



Macedonian Stock Exchange

Report on compliance of the listed companies with Corporate Governance Code in 2022



September 2023

Contents

PREFACE	3
I. INTRODUCTION	4
II. REGULATORY AND OTHER DEVELOPMENTS	5
III. Overview of MSE regulated markets	6
IV. Overview of compliance with the Code	9
V. Detailed assessment of compliance and governance practices (by topic)	15
Section 1: Shareholders rights and relations	15
Section 2: The Supervisory Board	15
Section 3: The Management Board	20
Section 4: Conflicts of Interest	21
Section 5: Risk and Control	22
Section 6: Stakeholders, Sustainability and Social Issues	22
Section 7: Transparency and Disclosure	23
VII. CONCLUSION	23
ANNEX 1: LIST OF LISTED COMPANIES THAT HAVE THE OBLIGATION TO REPORT ABOUT THE APPLICATION OF THE CODE IN THE YEAR 2022	26

Disclaimer

This Report is based on the answers that the listed companies gave within the framework of the questionnaires for the application of the Corporate Governance Code, and the Macedonian Stock Exchange is not responsible for the completeness, content, accuracy and truthfulness of the given answers.

The management body of the company, i.e., the board of directors in the one-tier management system or the management board in the two-tier management system, are responsible for the accuracy and truthfulness of the answers. In this regard, the management body of the company provides a statement on the application of the corporate governance code as an integral part of the annual report of operation.

PREFACE

The Corporate Governance Code for Listed Companies was adopted and published by the Macedonian Stock Exchange in 2021. The drafting of the Corporate Governance Code was a joint project of the Macedonian Stock Exchange (MSE) and the Securities Commission of the Republic of North Macedonia, realized with the support of the European Bank for Reconstruction and Development and the foreign and local consultants engaged by the Bank. The main goal of the Code is to encourage the listed companies to adopt the best and most recent practices of corporate governance and to provide more information about the management of companies that will be available to investors and other stakeholders. With the adoption of the new Code, MSE took another significant step forward in the implementation of European standards on the Macedonian capital market, mirroring the best international practices of corporate governance, which should serve as a roadmap for building good corporate reputation and sustainable long-term development to the listed companies.

The answers to the questionnaires describe the corporate practices of each company during the year of 2022. Based on the answers to the questionnaires, MSE made the necessary analyzes and came to the main findings that are described in this Report. This is the first edition of what we intend to become an annual compliance report that will track progress in meeting the objectives of the Code.

When preparing this Report, the fact that this is the first year in which companies are required to report on the application of the Code was taken into account, which is why it was also taken into account that companies need some time to make the necessary changes in the way they are managed and to understand what is expected of them in terms of reporting on the Code. For that reasons, this Report primarily contains factual information about the compliance of the companies' corporate governance with the Code rather than providing an opinion on the quality of their management and reporting practices. The approach and methodology used for the preparation of this Report may be changed in the future during the preparation of subsequent reports and they may contain more details about the quality of the management and reporting practices of the companies, including more detailed information about the individual compliance of the companies with the Code at the company level.

The report contains information on the level of compliance with the various sections and provisions of the Code. Although the level of compliance with the provisions and sections of the Code varies, which is expected if we take into account the innovations that the Code introduced in the management of companies, the average rate of compliance of the corporate management of companies with the Code is 76% and it is at a satisfactory level.

This is a good result for the first year after the introduction of the new Code and shows the positive reaction of most companies to the Code. We encourage companies to build on this promising start and hope to write about further improvements in future compliance reports.

This Report was prepared by MSE with the help of the European Bank for Reconstruction and Development and foreign and local consultants engaged by it. We are grateful to them for all their support.

Ivan Shteriev
Chief Executive Officer
Macedonian Stock Exchange AD Skopje

I. INTRODUCTION

The Corporate Governance Code for Companies Listed on the Macedonian Stock Exchange (in the following text: "Code") was adopted and published by the Macedonian Stock Exchange AD Skopje (in the following text: the MSE) in 2021. The Code sets more detailed and higher standards of corporate governance in relation to those established by the legal provisions. The purpose of the Code is to promote efficient and effective management and accountability of the joint stock companies whose securities are listed on the MSE. This Code replaced the previous Code which was adopted several years ago, and through amendments to the MSE Listing Rules, the scope of listed companies to which it applies was redefined and increased.

The Code applies to the companies whose shares are listed on the Official Market of the MSE that meet the conditions stipulated in the Listing Rules. These companies should report annually on whether they apply the best practices prescribed in the Code. The other listed companies, which do not meet the prescribed conditions, may report on the application of the Code on a voluntary basis. The Code, by its very nature is an act whose implementation is based on the principle "comply or explain", which means that the implementation of the provisions does not have to be done completely and without exception by all the companies to which it refers, however, if companies do not apply a certain provision, then they must disclose this and explain the reason why they did so.

The report on compliance with the Code of companies listed on the MSE (in the following text: "Report") is the first monitoring report prepared by MSE, with the support of the European Bank for Reconstruction and Development and the local and foreign consultants hired by the Bank. The report presents the data on the corporate governance of the listed companies for the first year of implementation of the Code. The analyzed data in this Report refer to the year of 2022 and will be the starting point for further comparisons of the degree of compliance with the Code.

The evaluation of the compliance with the Code was carried out on the basis of the data submitted by the listed companies on the compliance with the seven parts of the Code, namely:

Section 1: Rights of shareholders and relations with shareholders

Section 2: Supervisory Board

Section 3: Board of Directors

Section 4: Conflict of interest

Section 5: Risk and Control

Section 6: Stakeholders, Sustainability and Issues of Public Interest

Section 7: Transparency and Disclosure

II. REGULATORY AND OTHER DEVELOPMENTS

The legal framework on which corporate governance is based in our country basically consists of the Law on Trading Companies and the Law on Securities, although there are other laws that regulate certain aspects of this issue, as well as laws that regulate operations the different types of companies (for example banks, insurance companies, etc.). Based on the Securities Law, the Stock Exchange adopts the Listing Rules, and the Code is based on them. The adoption of the 2021 Code was recognized by the European Commission as North Macedonia's progress towards harmonizing national company law with EU law. In the context of the process of harmonizing national law with EU law, regulatory changes related to the Law on Securities and the Law on Trade Companies are expected to be made in the near future, which will have an additional impact on listed companies and their obligations related to corporate governance.

Regarding the changes in capital market regulation, the preparation of a new Law on Financial Instruments and a new Law on Prospectus and Transparency Obligations of Securities Issuers is underway, in which the latest EU directives will be implemented ¹ and which will replace the existing Securities Law. These laws will provide greater protection to investors and increase security and confidence in the capital market in general, and will certainly have a positive impact on the corporate governance of listed companies, especially in terms of transparency and information disclosure.

Perhaps it is even more significant that a new Law on Trade Companies is being prepared ², by which further harmonization of national legislation with EU law is carried out, especially in the domain of the use of digital tools in the operation of commercial companies, cross-border mergers, transformations and divisions of commercial companies, the advancement in the exercise of shareholder rights in listed companies, the rules for encouraging long-term engagement of shareholders, as well as compliance with European legislation on accounting and auditing.

The new draft Law on Trade companies includes novelties, which, if adopted, will affect the overall corporate governance of joint-stock companies and listed companies and which refer in particular to the following: the requirement for the listed companies to prepare a corporate governance report instead of the previous corporate governance statement; the number of independent members of the board of directors; the remuneration policy, as well as the obligation to prepare a remuneration report; shareholders' preemptive rights; the period for convening shareholders' meeting, the rights of shareholders related to electronic voting and other aspects of exercising the rights of shareholders.³ If these novelties are introduced, MSE may need to make some revisions to the Code to ensure its consistency with the new law.

Having in mind the current legal framework, it might be concluded that there is a solid ground for the listed companies to accept corporate governance concept in their business model, while the Code plays an important role and is a booster for further development and improvements in their corporate governance. Good corporate governance affects the long-term company performance by fostering long-term investment, financial stability, and business integrity. The Code is intended

¹The drafts of these laws were made public for discussion of the national electronic ener.gov.mk platform , on the following links:

https://ener.gov.mk/Default.aspx?item=pub_regulation&subitem=view_reg_detail&itemid=79982 and https://ener.gov.mk/Default.aspx?item=pub_regulation&subitem=view_reg_detail&itemid=78697

²The proposal of this law is published in public discussion of the national electronic ener.gov.mk platform , on the following link

https://ener.gov.mk/Default.aspx?item=pub_regulation&subitem=view_reg_detail&itemid=79982

³These novelties are contained in the Draft Law on Commercial Companies published on the national electronic ener.gov.mk platform . Hence , this one list it is neither exhaustive , neither final , but indicative _ for the changes what can yes occurred in legal environment . _

to help the listed companies to achieve these goals.

III. OVERVIEW OF MSE REGULATED MARKETS

At the end of 2022, there were 94 companies listed on the Macedonian Stock Exchange (MSE), 3 out of them are under long-term suspension, so the rest 91 companies which are subject of the statistical analyzes of the MSE are listed on the following market sub-segments:

- Super Listing (one company);
- Exchange Listing (24 companies); and
- Mandatory Listing (66 companies).

As of 31 December 2022, total turnover of trading with shares of the 91 listed companies equals 4.151.305.343 MKD.

Only those companies listed on the Official Market of the MSE across all trading sub-segments that met at least three out of these four conditions during the previous year are required under the Listing Rules to report on how they have applied the Code:

- A market capitalisation value exceeds 5,000,000 Euros.
- A minimum of 100 shareholders.
- A free float of at least 5%.
- Trading of the company's shares on a minimum of 30% of the total trading days during the year.

MSE will determine annually which companies meet these criteria and publish the corresponding results on its website. All other listed companies that do not meet the criteria are encouraged voluntarily to implement the Code in the manner stipulated in the Listing Rules. The List of the companies that have to report on implementing the Code in 2022 and which are subject to this Report is given in Annex I.

As shown in Exhibit 1 below, in 2022 MSE calculated that 28 of the 91 companies (31%), met the criteria described above.

Exhibit 1: Companies required to report compliance with the Code vs Total number of companies in market listing

	Super Listing	Exchange Listing	Mandatory Listing
Total number of listed companies	1	24	66
Total number of listed companies required to report compliance with the Code	1	15	12

Although only 28 companies were required to report on their compliance with the Code, they play a significant role in trading on the MSE. For example, they represent most of the total market capitalization of the MSE regulated markets, as noted in the Exhibit 2 below, and they also account for almost all of the shares traded in the MSE market during 2022 as described in Exhibit 3:

Exhibit 2: Market capitalization of the 28 companies vs Total market capitalization

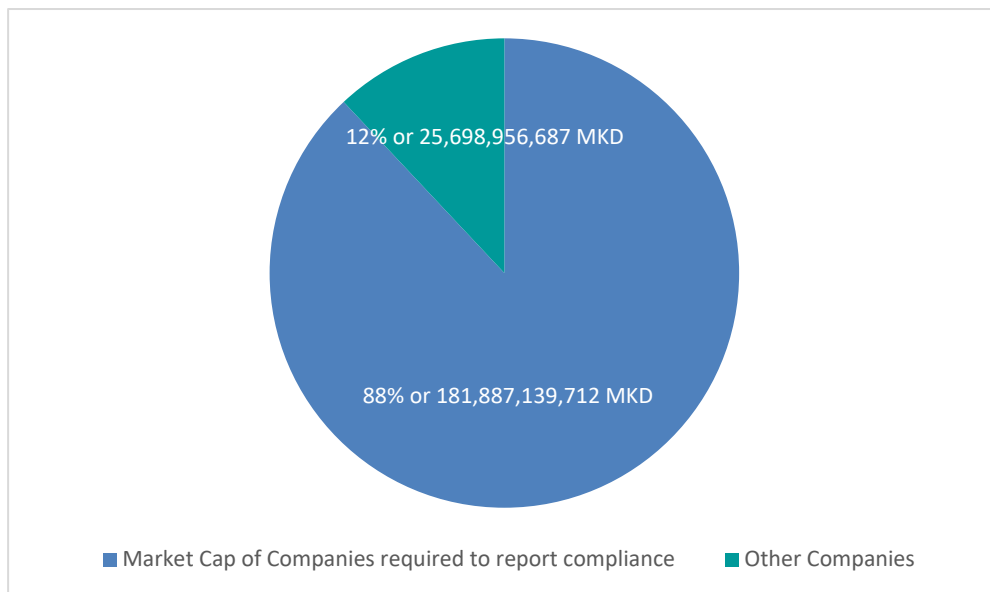
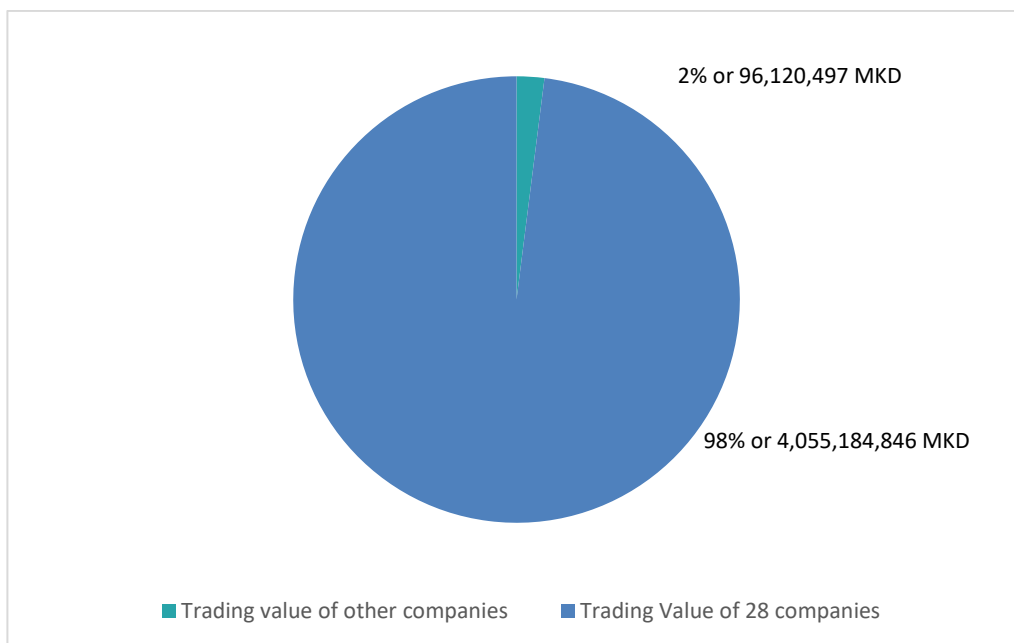


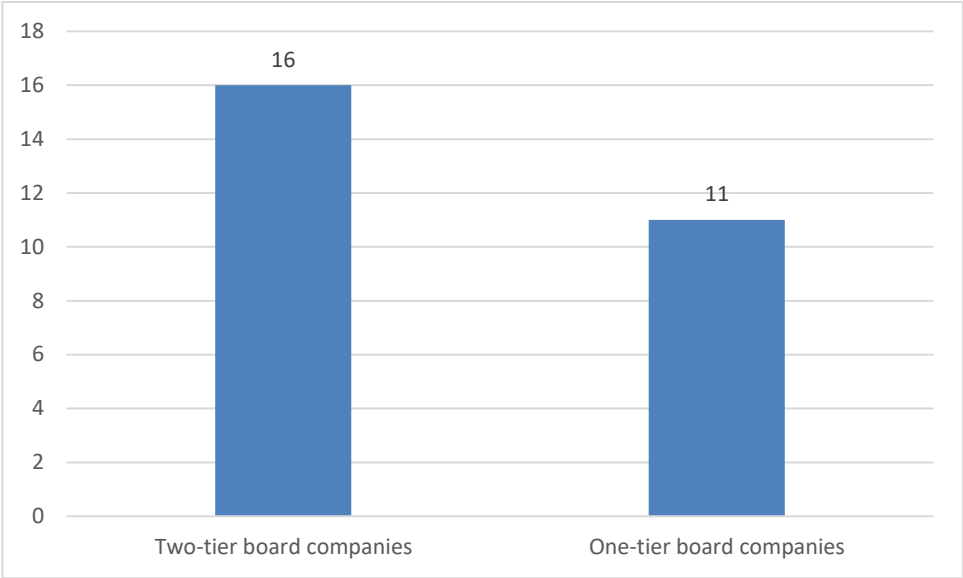
Exhibit 3: Trading value of the 28 companies reporting compliance with the Code vs trading value of other companies.



The Code is written to be suitable both for companies with a two-tier board structure (i.e. with a Supervisory Board and Management Board) and with a single Board of Directors. As shown in Exhibit 4, the majority of the companies required to report on the Code have a two-tier board structure.

Note: at the time the analysis for the report was undertaken only 27 of the 28 companies had reported on how they had applied the Code. For this reason, the numbers in Exhibit 4 only add up to 27.

Exhibit 4: Number of companies with one and two-tier boards



IV. OVERVIEW OF COMPLIANCE WITH THE CODE

Companies that meet the conditions of the Listing Rules for the application of the Code must submit a statement for the application of the Code with the content prescribed in the Listing Rules, within the annual report on the company. At the same time, the companies should fill in the appropriate questionnaires prescribed and published on the website of the MSE. The companies should publish the questionnaires on their website and through the SEI-Net application, within the deadlines for publication of the annual report provided for in the Listing Rules. The management body of the company is responsible for filling in the questionnaires and for an adequate explanation of the reasons in case of non-application of some provisions of the Code.

Namely, companies report on their compliance with the practices of the Code through the Comply-or-Explain Questionnaire – CEQ. Also, companies fill out the Governance Information Questionnaire - GIQ, which contains the information that companies should publish in accordance with this Code.

The data on compliance in this Report is based on the information provided by the companies' answers to the Questionnaires, whereby the assessment that the companies themselves state about their compliance with the specific provisions of the Code was used. The percentages of compliance with a specific part or provision of the Code that are obtained as a result of analyzes of the responses of the companies are aggregated data and refer to all analyzed companies together and they differ from the percentage of compliance with a specific part or provision of the Code of each company individually.

As the Code uses the "comply or explain" principle, the CEQ offers companies different options when answering compliance status: "Yes", "Partial", "No" and "Not applicable" (where the circumstances described in the Code provision did not occur).

The "comply or explain" principle implies that the application of the provisions prescribed in the Code is not mandatory for listed companies. Companies may not apply some provision of the Code in cases where, in their opinion, there are justified reasons for doing so, for example, if such a provision does not correspond to the size, structure or needs of the company. However, if companies choose not to apply a particular provision, they must disclose this in the CEQ Questionnaire and provide an explanation as to why the particular provision could not be applied.

For the purpose of determining the overall compliance to the Code, a valuation consisting of four scores has been used:

- Where the company is fully compliant with a Provision of the Code and the answer in the CEQ is "Yes", 1 point is awarded.
- Where the Provision of the Code is "not applicable", the company is considered fully compliant and 1 point is awarded. It is noted that only 17⁴ provisions of the Code have "not applicable" as an answer option. An example is given below of how a Provision may be non-applicable:

⁴ The provisions include 1.2, 1.3, 1.10, 2.6, 2.16, 2.14, 2.15, 2.28, 2.22, 2.2, 3.5, 3.10, 4.3, 4.4, 5.9, 5.12 and 6.4.

Provision		Answer given by company	Explanation
2.14	<p>When identifying potential Supervisory Board members, consideration shall be given to the following criteria in addition to those specified in law:</p> <p>a. Possession of personal integrity and ethics;</p> <p>b. Professional experience and knowledge relevant to the activity of the Company and its function; and</p> <p>c. The ability and available capacity to participate actively and constructively in the Supervisory Board's discussions and decision-making.</p>	" Not applicable"	During 2022, the election of members of the Board of Directors was not carried out, which is why this provision could not be applied.

- Where the company is partially compliant with a Provision of the Code (including those provisions with more than one CEQ questions) and the answer in the CEQ is "Partial", 0.5 point is awarded.
- Where the company did not comply with the Provision of the Code and the answer in the CEQ is "No", no points (0) are awarded.

Compliance with the Code

Based on the methodology described above, and using the company's' own assessment of their compliance, the average compliance with the Code by the companies for 2022 was 76%.

As this report covers the first year in which they were required to implement the Code, which includes many recommended practices that were not addressed in the law or the earlier Code, it is to be expected that compliance rates will be lower than when a Code has been in place for some years.

This section of the Monitoring Report includes data and commentaries on overall levels of compliance of the companies in two different forms: (i) by their level of compliance, whereby the companies are grouped into bands based on their compliance rates; and, (ii) average compliance by all companies for each of the seven sections of the Code.

As already noted, at the time this analysis was undertaken, one company had not submitted information about its compliance with the Code. The data therefore covers only 27 of the 28 companies.

Compliance by bands

The table shown in Exhibit 5 provides an illustration of the percentage of compliance of the companies, having been grouped into bands to indicate the differences in the level of compliance by individual companies. This is particularly useful considering that the compliance sample contains a relatively small number of companies:

Exhibit 5: Percentage of compliance of the companies by bands

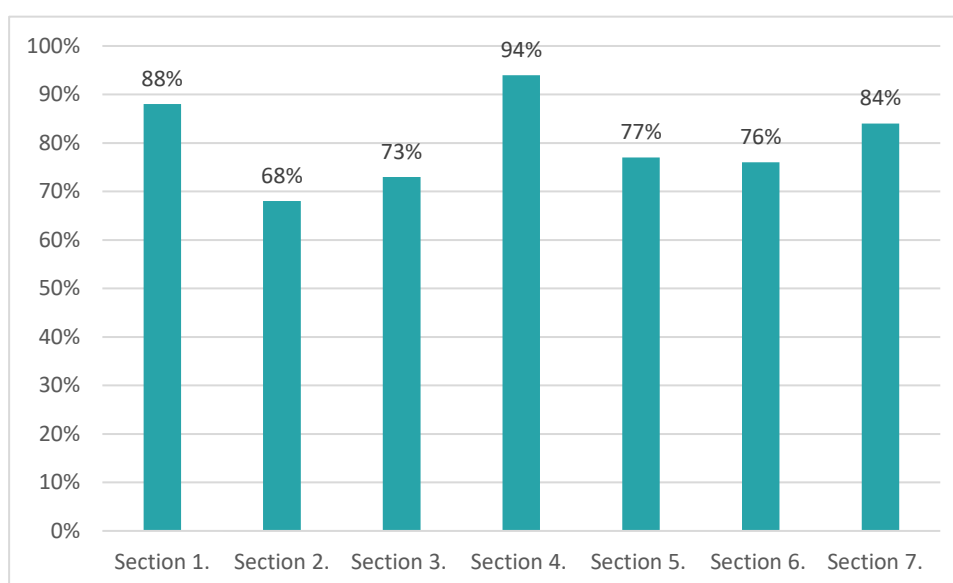
Percentage compliance (%)	0-20	21-40	41-60	61-80	81-100
Percentage of companies (%)	0	0	15	41	44

It is encouraging that 44% of the companies already complied with over 81% of the Provisions of the Code. Interestingly, the four companies with the highest market capitalization in 2022 also had the highest percentage of compliance. It should be noted that in the category of companies with the highest percentage of compliance (81-100) are also the banks that had the obligation to report on compliance with the Code, which results from the fact that banks, according to the Law on Banks, have additional normative requirements that arise from the corporate governance rules prescribed by the Council of the National Bank, in accordance with international standards.

Compliance by Code sections

Exhibit 6 shows the average percentage of compliance of each section of the Code. As can be seen, there are significant differences in compliance with each section, ranging from 94% for Section 4 (Conflicts of Interest) to 68% for Section 2 (The Supervisory Board).

Exhibit 6: Average percentage of compliance with the Code by Section



Section 1: Shareholders rights and relations (15 questions)

Section 2: The Supervisory Board (34 questions)

Section 3: The Management Board (11 questions)

Section 4: Conflicts of Interest (4 questions)

Section 5: Risk and Control (14 questions)

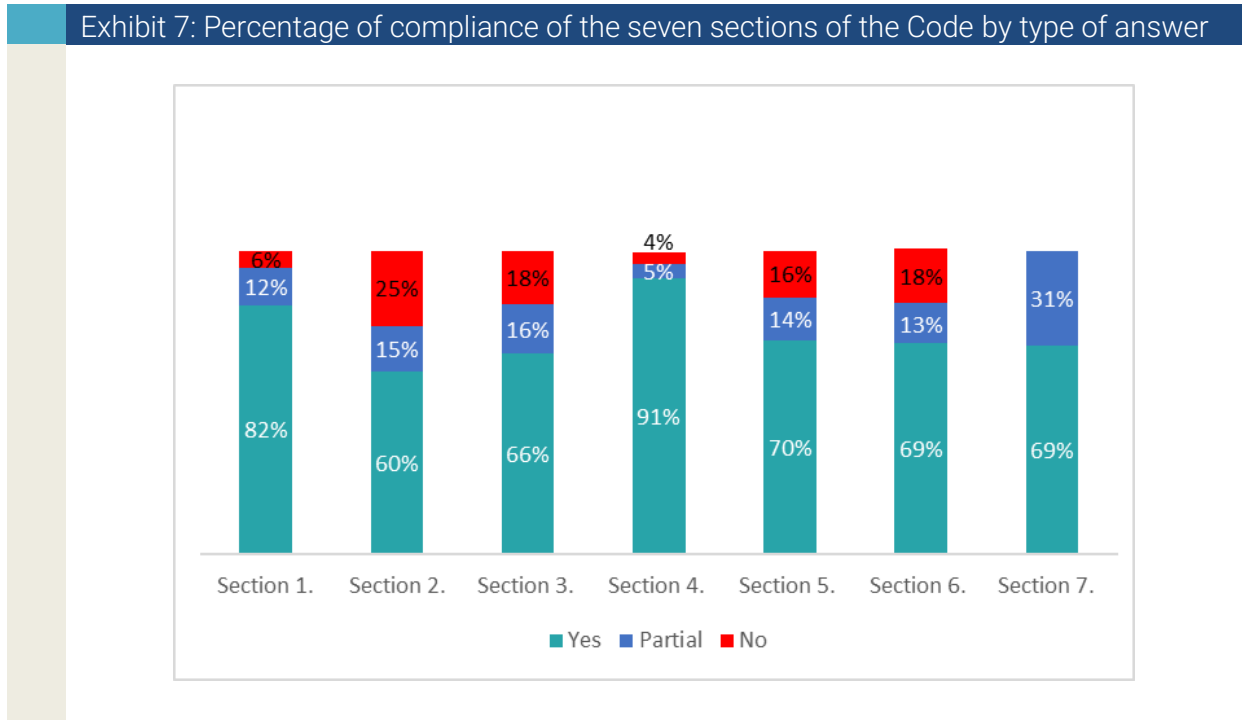
Section 6: Stakeholders, Sustainability and Social Issues (7 questions)

Section 7: Transparency and Disclosures (4 questions)

The differences in the levels of compliance between the sections can partly be explained by whether there are existing related requirements in law or the Listing Rules. Where this is the case, for example in Section 1, which covers shareholder rights and relations, compliance levels are generally higher than where there are relatively few existing requirements or standards (such as Sections 2 and 3 on the operation and composition of the Supervisory and Management Boards). Also, these differences may be the result of the number of questions in the Questionnaire for each part of the Code. For example, for Part 2, the Questionnaire contains 34 questions, while for Part

4, only 4 questions are contained, which is a relatively small number of questions compared to the larger number of questions for Part 2, as well as other parts of the Code.

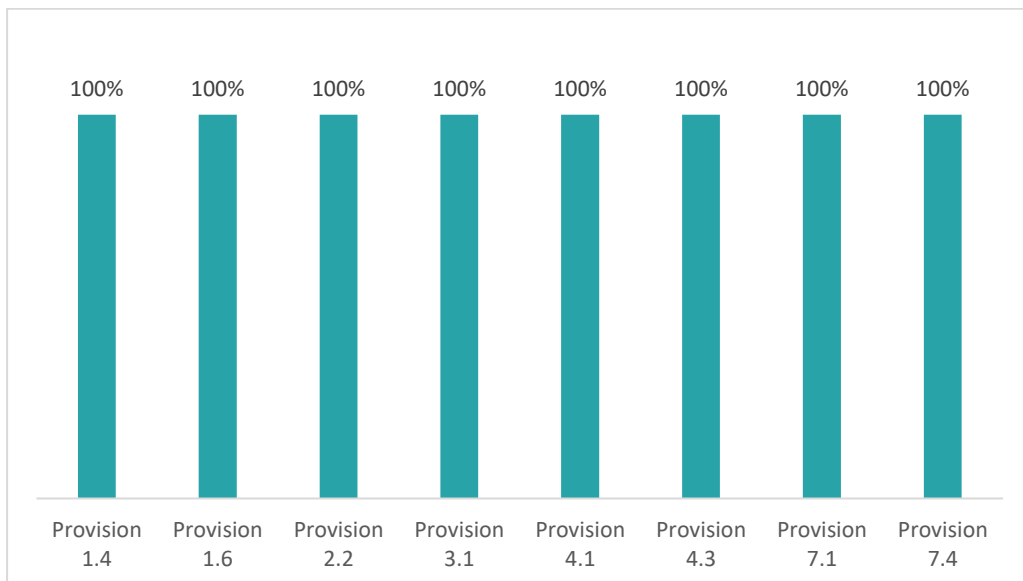
Exhibit 7 breaks the data down further by separating out cases where companies stated that they were only partially, not fully, compliant, with Code provisions. As can be seen, this is very common in Section 7 which concerns the public disclosures that companies are expected to make.



Compliance by Code provisions

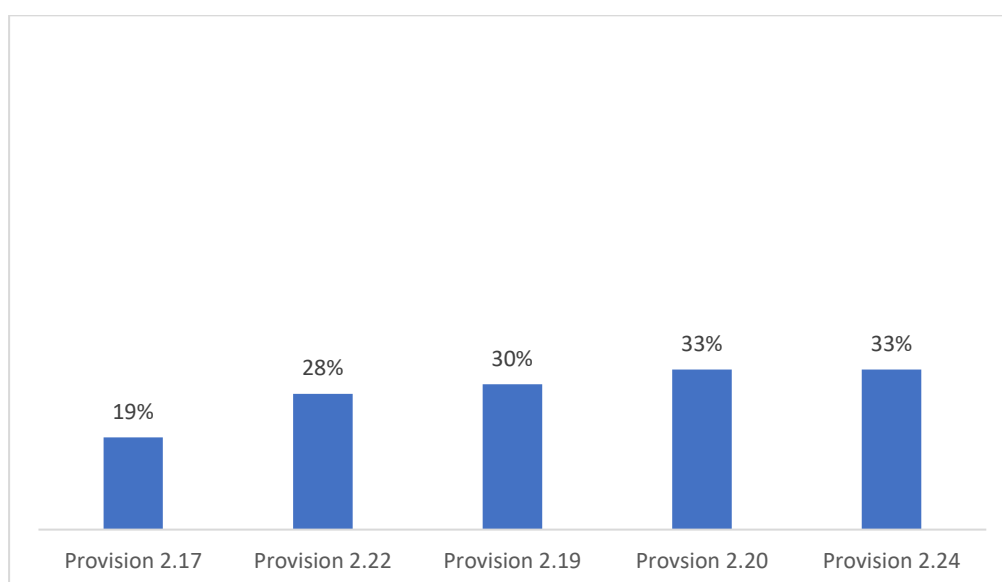
The differences in the levels of compliance with the Code sections is also reflected in the levels of compliance with individual provisions, as illustrated in Exhibits 8 and 9 which show the provisions with the highest and lowest compliance rates. There were eight provisions that had 100% compliance rates, while the five lowest compliance rates ranged from 19% to 33%. All five of the lowest compliance rates, and nine of the 10 lowest, are in Section 2 of the Code.

Exhibit 8: Provisions with the highest percentage of compliance



- 1.4 - Details of the General Meeting to be published on the company website
- 1.6 - General Meeting to be held at a time and place convenient for shareholders
- 2.2 - Internal acts to specify which decisions require Supervisory Board approval
- 3.1 - Internal acts to specify responsibilities of the Management Board
- 4.1 - Criteria for board Supervisory and Management Board members relating to conflicts of interest
- 4.3 - Procedures for related party transactions
- 7.1 - Information required to be published on SEI-NET and/or in the annual report
- 7.4 - The Management Board to verify all published information

Exhibit 9: Provisions with the lowest percentage of compliance



- 2.17 - Publication of a Supervisory Board succession plan
- 2.22 - External membership of Supervisory Board committees
- 2.19 - Establishment of an Audit Committee
- 2.20 - Publication of Supervisory Board committees' rules of procedure
- 2.24 - Publication of information on Supervisory Board committees' membership and meetings

From the individual analysis of the answers of the companies, it is worth highlighting the fact that there are companies that have the maximum percentage of compliance with almost all provisions of the Code.

Reporting on compliance

Reporting on corporate governance is an important element of market transparency, and of the overall communication between the companies and investors as well as other stakeholders in various markets.

During the analysis of the responses of the companies for compliance with the Code, it was once again confirmed that these companies fully fulfill the reporting obligations through SEI-NET in accordance with the Listing Rules, but that the fulfillment of the obligations to publish the necessary information on the websites of the companies and in their annual reports can be improved in the future. Namely, according to the answers, 14 out of 27 companies have published on their websites the information that the Code stipulates should be published in that way and 6 companies have published annual reports that contain information which the Code stipulates should be an integral part of the annual reports. The MCE expects that companies will provide more complete information on their websites and in their annual reports in the future, as they become accustomed to reporting in accordance with the Code. Companies' transparency through

their websites and annual reports will certainly be subject to analysis in future compliance reports as well.

In addition, in future reports on compliance, more attention will be paid to the quality of the companies' answers and the analyzes will also cover that aspect, unlike this year's analyzes which are based on the assessment that the companies themselves state about their compliance with the specific provisions of the Code . The general impression is that the quality of reporting in the first year was variable. There were some very good examples which provided detailed and useful information, while others contained only minimal information.

From the analysis of the responses of the companies, it is clear that due to lack of previous experience in answering this type of questionnaires, some companies were not quite sure what the appropriate answer was for a specific question. To overcome such situations, the MCE will take actions to ensure greater clarity and comprehensibility of some of the questions before the next reporting of the companies on the compliance with the Code in the coming year.

Explanations

MSE's assessment of the quality of explanations is based on the three criteria specified in the introduction to the Code. These state that companies should:

- Explain in what way the company does not comply with the Code Provision and the reasons why, with reference to the company's specific circumstances;
- Describe the actions it has taken instead of complying with a Code Provision to make sure it meets the objective set out in the relevant Code Principle; and
- If the company intends to comply with the Code Provision in the future, specify when it expects to start doing so.

Most of the explanations reviewed by MSE did not meet all three of these criteria. For example, while many companies stated that they intend to comply with a Code provision in the future, only a few of them stated when they expected to become compliant.

Although it is quite acceptable that companies may need a certain period of time to apply some of the provisions of the Code, they should nevertheless foresee and state the time frame in which they plan to start applying such a provision. When preparing future reports, MSE will monitor the compliance with the provisions that were previously answered to be applied in the future.

There were some good examples of companies explaining their actual governance systems or activities when they did not comply with a provision. For example, one company that had not complied with Provision 1.14 concerning additional shareholder events described the different actions that it had taken to communicate with its shareholders during the year.

However, relatively few companies gave a clear reason why they believed that it was either not necessary or not appropriate for them to comply with specific provisions. If no reason is given, and no details provided, investors and other stakeholders may conclude that the company has simply ignored that part of the Code rather than taken a different approach that is more suitable to the company's circumstances.

A number of companies stated that the reason for their non-compliance with the Code is that the subject of the specific provision is already covered by the Law on Trade Companies and that they act as the Law prescribes, not as the Code requires. Other companies, on the other hand, stated that the reason for their non-compliance with the Code is that the obligation from the certain provision is not prescribed by law and that is why they did not act according to it. Such answers are considered inadequate, because the purpose of the Code is to encourage companies to adopt

practices that will be more detailed than the law or the minimum requirements in the law, and to imposes on companies higher standards than the ones prescribes in the law.

V. DETAILED ASSESSMENT OF COMPLIANCE AND GOVERNANCE PRACTICES (BY TOPIC)

This chapter of the report provides a more detailed examination of the compliance and existing governance practices of the regulated companies, categorized by each section of the Corporate Governance Code:

- **Section 1:** Shareholders rights and relations
- **Section 2:** The Supervisory Board
- **Section 3:** The Management Board
- **Section 4:** Conflicts of Interest
- **Section 5:** Risk and Control
- **Section 6:** Stakeholders, Sustainability and Social Issues
- **Section 7:** Transparency and Disclosure Governance Practices

Data in this section is based on the CEQ and the Governance Information Questionnaire (GIQ) issued by MSE in 2022, which were completed by the companies. The GIQ contains information about some of the company's governance practices, for example the composition of the board(s) and how frequently they meet, and the remuneration and other appointments of board members.

Section 1: Shareholders rights and relations

Section 1 of the Code is designed to safeguard the rights of shareholders, regardless of their shareholding size. Therefore, the provisions address shareholder rights, the Shareholders' General Meeting and related issues.

The average compliance percentage of the Shareholder Rights and Relations section was 88%. Moreover, in the total number of responses to the provisions in Section 1 of the Code, 82% belongs to the responses for full compliance, 12% to the responses for partial compliance and 6% to the responses for non-compliance.

These figures disguise some significant variation. For example, all the companies that completed the CIQ stated that they had complied fully with Provision 1.4., which requires the company to publish information about Shareholders' General Meeting and materials on its website, and with Provision 1.8, which states that the company shall provide shareholders with the option to vote by proxy. In addition, the average compliance rate of Provision 1.15 was 89%, with 78% of companies fully complying and no companies failing to comply, which states that the contact details of the person responsible for ensuring responses to questions or provisions of information to shareholders and investors must be publicly available.

By contrast, the average compliance rate of Provision 1.14 was 56%, with only 41% of companies fully complying and 33% of companies failing to comply. This Provision states that the company organised events for investors during the year, in addition to Shareholders' General Meeting.

Section 2: The Supervisory Board

Section 2 of the Code addresses the role of the Supervisory Board (or the non-executive directors in a one-tier board) and how it can operate effectively to support and oversee the work of

management.⁵

The average compliance percentage of the section was 68%, which as noted is the lowest of all sections of the Code. Moreover, in the total number of responses to the provisions in Section 2 of the Code, 60% belongs to the responses for full compliance, 15% to the responses for partial compliance and 25% to the responses for non-compliance. These low figures can in part be explained by the fact that many of the practices recommended in this section, for example board committees and regular evaluation, have not previously been widely adopted by listed companies in Macedonia.

As well as more detailed information on compliance, the rest of this section of the report contains data on the operation and composition of the Supervisory Board (or Board of Directors in the one-tier structure).

Number of board meetings

Provision 2.5 calls for companies to state how many meetings the Supervisory Board or Board of Directors held in the reporting year. All except two of 27 companies provided this information. Data from the GIQ shows that the overall average number of meetings for both one and two-tier companies combined is 10 meetings a year, with two-tier boards having a slightly higher average than one-tier Boards at 10.8 versus 9.9. As Exhibit 10 shows, most boards met between 6 and 15 times but there were two outliers, who recorded over 20 meetings in the year.

Exhibit 10: Number of board meetings in the year 2022

Number of meetings	1-5	6-10	11-15	16 - 20	20+	No data
Number of companies	3	12	8	0	2	2

Board composition

Provision 2.10 of the Code states that the Supervisory Board (or Board of Directors) shall be composed of an adequate number of members to ensure that both the Board and its committees will have sufficient resources to carry out their assigned functions effectively.

For this Provision it is necessary to present the data for one and two-tier board structures separately, as one-tier boards include both executive and non-executive members whereas the Supervisory Board members are all non-executives.

According to the data provided by companies in the GIQ, the average size of the one-tier boards was 7, while the average size of Supervisory Boards was 5 members. Exhibit 11 shows the range of board sizes. As can be seen, the average size of one-tier boards is distorted by one outlier who had a total of 14 board members.

Exhibit 11: The total size of one-tier and two-tier boards

Type of Board Structure	1-3 members	4-6 members	7-9 members	10+ members
-------------------------	-------------	-------------	-------------	-------------

⁵ It is noted that, according to the Code, all references to the Supervisory Board and/or Management Board should be interpreted as meaning the Board of Directors with the exception of specific provisions included in Appendix B.

One-Tier Board (non-executive and executive members)	0	5	5	1
Two-Tier Board (Supervisory Board members)	3	9	4	0

All one-tier boards had a majority of non-executive members, with the number of non-executives ranging from 3 to 13 (three to six excluding the outlier). Data on executive members of one-tier boards and Management Board members in the two-tier board structure can be found in the next section looking at compliance with Section 3 of the Code.

The Law on Trade Companies requires that at least one-quarter of Supervisory Board members (or non-executive members of a one-tier board) should be independent where there are four or more Supervisory Board or non-executive members. The Code recommends that all companies consider having at least one-third independent non-executive members, but this is not contained in a provision so companies do not need to 'comply or explain'.

Information provided in the GIQ has shown that the average percentage of independent board members in one-tier and Supervisory boards, as classified by the companies themselves, is almost identical for both board structures (Exhibit 12). The majority of companies have either one or two independent board members, but two companies have three and one four. Encouragingly, 17 of the 27 have at least one-third of their non-executive board (or Supervisory Board) members that are classified as independent.

Exhibit 12: The average independence of board members

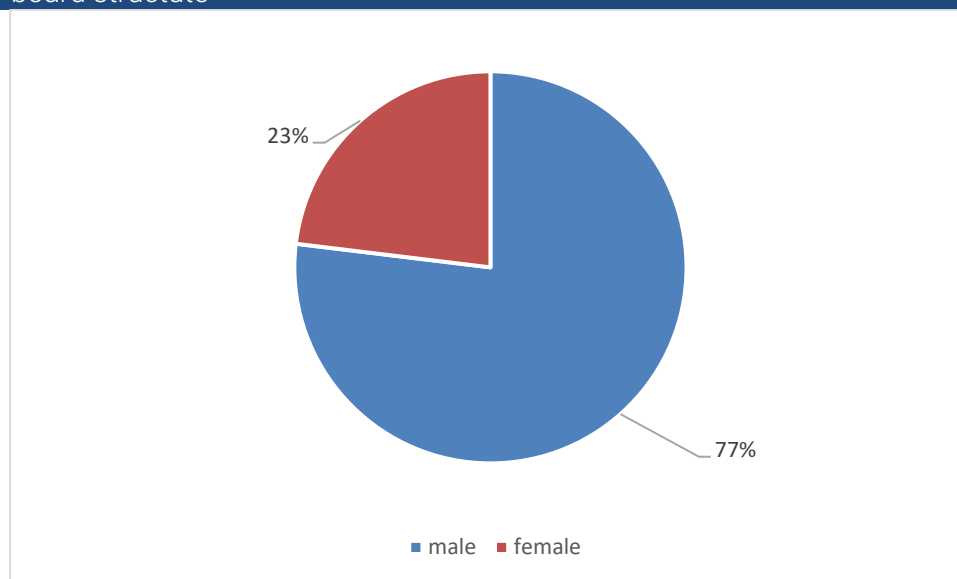
Type of Board structure	Average number of independent members	Average percentage of independent members
One-tier Board	1.9	35%
Supervisory Board	1.8	36%

Board diversity

In relation to female representation on boards, Provision 2.13 of the Code states that companies shall take action to ensure that it has at least 30% female members of the Supervisory and Management Boards (or the Board of Directors in the one-tier structure) by 2025.

Exhibit 13 below shows the percentage of female members in total numbers of members of the two-tier and one-tier board structures in 2022.

Exhibit 13: Female percentage in total number of members of the two-tier and one-tier board structure



Exhibits 14 and 15 below show the current levels of female members for two-tier and one-tier board structures. For one-tier boards the numbers have been split between non-executive and executive board members for the purpose of comparison.

Exhibit 14: The number of females on two-tier board companies

Two-tier boards	0 Females	1 Female	2 Females	3 Females
Supervisory Board	3	9	2	2
Management Board	3	10	3	0

Exhibit 15: The number of females on the one-tier board companies

One-tier boards	0 Females	1 Female	2 Females	3 Females
Non-executives	3	5	1	2
Executives	8	3	0	0

Exhibits 16 and 17 below show the number of female board members for each of the 27 companies (who have been anonymized). As the data shows, three one-tier board companies and one two-tier board company have no female board members at all. Another seven have no women in executive positions, making 11 in total. Most of these are one-tier board companies, which typically have fewer executive board members than on the Management Board in the two-tier structure.

Exhibit 16: Total number of executive and non-executive female directors of companies with one-tier boards

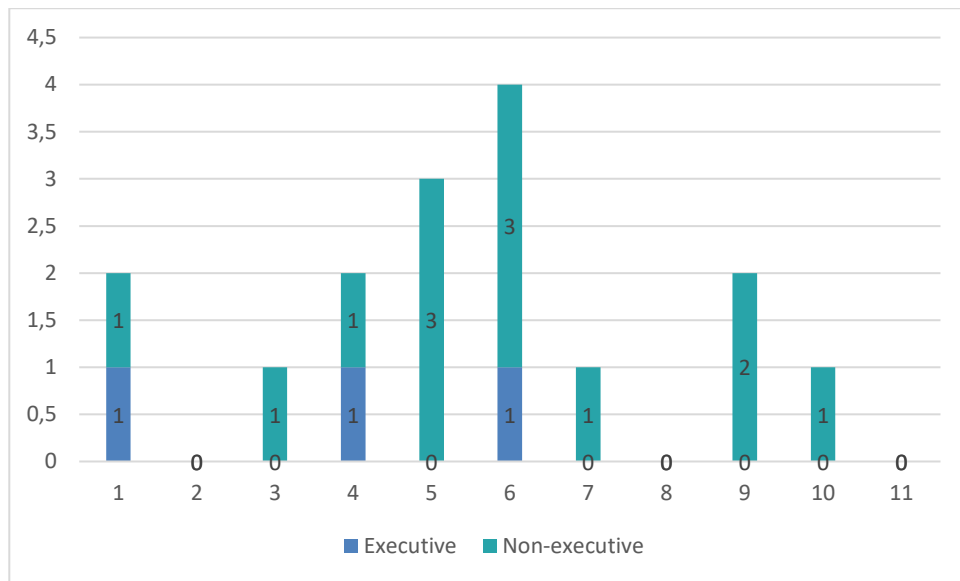
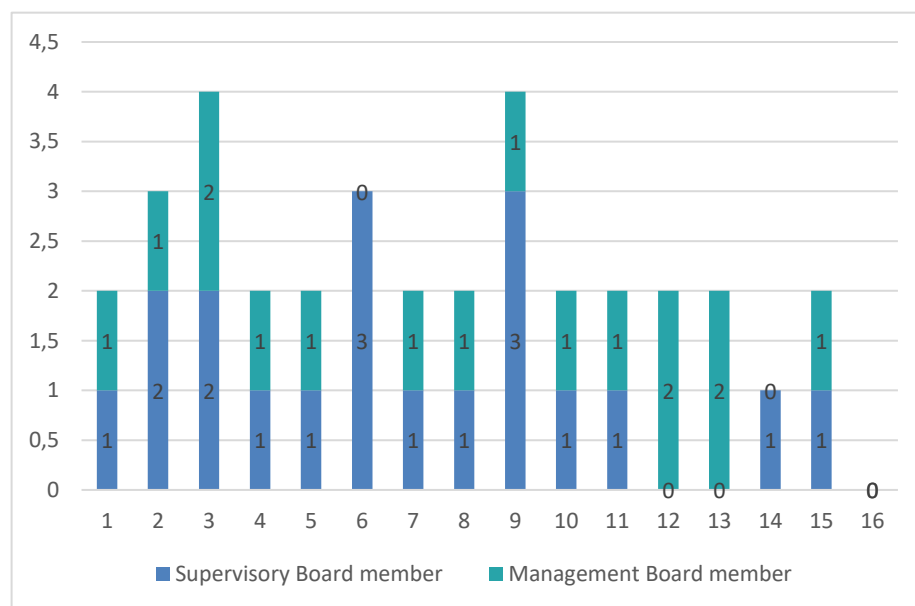


Exhibit 17: Total number of female directors on the Supervisory and Management board of companies with two-tier boards



Succession Plan

Provision 2.17 of the Code establishes that the Selection and Appointment Committee or Supervisory Board shall prepare a succession plan for the Board, which shall be included in the annual report. However, the total number of companies that fully complied with this provision was only 4, and only 2 companies partially complying. On the other hand, there were 21 companies that did not comply with this Provision and it therefore had the lowest compliance rate of this

Section.

Board Committees

Provision 2.18 states that the Supervisory Board shall establish an Audit Committee that is responsible for the oversight of the company's risk management and internal control, financial reporting and the external auditor. Despite the importance of this role, 14 of the 27 companies had not yet established such a Committee.

Provision 2.19 stipulates that the supervisory board shall establish a selection and appointment committee to supervise the selection and appointment of the members of the supervisory board, as well as a remuneration committee which shall supervise the remuneration of the members of the management board. The functions of these two commissions can be combined. The possibility is also foreseen, if more than half of the members of the supervisory board are independent, the supervisory board can perform these functions independently. Even fewer companies, 6 of the 27, fully complied, by establishing a Selection and Appointment Committee and a Remuneration Committee, or a committee that combines both functions as recommended in Provision 2.19.

Board evaluation

Finally, Provision 2.25 of the Code states that once a year the Supervisory Board, the Selection and Appointment Committee or an external consultant specialized in corporate governance shall evaluate the Supervisory Board.

According to information submitted by the companies, the total average percentage of companies who have carried out a board evaluation is 7%. It is interesting to note that companies with two-tier boards are more likely to carry out an evaluation, with 50% of them having done a board evaluation, versus only 18% for one-tier board structured companies. It is not possible to work out from the information provided how many of these evaluations involved external consultants.

Section 3: The Management Board

Section 3 of the Code refers to the Management Board⁶, which is responsible for the company's operations, for meeting its targets and strategic objectives, and for maintaining its reputation as a responsible and trustworthy company. Some of the provisions in this section do not apply to companies with a single structured Board of Directors (for example, Provision 3.4 which concerns the size and composition of the Management Board). However, most of the section applies equally to the executive members of a single Board.

On average, the compliance rate for this section was 74%. Moreover, in the total number of responses to the provisions in Section 3 of the Code, 66% belongs to the responses for full compliance, 16% to the responses for partial compliance and 18% to the responses for non-compliance.

Provision 3.2 of the Code provides that the Management Board shall promote a corporate culture that encourages ethical conduct, respect and a commitment to compliance in all employees, and requires companies to have a Code of Ethics that is published on their websites, 17 companies fully complied, five complied partially and five did not comply.

Provision 3.4 states that the Selection and Appointment Committee, or the Supervisory Board, should review the size, composition and functioning of the Management Board during the year being reported on. 63% of companies with two-tier boards complied with this provision.

⁶ According to Appendix B of the Code, in the case of one-tier companies, references to the Management Board should be interpreted as meaning the company's executive management.

Provision 3.5 of the Code sets out that the Selection and Appointment Committee shall ensure that members of the Management Board are able to dedicate sufficient time to their duties. If members hold positions in other companies, the detail must be disclosed in the annual report. In this case, 81% of the two-tier board companies fully complied with the provision, with 13% partially complying and 6 % failing to comply.

On Management Board Remuneration, the Code indicates that the company shall publish full and accurate data on each individual Management Board member’s remuneration in the previous year in the Annual Report. Compliance with Provision 3.11 was 61%, with some companies choosing only to publish the combined figures for all Management Board members or executive directors.

Interestingly, 10 of the 27 companies (37%) reported that Provision 3.10, as non-applicable. This provision concerns the criteria to be used when making share awards. The large number of companies that answered that the provision is not applicable may indicate that the policy for remuneration of the members of the board of directors and executive directors in those companies does not allow the acquisition of shares and/or that there are currently certain normative ambiguities for the implementation of such procedures .

Size of the Management Board

The information provided by the companies detailed the following in terms of the size of the Management Board and number of executive board members in two-tier boards.

Exhibit 18: The number of executives in a one-tier board and size of management board on a two-tier board

Board Structure / type of member	1-2 Members	3-4 Members	5-6 Members	7-8 Members
One-Tier Board (Executives on the Board)	10	1	0	0
Two-Tier Board (Management Board Members)	1	9	5	1

There is a notable contrast between the average size of the Management Board of a two-tier Board company (4 members) and the average number of executive directors on a one-tier Board (1.5 members). None of the companies with a one-tier Board have more than 4 members, whereas there are 6 two-tier Board companies (37.5%) that have more than 4 members on their Management Board.

Section 4: Conflicts of Interest

This section of the Code states that it is important for companies to have robust and transparent processes to remove or manage areas in which conflicts of interest may arise, in order to give shareholders confidence that their interests, and the interests of the company, are being protected.

Overall, this section had a high rate of compliance, with the average compliance percentage at 94%. Moreover, in the total number of responses to the provisions in Section 4 of the Code, 91% belongs to the responses for full compliance, 5% to the responses for partial compliance and 4% to the responses for non-compliance.

In the CEQ, 100% of the companies declared that their members of the Supervisory and Management Boards fulfilled the criteria listed in Provision 4.1. Additionally, 100% of the companies also declared that they fully complied with provision 4.3 of the Code on whether the Chairs of the Supervisory Board and Management Board were informed by board members of any conflict of interest that directly affects the company's interests.

By contrast, only 18 of the companies assured that they comply fully with Provision 4.2 which lists the different issues relating to conflicts of interest that must be addressed in the company's internal acts, 4 declared that they do not comply, and 5 stated that they do so partially.

Section 5: Risk and Control

The purpose of this section of the Code is to ensure that companies are able to achieve its strategic objectives, take advantage of growth opportunities and ensure its long-term survival by identifying and dealing with the risks it faces.

In this section, the average compliance percentage was 77%. Moreover, in the total number of responses to the provisions in Section 5 of the Code, 70% belongs to the responses for full compliance, 14% to the responses for partial compliance and 16% to the responses for non-compliance.

In sub-section "Risk Management System", Provision 5.3 states that, at least one a year, the Audit Committee shall review the effectiveness of the risk management, internal control and compliance system as a whole and make recommendations to the Supervisory and Management Boards as necessary. Only 52% of companies stated that they complied with this provision; the figure reflects the fact that only 14 of the 27 companies have established an audit committee.

Compliance with Provision 5.4, which states that the Supervisory Board must approve the annual workplan of the Internal Audit Service, is not much higher. This Provision had a 61% compliance rate.

Provision 5.8 states that there should be a whistle-blowing procedure for reporting actual or suspected breaches of the law or the company's internal acts or Code of Ethics which should be published. The average compliance rate of this provision is 78%. With 67% of companies fully complying, 22% partially complying and 11% which failed to comply.

Section 6: Stakeholders, Sustainability and Social Issues

This section in the 2021 Code pertains to the way in which a company's activities have an impact on all the stakeholders including employees, customers, suppliers, public authorities and local communities. This section is divided into two sub-sections.

The average percentage of compliance for this section was 76%. Moreover, in the total number of responses to the provisions in Section 6 of the Code, 69% belongs to the responses for full compliance, 13% to the responses for partial compliance and 17% to the responses for non-compliance.

Provision 6.1 in the Code contains multiple recommendations on stakeholder engagement, including that the Management Board must ensure there are effective mechanisms in place for identifying a company's main stakeholders and ensure that there is regular engagement, and that a summary of this engagement should then be published in the Annual report. Twenty of the companies stated that they fully complied with this Provision, six partially complied and only one company failed to comply at all.

Provision 6.3 states that companies shall have internal acts, policies and procedures relating to its responsibilities for environmental and social issues that would enable it to identify material factors. The provision further stipulates that these should be reviewed at least annually by the Supervisory and Management Boards, and shall be published on the company's website. This provision had the lowest average compliance compared with the others highlighted in this section with only 59% compliance rate. Only 11 of the companies fully complied, while six failed to comply with any part of the provision.

Finally, Provision 6.7 outlines that a company should report in the Annual Report on environmental and social issues. There was an overall compliance rate of 89%.

When assessing compliance with this provision, and the provisions in Section 7 of the Code, MSE has only checked whether relevant information has been published and has not assessed whether that information is clear or comprehensive.

Regarding the information and explanations that according to this Section and Section 7 companies should disclose and considering their importance for investors and other stakeholders, the MSE has provided ESG Reporting Guide, which aims to help listed companies with a variety of environmental, social, and governance aspects. The ESG Reporting Guide is also designed as a specific tool for listed companies that will help them achieve full compliance with this Section of the Code.

Section 7: Transparency and Disclosure

Section 7 of the Code contains the principles, provisions and recommendations on how a company should publicly disclose its information. This ensures that shareholders and potential investors have access to regular and reliable information to assess a company's performance.

In Section 7, the total percentage of the average compliance was 84%. Moreover, in the total number of responses to the provisions in Section of the Code, 69% belongs to the responses for full compliance and 31% to the responses for partial compliance. There were no companies in this section who did not comply.

As noted in the overview of compliance, in this Section of the Code, Provisions 7.1 and 7.4 are 100% compliant, while this Section of the Code has by far the highest number of examples of companies that are only partially compliant with some of the provisions. This is probably due to the content of Provisions 7.2 and 7.3, which list the various pieces of information that must be disclosed on the company's website (7.2) and annual report (7.3).

Namely, according to the answers, 14 out of 27 companies have published on their websites the information that the Code stipulates should be published in that way, and 6 companies have published annual reports that contain information that the Code stipulates should be included part of the annual reports.

VII. CONCLUSION

This Report is the first of its kind that the MSE plans to regularly prepare in the future in order to summarize, encourage, correct or even criticize some of the corporate governance practices of listed companies and in which MSE will publicly announce the results of its continuous efforts to improve the corporate governance culture of listed companies in general. Although the number of companies that meet the criteria for the application of the Code is relatively small compared to the total number of listed companies (28 out of 91), the Stock Exchange recognizes a solid basis of information both for the preparation of its corporate governance analyzes, as well as for tracing

on a path that leads to better performance of listed companies.

This Report provides a general picture of the prevailing practice of corporate governance of listed companies that are obliged to report on the application of the Code, and by locating the best practices, an incentive will be given to improve corporate governance at the level of an individual company.

The data for this Report were collected from the listed companies through the Comply or Explain Questionnaire (CEQ) and the Corporate Governance Questionnaire (GIQ) as an integral part of the Code, which the listed companies published on SEI-NET. The compliance data in this report is based on the information provided by the companies' responses to the Questionnaires, using the assessment that the companies themselves state about their compliance with the specific provisions of the Code.

The report contains information on the level of compliance with the all sections of the Code and the various provisions. As expected, the level of compliance varies from provision to provision, as some of the practices contained in the Code are new for the companies, but overall, the average level of compliance of companies with the provisions of the Code is 76%. This is a good result for the first year after the introduction of the Code and shows the positive reaction of most companies to the obligation to report on compliance with the Code. As already explained above, the information on the level of compliance with the Code in this Report refers in aggregate to all listed companies that reported on the application of the Code. Any interested person can make a detailed analysis of the level of compliance of a specific company, through a more detailed analysis of the questionnaires answered by that company and published through SEI-NET on the website of the MSE.

At the same time, if the information received from the companies is considered from the perspective of the type of company, it is visible that the rate of compliance with the Code for banks is higher compared to other listed companies, which results from the fact that banks, according to the Law on Banks, have additional normative requirements arising from the corporate management rules prescribed by the Council of the National Bank, in accordance with international standards. Hence, it can be concluded that in order to improve the corporate management of other companies, there is a need to further regulate this issues in the Law on Trade Companies.

In more detail, a different level of compliance was recorded between the different parts of the Code, which can be partly explained by whether there are existing similar provisions in the applicable legislation or in the Listing Rules. Where this is the case, for example in Section 1 (88%) and Section 4 (94%), which cover matters regulated by law, levels of compliance are generally higher than where there are relatively few existing requirements or standards, such as as Section 2 (68%) and Section 3 (73%).

Also, these differences may be the result of the number of questions in the Questionnaire for each section of the Code. For example, for Section 2, the Questionnaire contains 34 questions, while for Section 4, only 4 questions are contained, which is a relatively small number of questions compared to the larger number of questions for Section 2, as well as for some other parts of the Code. Differences in levels of compliance with sections of the Code are also reflected in levels of compliance with individual provisions. Eight provisions were recorded that had 100% compliance rates, two of which are in Section 1, one is in Section 2, one is in Section 3, two are in Section 4 and two are in Section 7. On the other hand, the five lowest rates of compliance ranged from 19% to 33%. All five of the lowest compliance rates and nine of the 10 lowest are in Section 2 of the Code.

As this report relates to the first year in which listed companies were required to apply the Code, which in turn includes many recommended practices that were not covered by current legislation

or the previous Code, it is expected that compliance rates for some provisions to be lower than if the Code had existed and been applied for several years. Furthermore, the relatively significant number of responses by listed companies that they will apply some provisions in the future gives a positive signal that compliance rates in future reports will reach higher percentages and show improvements in the corporate governance of listed companies. With all this in mind, we will not exaggerate if we conclude that this year's average compliance rate of 76% is encouraging and pleased us.

MSE encourage listed companies to continue to build on this promising start and hope that further improvements will be shown in future Monitoring Reports. We believe that together with companies and all other stakeholders we will build good practices and contribute to the further development of corporate governance. Good corporate governance creates value not only for the companies themselves, but also plays a key role in investors protection. Investing in the improvement of corporate governance will contribute to the development of the shareholding. We expect that future Monitoring Reports will register further progress, that listed companies will apply better corporate governance practices and that they will achieve a higher level of compliance with the Code by which they will improve their image and will increase public confidence in their overall performance. This will certainly increase their competitiveness and visibility at the local and regional level, and thus the number of investors in our market will increase accordingly.

Annex 1: List of listed companies that have the obligation to report about the application of the Code in the year 2022

Pursuant to Article 42-a of the Listing Rules, listed companies that have the obligation to report the application of the Code in 2022 are the following:

- 1 Alkaloid AD Skopje
- 2 Granit AD Skopje
- 3 Komercijalna Banka AD Skopje
- 4 Makedonijaturist AD Skopje
- 5 Makpetrol AD Skopje
- 6 Makstil AD Skopje
- 7 NLB Banka AD Skopje
- 8 Stopanska banka AD Skopje
- 9 TTK Banka AD Skopje
- 10 UNI Banka AD Skopje
- 11 Stopanska banka AD Bitola
- 12 OKTA AD Skopje
- 13 VV Tikves AD Kavadarci
- 14 Vitaminka AD Prilep
- 15 ZK Pelagonija AD Bitola
- 16 Liberti AD Skopje
- 17 Makedonski Telekom AD Skopje
- 18 Osiguruvanje Makedonija AD Skopje
- 19 Prilepska pivarnica AD Prilep
- 20 Rade Koncar - Aparatna tehnika AD Skopje
- 21 Replek AD Skopje
- 22 Teteks AD Tetovo
- 23 Tutunski kombinat AD Prilep
- 24 Fersped AD Skopje
- 25 Hoteli-Metropol AD Ohrid
- 26 Cementarnica USJE AD Skopje
- 27 Ading AD Skopje
- 28 Centralna kooperativna banka AD Skopje