



The general meeting of HUCNO (Croatian Association of certified Supervisory board members) held on September 26, 2008 adopted the following

*RECOMMENDATIONS FOR
REMUNERATION OF MEMBERS OF
SUPERVISORY BOARDS
AND BOARDS OF DIRECTORS*

Zagreb, September 2008.

1. OBJECTIVE AND PURPOSE OF RECOMMENDATIONS

- 1.1. The Croatian Association of certified members of Supervisory boards and Boards of directors adopted these Recommendations for remuneration of members of Supervisory boards and Boards of directors (hereinafter referred to as: Recommendations for remuneration) in accordance with its activities stipulated in Association's Statute.
- 1.2. The Recommendations are of optional nature, based on present legislation and Croatian Corporate Governance Codex adopted by Zagreb Stock Exchange and Croatian Financial Services Supervisory Agency (HANFA), and in accordance with European Commission Recommendation on directors' remuneration (2004/913/EC).
- 1.3. The Recommendations are intended for the joint-stock companies, and especially for listed companies whose securities are admitted to trading on a regulated market.

2. DEFINITION OF TERMS IN THE RECOMMENDATIONS

- 2.1. The term “should”/”it is recommended” etc. in the Recommendations has the meaning of good practice.
- 2.2. The term “members of Board of directors” in these recommendations is used for non-executive directors in joint-stock companies with monistic governance system.

3. REMUNERATION OF WORK OF MEMBERS OF SUPERVISORY BOARD AND BOARD OF DIRECTORS

General provisions

- 3.1. Remuneration of work and costs reimbursement in relation to work should be determined for the members of Supervisory board and Board of directors.
- 3.2. Remuneration can also be determined by participation of Board member in company's profit.
- 3.3. Considering companies with monistic governance system, the members of Board of directors, who at the same time are executive directors of Company's Board of directors, in addition to the right to remuneration for performing duty of member of Board of director, have right to remuneration for performing duty of executive director. For determining remuneration to executive directors, the Recommendations on remuneration of Management Board members and executive directors in joint-stock companies shall be applied.
- 3.4. The person who at the same time is member of Board of directors and executive director shall receive reimbursement of costs which he or she had as a member of Board of director.

Decisions of general meeting

- 3.5. The general meeting should determine existence of independence and quality of work of members of Supervisory board and Board of directors and their commissions. The general meeting should bring decisions listed in the following paragraphs in advance.

3.6. The general meeting should bring decision which stipulates remuneration, reimbursement of costs and special privileges (hereinafter referred to as: total remuneration) for members of Supervisory board and Board of directors.

3.7. The general meeting of company should bring decision which stipulates the budget amount of Supervisory board and Board of directors meant for payment of:

- members' education costs
- remuneration costs of external experts
- other necessary costs.

Structure of remuneration

3.8. The general meeting should bring a decision which stipulates remuneration and costs reimbursement to members of commissions of Supervisory board and Board of directors. With their decision, the general meeting can authorize Supervisory board or Board of directors to determine by themselves the salaries of commissions' members from the budget of Supervisory board or Board of directors.

3.9. The discussion on remuneration of members of Supervisory board and Board of directors on the general meeting has to be connected with the discussion regarding report on activities of Supervisory board and Board of directors, that is, with the discussion on annual financial report and report on company's status.

Structure of total remuneration

3.10. The total remuneration of work of members of Supervisory boards, that is, Boards of directors should include:

- Remuneration for performing duty
 - basic remuneration for performing duty
 - additional remuneration for performing special duties, tasks or functions (e.g. chairmanship function etc.)
 - additional remuneration for performing special duties and tasks on objective company's circumstances
- Remuneration for participating on meetings
- Costs reimbursement and special privileges for the purpose of performing duty.

3.11. The total remuneration of work of commissions' members of Supervisory boards, that is, Boards of directors should include:

- Remuneration for performing duty
 - basic remuneration for performing duty
 - additional remuneration for performing special duties, tasks or functions (e.g. chairmanship function etc.)
- Remuneration for participating on meetings

3.12. The member of Supervisory board or Board of directors should be paid separately for his or her work in the commissions of Supervisory board or Board of directors.

3.13. While deciding on the level of basic remuneration for performing duty of member of Supervisory board or Board of directors, it is necessary to abide by objective circumstances, such as:

- scope, severity, and complexity of tasks and members' responsibility
- requested members' expertise and activity
- size and complexity of company's business activities
- economic circumstances in which company operates.

3.14. Remuneration of members of Supervisory board and Board of directors should:

- adequately reflect time, effort, and experience connected with their functions in Supervisory board and commissions
- ensure adequate incentive which would balance interests of members of Supervisory board with company's interests
- be determined in such a manner that it does not endanger ability of members of Supervisory board to bring decisions in the best interest of the company.

3.15. Remuneration of members of Supervisory board and Board of directors should consist of

- fixed part which is unchangeable and does not depend on business results, except if company's business results are such that the payment of fixed remuneration would be unjust and in great incongruity with business results
- - variable part which is conditioned by business results in a specific past and future period.

Remuneration for performing duty

3.16. Remuneration for performing duty should include basic remuneration for performing duty; bonus for special duties, tasks or functions of the

member; and remuneration for performing special duty from the tasks occurred due to objective circumstances in which the company is found.

3.17. Special obligations, tasks, and functions of the member of Supervisory board or Board of directors are for example: function of president and vice-president of Supervisory board or Board of directors, specific tasks which impose responsibility on a particular member etc.

3.18. Company's objective circumstances, which can cause special obligations and tasks to members of Supervisory board and Board of directors, are for example: company's excessive indebtedness, negative business balance sheet, preparation for takeover or possible takeover of another company, etc.

3.19. Remuneration for performing duty of the member should be stipulated in the annual amount which can be one-off or monthly payment.

3.20. Remuneration for performing special duties, tasks, and functions should be stipulated as percentage of basic remuneration in relation to this special duty, task or function.

3.21. Bonus for special duties and tasks for the purpose of objective circumstances should be stipulated as percent bonus to basic remuneration taking into consideration specificity of circumstances in which the company is found or is expected to be found.

Participation on meetings

3.22. Remuneration for participating on meetings is remuneration for time which is spent by the member of Supervisory board or Board of directors or member of commission of Supervisory board or Board of directors participating on the meetings of these bodies.

Costs reimbursement and privileges

- 3.23. All special costs which can occur in relation to the activity of the members of Supervisory board or Board of directors (transportation costs, daily allowances, living costs, administrative and other payments, etc.), as well as the costs of membership fees for vocational organizations and education costs, which are in direct connection with performing their duty in the Supervisory board or Board of directors, should be reimbursed.
- 3.24. The members of Supervisory board and Board of directors should be provided with other privileges if the same are meaningful and necessary for performing their duty.

Recommended remuneration amounts

- 3.25. The entire remuneration amount of the member of Board of directors should be higher than it would be if he or she performed duty of the member of Supervisory board in the same company.
- 3.26. Remuneration for special duties, tasks, and functions of member of Supervisory board or Board of directors should amount to:
- for president of Supervisory board or Board of directors of the company 50% to 100% of basic remuneration for performing duty of the member of Supervisory board or Board of directors
 - - for vice-president of Supervisory board or Board of directors of the company 10% of additional amount for performing duty of the member of Supervisory board or Board of directors, regardless of the actual scope of activity on this function.

- 3.27. Remuneration for special circumstances which derive from the objective position of the company should not exceed 50% of basic remuneration for performing duty of member of Supervisory board or Board of directors.
- 3.28. The entire amount of remuneration for participating on the meetings, in relation to anticipated or usual number of meetings of Supervisory board or Board of directors, should not exceed 50% of basic remuneration for performing duty of a member.
- 3.29. Remuneration for the member of Supervisory board or Board of directors for performing additional duty of commission member should amount to 50% of basic remuneration for performing duty of the member of Supervisory board or Board of directors.
- 3.30. External associates in commissions should be paid in a manner which ensures membership of top independent experts.
- 3.31. Remuneration for commission members for participating on the meetings should be equivalent to remuneration for participating on the meetings of members of Supervisory boards and Boards of directors.
- 3.32. The percentage of additional remuneration for performing duty of president and vice-president of commissions should be equivalent to the percentage of remuneration for these functions in Supervisory board or Board of directors.

Liability insurance against damage of members of Supervisory board and Board of directors

- 3.33. The company should ensure liability insurance against damage related to performing duty of member of Supervisory board and Board of directors of the company in a manner to ensure company interests, especially from the point of view of companies' risk management.

Transparency of cash inflows of members of Supervisory board and Board of directors

3.34. Total cash inflows of members of Supervisory board and Board of directors, as well as other amounts awarded for work of Supervisory board and Board of directors should be available to company's shareholders in the report on activities of Supervisory board, that is, Board of directors.

3.35. The obligatoriness of the report should be stipulated in company's Articles of Association or in the decision on appointment of member of Supervisory board, that is, Board of directors.

Recommendations coming into effect

The Recommendations shall come into effect as of the day when they are adopted by the Assembly of HUCNO. The Recommendations shall be published on the website www.hucno.hr.