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PRESS RELEASE

Aggregate report for issuers monitoring on corporate governance, covering 2022 and 2023 financial years

- **Disclosure and quality of transparency are important factors for listed companies**
- **Current findings of issuers monitoring were considered when revising the Bucharest Stock Exchange Corporate Governance Code**

Bucharest Stock Exchange (BVB), with the support of the Romanian Investor Relations Association (ARIR), performed the monitoring of the companies listed on the BVB main market, based on their ‘comply or explain’ statement against the current Corporate Governance Code, for the 2022 and 2023 financial years. The findings of this monitoring exercise were considered when drafting the revised version of the Corporate Governance Code, now under public consultation. The aggregate report of the monitoring is presented in the Appendix below.

Monitoring corporate governance disclosure is crucial for issuers because it ensures transparency and accountability, which are fundamental for maintaining investor confidence and attracting investment. Adequate disclosure provides stakeholders with essential information about the company's directors and management practices, policies, and decision-making processes, enabling investors to make informed decisions. Additionally, robust governance monitoring helps mitigate risks associated with management misconduct or ethical breaches, safeguarding the company's reputation and long-term sustainability. This oversight is a regulatory requirement but also a strategic approach to enhance corporate integrity and stakeholder trust.

This monitoring against the Corporate Governance Code is part of the project launched by BVB and European Bank for Reconstruction and Development (EBRD) at the beginning of 2024 and meant to review the Bucharest Stock Exchange Corporate Governance Code, together with its reporting and monitoring mechanisms. An aggregate report of the issuers monitoring against the Corporate Governance Code recommendations will be prepared and disclosed on an annual basis.

The review of the Code is designed to support listed companies improve their governance and reporting quality, by aligning with EU regulatory changes affecting governance structures, the latest G20/OECD Corporate Governance Principles and best practice in the field. BVB and EBRD are supported in this process by a dedicated working group of governance experts from the General Secretariat of the Romanian Government, the Agency for Monitoring and Evaluation of Performance of Public Enterprises, the Financial Supervisory Authority, Romanian Investor Relations Association and Envisia-Boards of Elite.

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APPENDIX

ISSUERS AGGREGATE MONITORING ON CORPORATE GOVERNANCE

CONTEXT

Bucharest Stock Exchange issued in November 2015 the current Corporate Governance Code dedicated to the main market listed companies, being effective as of 2016. The goal of the Code has been to improve confidence in the listed companies by promoting positive developments in the corporate governance of these companies, under the “comply or explain” principle. It has encouraged companies to build a strong relationship with their shareholders and other stakeholders, communicate effectively and transparently and show openness towards all potential investors.

BVB and EBRD are jointly working as of 2024 to review the current BVB Corporate Governance Code. The update of the Code became necessary because of the significant changes to the corporate governance landscape, especially given the entry into force of the new G20/OECD Principles of Corporate Governance in 2023 and significant pieces of regulations on sustainability and related reporting being adopted in the European Union. BVB is also keen to enhance the monitoring of the BVB Corporate Governance Code’s implementation in cooperation with ARIR. Against this background, there is a strong need to update the Code and contribute to the improvement of the corporate governance environment in the country.

ASSESSMENT METHODOLOGY

The analysis in the present report makes use of a quantitative and descriptive methodological approach. There was employed content analysis to examine primary data extracted from the “comply or explain statements” against the current Bucharest Stock Exchange Corporate Governance Code, as provided by listed companies in their annual reports for 2022 and 2023 and published on the Bucharest Stock Exchange website. The data analysis was performed in Microsoft Excel.

RESULTS OF CORPORATE GOVERNANCE MONITORING FOR FY 2022 AND 2023

The current BVB Corporate Governance Code comprises four sections: Section A - “Responsibilities”, Section B – “Risk management and internal control system”, Section C – “Fair rewards and motivation” and Section D – “Building value through investor relations”. Each section is structured in general principles, which describe the objectives that the companies aim to achieve, and a set of provisions to comply with, against which the companies need to report. Section A has 11 provisions, Section B - 12 provisions, Section C – 1 provision, while Section D has 10 provisions to comply with, totalling 34 provisions in the Code to report against.

For 2022 were analyzed 71 companies, while for 2023 were analyzed 75 companies, after eliminating from the total number of companies listed on the main market the ones which were dual listed and reported as per the Code of its origin listing venue, the companies which chose not to report as per the Code and the companies in

insolvency. About practices, the companies in insolvency, even if they are not subject to the present assessment, they also reported on the Code, with the compliance status for their specific situation.

In Table 1 below is presented data on the most complied provisions of the Code in 2022 and how their compliance status evolved in 2023. Since the Code requires companies to give explanations only in case of non-compliance, it couldn't be made an assessment on companies' best practices in terms of compliance with the Code.

Table 1. Top 10 most complied provisions in 2022 vs 2023

Provision	Detailed provision	No of companies complying in 2022 (out of 71 companies)	% of compliance in 2022	No of companies complying in 2023 (out of 75 companies)	% of compliance in 2023
D4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	71	100	75	100
B9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	70	99	74	99
A7	The company should appoint a Board secretary responsible for supporting the work of the Board.	69	97	73	97
D5	The external auditors should attend the shareholders' meetings when their reports are presented there.	68	96	70	93
D8	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	67	94	72	96
B11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	66	93	70	93

A5	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	63	89	67	89
A6	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	63	89	67	89
A9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	63	89	68	91
A10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors.	63	89	64	85

Source: BVB

Table 1 shows that most complied provisions of the Corporate Governance Code in 2022 cover aspects of equal treatment of shareholders, the shareholders and external auditors participation at the general meeting of shareholders, the appointment of a board secretary, the content, quality and language of periodical financial information and corporate governance statement, the disclosure of the number of independent directors, the internal audit carried out by a dedicated corporate entity or a third party, the disclosure of other professional commitments by directors, the directors informing the board about its relationship with a shareholder holding at least 5% of the company.

For these top 10 most complied provisions in 2022, the percentual compliance figures remained the same or increased in 2023. Exception is made from 2 provisions which slightly decreased in compliance: D5, referring to the external auditors attending the general meetings of shareholders when their reports are presented there, and A10, referring to the corporate governance statement containing information on the precise number of the independent members of the board of directors.

2023 was a year where major changes were brought forward by the EU sustainability directive and applicable regulations, which took lot of time for companies and auditors in understanding the new regulatory framework and preparing their personnel for further implementation. But the presence of the external auditor at a company's general meeting of shareholders is important for several key reasons, like claryfing financial questions, enhancing credibility and building trust, compliance and legal assurance, conflict resolution, transparency and disclosure. Therefore, in the draft of the revised Corporate Governance Code, currently under public consultation, a provision is proposed for the external auditors to attend the [n.b. all] shareholders' meetings to respond to shareholders' questions, together with all directors and members of senior management.

Regarding the independence of board directors, the draft of the revised Corporate Governance Code comprises a dedicated Appendix where criteria for independent directors are presented and explained, but where is also clarified the role that the Nomination Committee and Board of Directors should have in the independence evaluation.

In Table 2 below is presented data on the least complied provisions of the Code in 2022 and how their compliance status evolved in 2023.

Table 2. Top 10 least complied provisions in 2022 vs 2023

Provision	Detailed provision	No of companies non-complying in 2022 (out of 71 companies)	% of non-compliance in 2022	No of companies non-complying in 2023 (out of 75 companies)	% of non-compliance in 2023
A8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	28	39	31	41

D3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	25	35	26	35
D9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	21	30	25	33
D10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	20	28	24	32
D2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	17	24	20	27
A3	The Board of Directors should have at least five members.	16	23	19	25

B10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	14	20	18	24
B3	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	13	18	15	20
B4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	13	18	15	20
B5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	13	18	14	19

Source: BVB

The nominal figures of Table 2 show that there are more companies in 2023 who did not comply with the referenced provisions than in 2022. This comes from the fact that new listed companies need time to comply with the recommendations of the Code, but also from the fact that some companies chose to operate under the specific requirements of the law rather than the higher recommendations of the Code. Below are presented the practices of companies for each provision included in Table 2.

In case of non-compliance with provision A3, one company mentioned that is managed by a legal entity, so the provision is not applicable, while the rest explained of having a board made out of 3 directors, according to the Companies Law. Out of the companies with a board made out of 3 directors, few explained their intention to extend the board and change accordingly the bylaws during a general meeting of shareholders.

Regarding provision A8 on board evaluation, some companies stated that their board activity is evaluated by the general meeting of shareholders on periodical basis for specific indicators and other companies stated that they do not have such an evaluation policy but are working on having one and disclose the evaluation on their board in the governance statement.

Provision B3 refers to the audit committee having an annual evaluation of the internal control system. From the companies which declared non-compliance, most of them stated of not having an audit committee, explanation to be considered in correlation with their reduced boards (of 3 members only), one company explained on their annual evaluation of internal control system being performed at Group level, two companies explained of having externalized the internal audit function, two companies referred to their annual audit reports containing information about internal control systems and two other companies were pending on the implementation for the provision. The same feedback relates to non-compliance with provision B4, covering aspects on what the assessment of the internal control system should consider.

Feedback on non-compliance with provision B3 is found also in some explanations for non-compliance with provision B5, referring to the audit committee reviewing conflicts of interest in transactions of the company and its subsidiaries with related parties. In addition to this, some companies explained that they don't have subsidiaries, therefore the provision is not applicable to them, one company that the board of directors, in the absence of the audit committee, was responsible for reviewing the conflicts of interest, and one company explained that under the applicable regulations, at the end of each semester, the financial auditor will analyze the reported transactions during that semester according to art. 108 of Law no. 24/2017 and will draw up a report stating whether the price, in conjunction with the rights and obligations assumed by the parties, is correct in relation to other existing offers on the market.

Regarding provision B10 (the Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company -as stated in the latest financial report, should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements), few of the companies explained their non-compliance through the lack of an audit committee, but the majority of companies declared their intention for the board to analyze and implement such a policy.

On provision D2 referring to the existence of a cash distribution or dividend policy to be made public, the majority of the non-compliant companies stated that they will analyze in order to implement the recommendation, few others that did not distributed dividends in the recent years, few others that the general meeting of shareholders was the deciding governance structure for approving the dividend distribution, and one company mentioning the fluctuations of the market that prevented the company to have such a policy.

On provision D3 referring to the existence of a forecast policy to be made public, the majority of the non-compliant companies stated their intent to analyze and comply with the provision, few of them explained that the fluctuating environment prevented them from having such policy, few that they complied only with the legal requirements on budgeting and investments and one that had in place other mechanisms for presenting forecasts.

Provision D9 requires companies to organize at least two meetings/conference calls with analysts and investors each year and publish related information on their website. The majority of the non-compliant companies stated their interest to analyze in order to comply with the provision, some of them will organize such meetings/calls

depending on investors interest, and only three companies stated that they provide information for investors on their webpage.

About non-compliance with provision D10, requiring companies to have a CSR/sponsorship policy to be published on the website, companies’ explanations were mixed: some explained that they don’t support CSR activities, others that the impact on business of their CSR activities was so small that didn’t require such policy, while others will analyze in order to implement the provision.

The figures in Table 2 show that the non-compliance trend has grown for some provisions. In order to mitigate this, BVB will provide a dedicated training framework for the listed companies to implement the revised Corporate Governance Code. Also, in the provisions of the revised Code, was included the recommendation of constant training of the board of directors on topics of impact for the company and its activity.

Regarding the evaluation of the board of directors referenced in provision A8 above, the revised Code recommends that such evaluation should take place annually, as an auto-evaluation with the support of the corporate secretary, and, in addition to this, Premium Tier companies should also do an evaluation with a third-party provider once at three years. The summary of the conclusions for such evaluations are to be presented in the annual report of the company.

About non-compliance with provisions from section B, on risk management and internal controls, the revised Code clarifies and enhances the role of the audit committee regarding risk management and internal control systems, as well as its communication with the board in this regard.

Regarding non-compliance with provisions D9 and D10, covering aspects of investor relations, BVB will continue to support the issuers and the activities of ARIR in increasing the transparency and the quality of reporting of its issuers. Moreover, the revised Corporate Governance Code enhances the Investor Relations (IR) as a critical function for a listed company due to its multifaceted role in managing communications between the company, its shareholders, potential investors, and the financial community. In addition to this, as provision D10 refers directly to an impactful community involvement, which can also be found in the sustainability recommendations, and indirectly to a sponsorship activity which has a special fiscal regime, the revised Code continue to recommend the existence and the publishing of a CSR/sponsorship policy by the company.

Table 3. Average number and % of companies per compliance status with the Code

Companies/Compliance status with the Code	Comply	Partially Comply	Not Comply
no of companies 2022	58	3	10
no of companies 2023	60	3	12
% of companies 2022	81.69	4.23	14.08
% of companies 2023	80.00	4.00	16.00

Source: BVB

When looking at the overall main market for 2022 and 2023 financial years’ reportings, as per Table 3 can be seen that in both 2022 and 2023 there was an average of 3 companies which partially complied with the provisions of the Code. In paralell, can be noticed that in nominal figures more companies comply with the Code in 2023 versus 2022, but the average percentage of companies which complied with the provisions of the Code slightly decreased by 1.69 points in 2023 compared to 2022, while the average percentage of the companies which did not complied

slightly increased by 1.92 points for the same compared years. This result is also influenced by the new listed companies for which it takes a time to align with the Code.

In order to stimulate the compliance with the Corporate Governance Code provisions, via the revised Code framework will be provided an enhanced training mechanism for listed companies and BVB, together with its partners, will provide targeted guidance to companies. Additionally, public reporting of compliance rates via the VEKTOR by ARIR indicator, direct engagement with non-compliant companies, and potential further revision of the governance code are considered.

Disclaimer

The information provided in this document is for the sole purpose of informing on our opinion and understanding regarding the corporate governance monitoring framework and relevant results, which were taken into account for the current review of the BVB Corporate Governance Code. This information should not be construed as a guarantee or assurance that the events, results or circumstances presented are or will materialize as described. BVB and ARIR do not assume responsibility for any decision or action taken on the basis of the information presented and encourages the verification of the information independently. Our interpretation may be subject to change and we accept no liability for inaccuracies or omissions.