governance structure, the company’s relationship with its external auditor, and the existence of and compliance with an internal code of ethics. Since the introduction of the corporate governance codex for listed firms in 2007, disclosure of such information on websites is expected of all listed firms (40 of 45 firms included in the survey).

Figure 5: Corporate governance reporting Websites

Corporate governance reporting in annual reports stayed at the same level

In annual reports, as shown on the next page, the level of reporting on corporate governance stayed at approximately the same level. This seems to be in keeping with the trend by companies to provide more CSR information on the websites rather than in annual reports.
As illustrated above, there were rather insignificant increases and decreases in the quality of reporting on the various corporate governance matters in annual reports.

### 3.4. Environmental policy reporting is mixed and overall slightly decreased

Concerning environmental policy reporting, we looked to see if companies are providing: particular information about their compliance with regulations regarding environmental standards; the name of the person or department responsible for environmental management and compliance; details on the amount of energy and water used by the firm, details on emissions and waste; and how or if the company integrates environmental considerations into its supply chain.
Environmental reporting on websites worsened slightly

In environmental reporting on websites, Croatian companies have generally low scores, and this year for the first time the results have actually worsened in comparison to previous surveys, especially in the aspect of disclosure on integration of environmental aspects into supply chain. There percentage of companies disclosing details about their compliance with environmental standards showed a slight improvement.

Figure 7:
Environmental reporting Website

Environmental reporting in annual reports is about the same as in the previous survey

In the annual reports, again the results are mixed and the average scores quite low. Companies have improved to some extent their disclosures about the integration of environmental aspects into supply chain management, while they deteriorated in terms of reporting on compliance with environmental standards.
3.5. Social policy reporting declined

The firms surveyed this year provided consistently less information than in previous years about their social policies – human rights, labor standards, employment policies, sponsorships, etc. This is the first year we’ve seen such an across-the-board decline, and we are hopeful that the trend will reverse in the next survey.

Social policy reporting in websites declined

There was a decline in the percentage of firms publishing details about their employee development, sponsorship programs and health and safety programs on their websites, while employment policies and disclosure on compliance with human rights improved slightly.
Social policy reporting in websites declined

Figure 9:
Social reporting Websites

Figure 10:
Social reporting ANNUAL REPORT
Annual reports of surveyed Croatian companies, at least this year, deteriorated in disclosure on social reporting. Many firms mention employees and their investment in employee training and sometimes provide detailed analysis of the structure of employees by age, sex, and education levels.

But, we are looking for more details - on the companies’ internal programs for developing and promoting employees (not general information about training), the specific types of benefits which are provided to employees (pension, health benefits, severance, etc.), and the actual employment policies (not just open applications for ‘motivated’ people to apply online for jobs).

Website reporting about sponsorship activities, though lower this year, is still rather high. Almost half of companies report details of their philanthropic or sponsorship activities on their websites. However, sponsorships and donations are not considered to be one of the most important aspects of a company’s overall policy toward society.

4. The Best Companies’ Results

In this year’s survey, Ericsson Nikola Tesla is the top firm, scoring 25 out of 30 possible points. That’s the best result ever recorded in our surveys going back to 2004. Ericsson scored highest this year in both website reporting and annual report disclosures on CSR. Congratulations, Ericsson.

Within the top ten companies, we see some familiar names as well as some newcomers. INA has dropped from its second place (tie) finish last year to fourth place this year. Končar has moved from fourth to second place while Podravka has slipped from a second place (tie) position in the previous survey to third place in the current survey. (See on the next page.)
Newcomers to the top ten list this year are Kraš and Dalekovod. Kraš produced an impressive annual report while Dalekovod stood out for its detailed sustainability report for 2008, which it issued in accordance with the United Nations’ Global Compact standards in both English and Croatian.

The chart below shows the companies with the best results for website reporting on CSR matters. The top scores were very close. The best companies in website disclosures are Ericsson and Podravka, which both earned 12 of 15 possible points.

They were followed closely by three more firms which scored 11 points: Dalekovod, INA, and Končar. Next was Pliva with 10 points, Atlantic Grupa with 9, and VIRO with 7.
There was much wider variation in the level of CSR disclosures in annual reports. The top firm, as shown below, is Ericsson by a wide margin with 13 points. There was a three-way tie for the second spot at 9 points by HEP, Končar, and Kraš. The banks scored reasonably well in this category, with Erste Bank earning 6 points, HPB earning 5 points (a newcomer to the survey), and Privredna banka Zagreb also with 5 points.
We applaud this year’s top companies for their efforts. And we think it’s not a coincidence that the best firms in terms of CSR reporting are also some of the best firms in Croatia in regard to overall performance. Respect for stakeholders and corporate sustainability does appear to pay off in more ways than one.

5. Most Improved Companies

Five firms which deserve special acknowledgments for their efforts are shown in the chart below. Atlantic Grupa increased its overall CSR reporting score by 8 points, from 3 in our last survey to 11 this time. Končar improved by 7 points (now at 19), while Croatia Osiguranje achieved a 5-point increase. Petrokemija and Tankerska Plovitba, while still not in the top of the leagues overall, did improve by 3 points each since the last survey.
6. Methodology

We started by analyzing market data to select the leading Croatian companies to be surveyed. We normally select all companies with securities listed in the first quotation on the Zagreb Stock Exchange, but this year we exclude a few which had very low turnover and/or market capitalization in 2008. We also include other listed companies whose stocks, bonds, or commercial paper account for a significant share of overall market capitalization and/or turnover on the exchange. Then we take the major public utilities and any unlisted top financial institutions because, by their nature, these companies should also meet a high standard of transparency.

Then, looking through the eyes of a company stakeholder (employee, consumer, supplier, etc.), we review the most readily available public information on the companies: their websites and annual reports. We determine whether the companies disclose the information a socially-conscious stakeholder needs when evaluating the company in terms of being a good corporate citizen. A summary of the questions we try to answer is contained below.

\[1\] Government bonds are excluded from total market capitalization and turnover for our purposes.
**Corporate Social Responsibility Reporting**

Does the company disclose its corporate governance structure: management, supervisory board, ownership?

Who is the company’s auditor, and what is the company’s relationship with the auditor?

What is the company’s shareholder rights policy?

Does the company disclose its compliance with a Corporate Governance Code?

Does the company have an internal Code of Business Conduct / Code of Ethics, and do they comply with it?

**Environmental Policy Reporting**

Does the Company comply with environmental standards (national or international)?

Which department or executive is in charge of environmental matters?

How do environmental considerations effect the company’s supply-chain management?

Does the company provide hard data concerning environmental performance?

Does the company provide data on how much water and energy they use?

**Social Policy**

Does the company comply with industry-specific national/international regulations regarding human rights, labor standards and labor legislation?

What is the company’s health and safety policy?

What are the company’s policies regarding employee development or employee benefits?

Whom does the company employ (what is its employment policy)?

How does the company support the community through patronage/sponsorship programs?
We assign each company a ‘point’ when we find in their annual reports or websites the answers to these questions. Companies can theoretically score a maximum of 30 points. Finally, we tally up the results and compare them to previous years’ survey results. Since 2005, we have also extracted examples of ‘best practices’ from the best performing companies.

A detailed look at the survey methodology and results is provided at www.zsem.hr under the link Projects.
### List of Companies Surveyed

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Zagreb School of Economics and Management, September 2009
Two databases with detailed results of surveys are available online in downloadable Excel format at the following web address:

www.zsem.hr
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Leslie Matthews Šulenta
Director of consulting firm: International Business Strategies, LLC, Zagreb
leslie.sulenta@consulting-mps.com
About the Author

Leslie Matthews Šulenta
Director of Consulting Firm:
Međunarodne poslovne strategije, d.o.o., Zagreb
International Business Strategies Ltd., Zagreb
leslie.sulenta@consulting-mps.com

Leslie runs a consulting firm which specializes in financial consulting and professional training both in Croatia and abroad. She has worked in more than a dozen developing countries, training and advising banking and finance professionals in government and the private sector. Her clients have included the World Bank, IMF, EBRD, European Commission, Asian Development Bank, USAID, and numerous central banks, private banks and corporations.

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1. Background of Corporate Governance Disclosures

Starting in 2008, companies with shares listed in Croatia have been required to publish a detailed statement (hereafter: Codex Disclosure) on their conformance with the corporate governance codex. This requirement, along with the codex itself and the format of the disclosure statements, is set forth by the stock exchange in its regulations.

In keeping with the general practice internationally, the so-called “Comply or Explain” principle is a central part of the corporate governance codex here in Croatia. This means that companies are expected to either comply with each of the principles contained in the codex or explain to the public why they have not complied.

The corporate governance codex thus requires firms to state whether they have complied, and explain if they have not, with some 70 individual principles. Those corporate governance principles fall into three main categories, as shown below.

Main Categories of Corporate Governance Principles Addressed by the Codex

- Respect for the rights of shareholders
- Fulfillment of duties by the company’s Supervisory Board and Management
- Transparency

Beginning in 2008 and again in 2009, companies with listed shares have been expected to publish their Codex Disclosures on their websites and to provide them to the stock exchange, where they are publicly displayed under the caption, “Reports” for each company.
2. Surveyed Companies and Methodology

We selected the top 40 Croatian companies whose shares are listed on the stock exchange. Our criteria for determining the top firms were the company’s percentage share in the total market capitalization on the exchange as of 31 December 2008, and/or the company’s share in the total turnover on the exchange for the year 2008. For purposes of these computations we include the firms’ listed shares, bonds, and commercial paper, if applicable.

Next we searched the websites of the companies and the website of the stock exchange to locate these companies’ Codex Disclosures. After that, we compiled and computed the percentage of firms which gave a positive response to each of the questions which are addressed in Codex Disclosures. A positive response, for our purposes, is the “correct” answer to the question whether it be “yes” or “no,” on the basis of generally accepted international best practices in corporate governance. Our reference for best practices is the OECD’s Principles of Corporate Governance issued in 2004.
3. Survey Results

General Results

Firms Which Published Codex Statement
(Total Firms = 40)

- 77% Codex statement published
- 23% Codex statement NOT published
Total Results by Firm and Average Total Results
Percentage of “Correct” Answers to Codex Principles
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TOP 10 COMPANIES

- ATLANTIC GRUPA: 82.8%
- POORAVKA: 68.0%
- HT: 67.8%
- PRIVREDNA BANKA ZAGREB: 65.3%
- NEXE GRUPA: 63.4%
- ERICSSON NIKOLA TESLA: 65.0%
- ULIJANIK: 64.7%
- IGH: 63.8%
- ERSTE & STEIRISCHER BANK: 63.1%
- LUKA PLOČE: 63.1%
Shareholder Rights

EQUITABLE TREATMENT OF SHAREHOLDERS (1)
VOTING RIGHTS

- Companies with ‘one share one vote’
- Companies which disclose all Sup. board candidates’ CV’s on their websites
- Companies which treat all shareholders equally
- Companies with simple procedures for voting in absentia
- Shareholders’ nominees are obligated to vote per the shareholders’ instructions
- Companies which properly disclose date of shareholders’ register which determines voting eligibility

EQUITABLE TREATMENT OF SHAREHOLDERS (2)
DIVIDENDS

- Companies which properly disclose date by which dividend rights are determined and date of payment of dividends
- Date for determining right to dividend is at least 10 days after the date of decision to pay dividends
- Dividend payout date is between 12 and 30 days of decision to pay dividends
- Dividends are paid out over a period of less than 10 days
- Dividend payments do not favor any particular shareholders
- Decision to pay dividends is sent to ZSE within 2 days
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EQUITABLE TREATMENT OF SHAREHOLDERS (3) ANNUAL GENERAL MEETING OF SHAREHOLDERS

- Companies which announce the Annual General Meeting and all relevant data in advance on their website and in the company premises: 60.0%
- Companies which announce AGM agenda and relevant data on website (and in English): 30.0%
- Companies which do not place conditions on participating in the AGM (advance registration, notarized proxy statement, etc.): 7.5%
- Supervisory Board’s report to AGM contains legally required items (assessment of company’s results, management, and cooperation with management): 97.5%
- Companies which enable shareholders to vote at the AGM by modern communications technology: 25.0%
- Management Board publicly discloses AGM decisions and any challenges against those decisions: 77.5%

INSIDER INFORMATION

- Persons with access to insider information understand the limits relating to it: 77.5%
- Company controls flow of insider information and potential for misuse: 72.5%
Supervisory Board and Management

- Companies which provide complete and timely information to members of SB: 77.5%
- Companies which note all decisions and voting results in the Minutes of SB: 75.0%
- SB performed a self-evaluation and evaluated the work of Committees: 32.3%

Supervisory Board

- Companies disclosing names of Management Board members: 77.5%
- Companies with rules on Management’s goals and responsibilities: 63.0%
- Companies with rules on Management’s representation of the company: 63.0%
- Companies with rules for preventing conflicts of interest: 30.0%
- Companies which regulate Management Board’s secretariat: 57.3%
- Companies with rules on MB meetings, decisionmaking, agenda, minutes, etc.: 60.0%
- Companies with rules on MB’s cooperation with SB: 63.0%

Management Board
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SUPERVISORY BOARD COMPOSITION AND PROCEDURES

- Companies disclosing which SB members are independent: 65.0%
- Companies with majority of independent Supervisory Board members: 27.3%
- Companies disclosing which SB members are also members of other companies' SB's: 21.1%
- Companies disclosing names of Supervisory Board members: 77.3%
- Supervisory Board has adopted formal procedures for its work: 60.1%
- Supervisory Boards which formulate a workplan for their regular meetings and data which should be timely available to them: 32.5%

NOMINATING AND EVALUATING MANAGEMENT AND SUPERVISORY BOARD

- Companies with a management succession plan: 87.3%
- Companies with SB member contracts: 0.0%
- Supervisory Board contracts approved by the SB: 0.0%
- Supervisory Board contracts are detailed in the annual report: 0.0%
- Companies with a Nominations Committee: 12.9%
- Nominations Committee evaluated composition, size, members, and work of SB and MB and made recommendations to SB: 7.9%
- Nominations Committee evaluated knowledge, skills, and experience of individual SB members and reported to SB: 7.9%
- Nominations Committee considered issues of succession (Management and SB): 1.3%
- Nominations Committee reviewed Management's policies for hiring senior managers: 7.9%

Poor Overall Results
RESULTS OF RESEARCH
Reporting on Corporate Social Responsibility by Leading Croatian Firms
2009

Most controversial part of Codex

Zagreb School of Economics and Management, September 2009
RESULTS OF RESEARCH
Reporting on Corporate Social Responsibility by Leading Croatian Firms
2009

INTERNAL/EXTERNAL AUDIT

- Companies with an External Auditor: 77.5%
- External Auditor is independent: 77.5%
- External Auditor does not provide non-audit services: 67.8%
- External Auditor directly reported to the Audit Committee on key accounting policies: 48.3%
- External Auditor directly reported to the Audit Committee on significant weaknesses in internal control: 87.5%
- External Auditor directly reported to the Audit Committee on alternative accounting procedures: 75.3%
- External Auditor directly reported to the Audit Committee on disagreements with management, risk management: 77.5%
- External Auditor directly reported to the Audit Committee on possible fraud or abuse: 22.5%
- Companies which publicly disclosed fees paid to External Auditor for audit and non-audit services: 20.0%
- Companies with Internal Audit and Internal Control System: 47.5%
REPORTING ON CORPORATE SOCIAL RESPONSIBILITY BY LEADING CROATIAN FIRMS

RESULTS OF RESEARCH

AUDIT COMMITTEE (2)
INFORMATION PROVIDED BY MANAGEMENT

- Timely periodic financial statements and related documents prior to publication: 49.0%
- Data about changes in accounting policies: 40.0%
- Appropriate accounting procedures for most transactions: 42.3%
- Data on all significant deviations between book and real value of individual items: 37.5%
- All correspondence with internal Audit or External Auditor: 30.0%
- Methods for booking material and unusual transactions when accounting treatment can vary: 35.0%

AUDIT COMMITTEE (3)
REPORTING BY EXTERNAL AUDITOR

- Committee discussed changing or maintaining accounting policies with External Auditor: 35.0%
- Committee discussed compliance with regulations with External Auditor: 39.0%
- Committee discussed important assumptions in preparation of financial statements with EA: 35.0%
- Committee discussed methods for evaluating risk and performance with EA: 33.0%
- Committee discussed high risk areas with EA: 30.0%
- Committee discussed significant deficiencies in internal control with EA: 20.0%
- Committee discussed impact of external factors on financial statements and audit procedures with EA: 87.5%
- Audit Committee obtained information about related parties and obtained information from outside experts: 87.5%
RESULTS OF RESEARCH
Reporting on Corporate Social Responsibility by Leading Croatian Firms
2009

Transparency

SHAREHOLDER INFORMATION (1)

- Companies with websites: 77.3%
- Companies which provide shareholders access to financial reports on company premises: 72.9%
- Companies which provide shareholders access to financial reports on the company website: 55.2%
- In English: 50.0%
- Company has a calendar of events: 47.5%
- Calendar of events is disclosed on website: 20.0%
- Calendar of events is updated regularly: 67.5%
- Company prepares, updates & publishes its shareholder list at least twice per month: 22.3%

SHAREHOLDER INFORMATION (2)

- Company is not inter-related with other company(ies): 77.5%
- Company discloses in annual report shares held by Management and Supervisory Board: 47.5%
- Company discloses on website shares held by Management and Supervisory Board (with updates): 20.0%
- Company publicly reports on its risk factors: 60.0%
RESULTS OF RESEARCH
Reporting on Corporate Social Responsibility by Leading Croatian Firms
2009

TRANSPARENCY OF TRANSACTIONS WITH SUPERVISORY BOARD

- Companies which disclose all payments to SB members by the company or related parties: 37.3%
- Supervisory Board members report share transactions within 24 hours: 50.0%
- Companies which disclose related party transactions with SB members: 47.5%

TRANSPARENCY OF TRANSACTIONS WITH MANAGEMENT BOARD

- Companies whose MB members immediately report their share transactions to SB: 35.0%
- Companies which disclose related party transactions with MB members: 65.0%
- Related party transactions with MB were on market conditions: 30.0%
- Related party transactions with MB were clearly reported: 3.5%
- Related party transactions were confirmed by an independent party: 7.5%
- Companies where MB members do not have interest in competing firms: 77.5%
- Companies disclosing MB membership of other companies' SB: 30.0%
### RESULTS OF RESEARCH

**Reporting on Corporate Social Responsibility by Leading Croatian Firms**

2009

#### DISCLOSURE OF COMPENSATION POLICIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies which published their compensation policies in their annual report</td>
<td>7.5%</td>
</tr>
<tr>
<td>Compensation Disclosure contained: changes from previous year’s policy</td>
<td>2.3%</td>
</tr>
<tr>
<td>Compensation Disclosure contained: explanation of fixed and variable parts</td>
<td>2.3%</td>
</tr>
<tr>
<td>Compensation Disclosure contained conditions for realizing variable pay or</td>
<td>2.3%</td>
</tr>
<tr>
<td>share options</td>
<td></td>
</tr>
<tr>
<td>Compensation Disclosure contained adequate information about</td>
<td>2.3%</td>
</tr>
<tr>
<td>performance vs. pay</td>
<td></td>
</tr>
<tr>
<td>Compensation Disclosure contained key benchmarks for payment of</td>
<td>2.5%</td>
</tr>
<tr>
<td>bonuses and noncash benefits</td>
<td></td>
</tr>
<tr>
<td>Companies which continually disclose Mgt compensation policy on their</td>
<td>2.3%</td>
</tr>
<tr>
<td>websites</td>
<td></td>
</tr>
</tbody>
</table>

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#### DISCLOSURE OF AMOUNT OF COMPENSATION PAID TO MANAGEMENT AND SUPERVISORY BOARD

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies which disclose details of every Management member’s compensation and fees in the annual report</td>
<td>17.5%</td>
</tr>
<tr>
<td>Companies which disclose by name all details of MB and SB compensation, including share options, in annual report</td>
<td>13.0%</td>
</tr>
<tr>
<td>Companies which disclosed individual MB members’ total compensation (paid or unpaid)</td>
<td>7.5%</td>
</tr>
<tr>
<td>Companies which disclosed individual MB members’ fees or other compensation from related parties</td>
<td>2.3%</td>
</tr>
<tr>
<td>Companies which disclosed individual MB members’ bonuses and why they were paid</td>
<td>2.3%</td>
</tr>
<tr>
<td>Companies which disclosed any other additional fees the company paid individual members of MB for outside work</td>
<td>2.3%</td>
</tr>
<tr>
<td>Companies which discloses individual severance payments to former members of Management</td>
<td>2.3%</td>
</tr>
<tr>
<td>Companies which disclosed individual MB members’ total estimate of noncash compensation (by category)</td>
<td>2.3%</td>
</tr>
<tr>
<td>Companies which disclosed individual MB members’ details about share options or similar arrangements.</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

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*Most controversial part of Codex*
RESULTS OF RESEARCH
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INVESTOR RELATIONS AND WHISTLEBLOWER PROTECTION

NUMBER OF MEETINGS HELD WITH INVESTORS
4. Summary and Conclusions

In our view, the proportion of companies which have embraced and disclosed their conformance with good corporate governance practices is satisfactory. In reaching this conclusion, we have considered that the corporate governance codex has only been in place for two years and that it lacks the weight of a law. It seems reasonable to presume that corporate governance practices in Croatia will improve over time.

A summary of the main survey results is contained in the following two points and explained below:

- 77% of the companies published a Codex Disclosure
- The average number of “correct” answers for all firms is 40%

The best results are in the category of shareholder rights. Most likely this is because many of the concepts incorporated in the codex with respect to shareholders are also mandatory requirements contained in the Companies Law, Law on Capital Markets, or Takeover Law.

The most discouraging results are in the transparency category. It should be noted that most of the codex’s principles on corporate transparency are not required by law but are still widely viewed as “best practices” internationally. A prime example is the principle of disclosing the compensation paid to Management Board and Supervisory Board members. Croatian firms showed clearly that they have yet to widely accept this principle.

There was a wide variation in the quality of reporting by individual firms. The best firm in terms of embracing best practices in corporate governance – based upon the Codex disclosures, whose contents we did not verify – is by a wide margin Atlantic Grupa.

We have published this research because we believe that announcement of the results will contribute to more widespread adoption of best practices in corporate governance. Our research at ZŠEM, as well as other research done globally, has shown that firms with good corporate governance practices usually perform better in terms of profits and share price increases. So there are good business reasons to embrace best practices in corporate governance.
## List of Companies Surveyed 2009

<table>
<thead>
<tr>
<th>Company Name</th>
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<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adris Grupa</td>
<td>HVB Splitska Bank</td>
<td>Petrokemija</td>
</tr>
<tr>
<td>Agrokor</td>
<td>Hypo-Alpe Adria Bank</td>
<td>Pliva</td>
</tr>
<tr>
<td>Atlantic grupa</td>
<td>HUP (luksuzni hoteli)</td>
<td>Podravka</td>
</tr>
<tr>
<td>Atlantska plovidba</td>
<td>INA</td>
<td>Privredna Banka Zagreb</td>
</tr>
<tr>
<td>Belišće</td>
<td>INGRA</td>
<td>Reiffeisenbank Austria</td>
</tr>
<tr>
<td>Belje</td>
<td>IGH</td>
<td>Riviera Poreč</td>
</tr>
<tr>
<td>Croatia osiguranje</td>
<td>Istraturist Umag</td>
<td>T-HT</td>
</tr>
<tr>
<td>Dalekovod</td>
<td>Jadranplov</td>
<td>Tankerska Plovidba</td>
</tr>
<tr>
<td>Dioki</td>
<td>Končar-Elektroindustrija</td>
<td>Tehnika</td>
</tr>
<tr>
<td>Đuro Đaković holding</td>
<td>Konzum</td>
<td>Uljanik plovidba</td>
</tr>
<tr>
<td>Ericsson Nikola Tesla</td>
<td>Kraš</td>
<td>Veterina</td>
</tr>
<tr>
<td>Erste&amp;Steirmarkische Bank</td>
<td>Luka Ploče</td>
<td>Viadukt</td>
</tr>
<tr>
<td>Euroherc</td>
<td>Luka Rijeka</td>
<td>Viro tvornica šećera</td>
</tr>
<tr>
<td>HBOR</td>
<td>Magma</td>
<td>Zagrebačka banka</td>
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<tr>
<td>HEP</td>
<td>Nexe</td>
<td></td>
</tr>
<tr>
<td>HPB</td>
<td>Plava Laguna</td>
<td></td>
</tr>
</tbody>
</table>