



Macedonian Stock  
Exchange

**REPORT ON COMPLIANCE  
OF THE LISTED COMPANIES WITH  
CORPORATE GOVERNANCE CODE  
IN 2023**

OCTOBER

**2024**

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## NOTE:

"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 and 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 the operation"

## I. INTRODUCTION

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The Code for corporate governance of joint-stock companies listed on the Macedonian Stock Exchange (hereinafter referred to as "the Code") was adopted and published by the MSE in 2021 and began to be applied in 2022. The listed companies has reported on its application for the first time in 2023 by submitting the annual reports for 2022. 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 joint stock companies whose securities are listed on the MSE.

The Code applies to companies whose shares are listed on the Official Market of the MSE that meet the conditions prescribed 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 MSE (hereinafter referred to as the "Report") is **the second monitoring report** prepared by MSE. The report presents the data on the corporate governance of the listed companies for the second year of implementation of the Code, i.e. **it refers to the corporate practices of the companies in 2023.**

In order to follow the implementation of the Code and make comparative analyses, some parts of this Report show the level of compliance with the Code in 2023 (current year) compared to the level of compliance in 2022 (previous year).

Having in mind that the obligation to report on the application of the Code is still new for the companies and 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, this Report, like the previous one, 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 assessment of compliance with the Code was carried out on the basis of the data provided by the listed companies on their compliance with the seven sections of the Code, namely:

- Section 1: Shareholders rights and relations with shareholders
- 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 .

The level of compliance with the provisions and sections of the Code this year also varies, however the average rate of compliance of the corporate governance of the companies with the Code is 79% and it shows an increase of 3% compared to the previous year. Progress in compliance has been noted in relation to all sections of the Code. The results are good and promising, but certainly there is still room for further improvements, which we hope will be reported in future compliance reports.

## II. REGULATORY AND OTHER DEVELOPMENTS

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The legal framework on which corporate governance is based in our country and according to which the reporting for the application of the Code in 2022 took place remained unchanged in 2023, despite the intensification or finalization of the activities for adoption of new legislation related to trade companies, trading in securities and accounting in order to further harmonize this part of national legislation with EU law.

According to the current laws and by-laws, in 2023 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 area, as well as laws that regulate the operation of various types of companies (for example, banks, insurance companies, etc.). Based on the Securities Law, the MSE adopts the Listing Rules, and the Code is based on them. The adoption of the Code in 2021 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, there are some finalized and ongoing activities for regulatory changes related to the Law on Securities, the Law on Trade Companies and the Law on Accounting, which will have an additional impact on listed companies and their obligations related to corporate governance.

Namely, the new Law on Financial Instruments, which replaces the current Law on Securities, was adopted in March 2024 and it will begin to be applied from September 2025. Although in a modified form, the concept of listing on the official market of the MSE still continues, in a way that the new legal provisions regulate the admission of financial instruments on a regulated market managed by the stock exchange as a market operator. Within the scope of harmonizing its operations with the new law, MSE will adopt rules that will provide obligations for issuers whose financial instruments will be admitted to trading on the official market, including the obligation to apply the Corporate Governance Code. In addition to the Law on Financial Instruments, in March 2024 the Law on Prospectus and Transparency Obligations of Securities Issuers was adopted, the application of which has also been postponed until September 2025 and which contains innovations in terms of transparency obligations of trading companies. With such new legal solutions, the latest EU directives in the area of the capital market have been implemented and aim to provide greater protection for investors and greater security and confidence in the capital market in general, and of course a positive impact is also expected on the corporate governance of listed companies, especially from the aspect of transparency and disclosure of information.

Perhaps in terms of corporate governance, it is even more significant that a new Law on Trade Companies is being prepared, which includes novelties that, if adopted, will affect the overall corporate governance of joint-stock companies and listed companies and which, among other things, refer to: obligation for 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 a meeting of shareholders, the rights of shareholders related to electronic voting, the content of the annual report and other aspects of exercising the rights of shareholders.

With the incoming changes in the area of the accounting of the companies through the adoption of a new Law on Accounting, with the aim of harmonizing the national legislation with the European directives in the area of financial and non-financial reporting, further regulation of the

corporate governance of the companies is carried out through the provisions which refer to the content of the annual report, the obligation to prepare a report on corporate governance and obligations for non-financial reporting. Namely, the proposed legal solution stipulates that all legal entities of public interest whose securities are listed on a regulated market are obliged, according to the rules of the regulated market, to prepare a report on corporate governance as an integral part of the annual report. In addition, for certain categories of trade companies there is an obligation for non-financial reports, which, among other things, refer to information about the company's activities on the environment and social governance and issues related to other stakeholders. Through such new legal obligations, greater transparency of information about the operations of public companies and improvement of their corporate governance practices is expected, as well as greater transparency and reporting in relation to the application of ESG principles and care for the environment and society in general.

If the above-mentioned novelties that are reflected in the content of the provisions of the Code been adopted, MSE may need to make some revisions to the Code to ensure its consistency with the new legislation.

Having in mind the current legal framework, it might be concluded that there is a solid basis for 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 to help the listed companies to achieve these goals.

### III. OVERVIEW OF MSE REGULATED MARKETS

At the end of 2023, there were listed shares of 93 companies on the Official Market of the MSE, out of which 4 companies are long-term suspended, and the remaining 89 companies, which are the subject of statistical analyzes of the MSE, are listed in the following sub-segments :

- Super listing (1 company) ;
- Stock market listing (23 companies) and
- Mandatory listing (65 companies ).

As of December 31, 2023, the total turnover of trading with the shares of 89 listed companies was in amount of MKD 2,688,085,959 (43,711,966 EUR).

According to the MSE Listing Rules, only those companies whose shares are listed on the MSE's Official Market in all market sub-segments that on December 31 of each current year have fulfilled at least three of the following four conditions during the previous year are required to report on how they have applied the Code:

- Market capitalization worth at least 5,000,000 euros .
- At least 100 shareholders .
- At least 5% prevalence of the gender of the shares in the public .
- The issuer's shares were traded in at least 30% of the total number of trading days in the current year .

The MSE annually determines which companies meet these criteria and publishes them on its website. All other listed companies that do not meet the criteria are encouraged to voluntarily implement the Code in the manner prescribed in the Listing Rules.

The list of listed companies that have the obligation to report on the application of the Corporate Governance Code of the Macedonian Stock Exchange AD Skopje for the year 2023 is given in Appendix 1 of this Report.

As shown in the Exhibit 1 below, the MSE determined that 26 out of 89 companies (30%) met the criteria described above and that they are obliged to report on the application of the Code in 2023.

**Exhibit 1: Companies required to report on compliance with the Code versus total number of listed companies**

	Super Quotation	Stock market listing	Mandatory listing
Total number of listed companies	1	23	65
Total number of companies that are required to report on compliance with the Code	1	15	10

Although only 26 companies were required to report on their compliance with the Code, these companies play a significant role in trading on the MSE. For example, they represent the largest share of the total market capitalization of the MSE's Official Market, as shown in Exhibit 2 below. They also account for almost all of the MSE's Official Market turnover during 2023, as shown in

Exhibit 3, below.

Exhibit 2: Market capitalization of the 26 companies versus total market capitalization (in EUR)

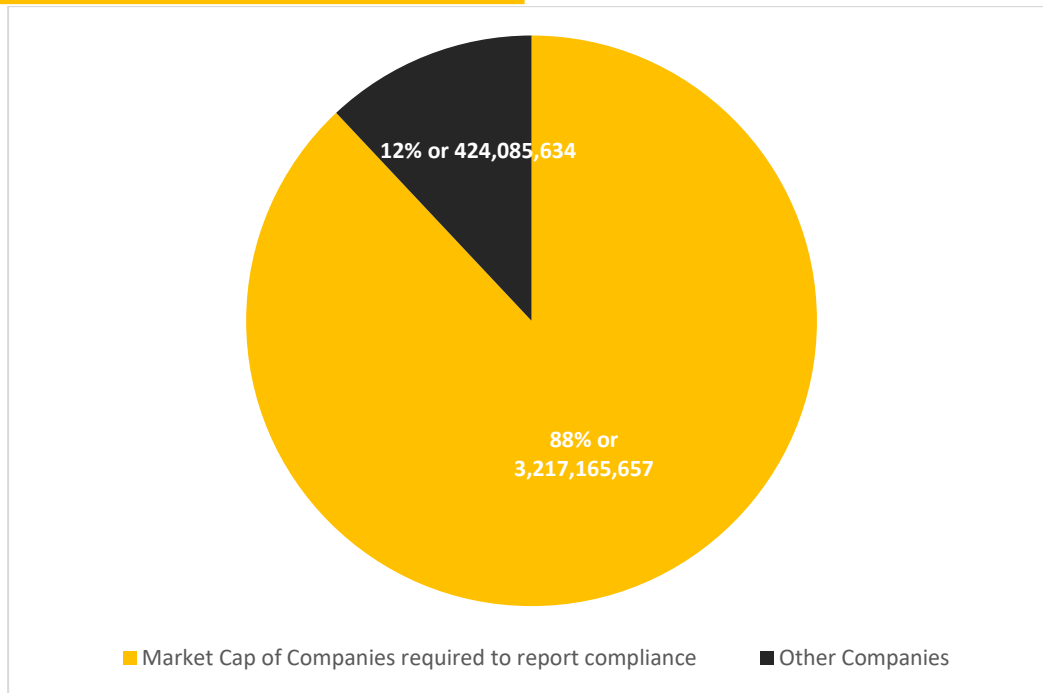
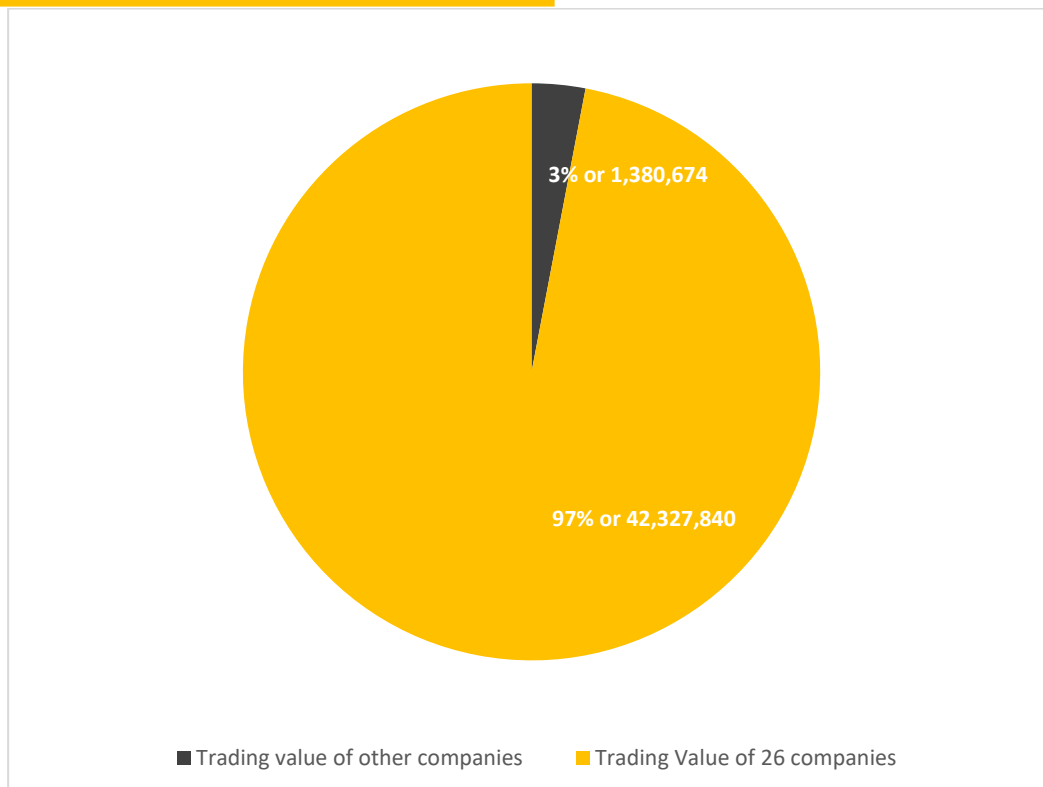


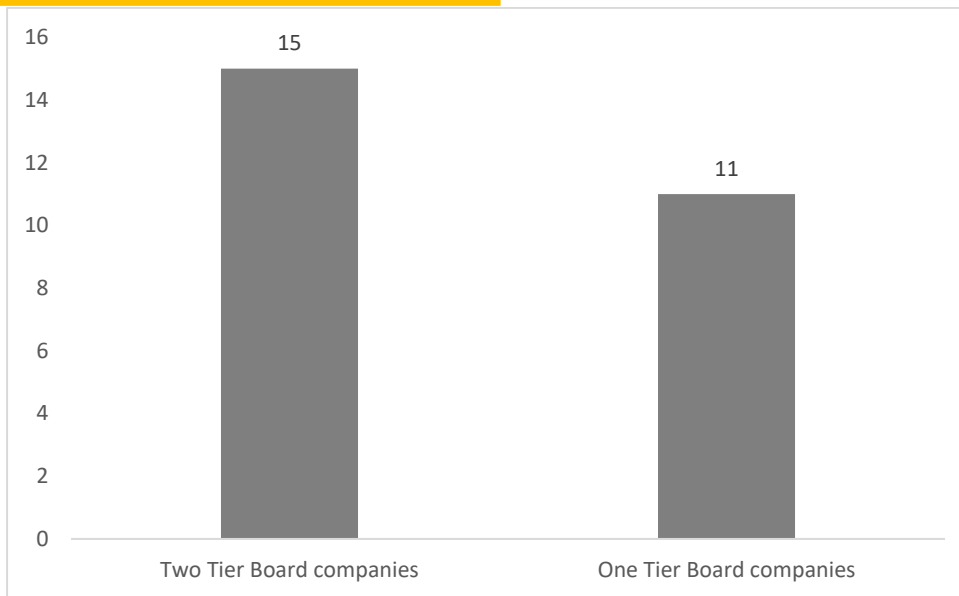
Exhibit 3: Total turnover of the 26 companies that report on their compliance with the Code versus total turnover of the rest of listed companies (in EUR)





In the basic text of the Code, terminology is used and it is written in a way that is suitable for companies with a two-tier management system, i.e. companies that have a supervisory and management board, but through one of the annexes to the basic text, the Code is appropriately adapted for companies with one-tier management system, that is, companies that have a board of directors. As shown in Exhibit 4, the majority of companies that were required to report on their compliance with the Code have a two-tier governance system.

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



#### IV. OVERVIEW OF COMPLIANCE WITH THE CODE

Companies that meet the conditions of the Listing Rules of MSE for the application of the Code must submit a statement on the application of the Code with the content prescribed in the Listing Rules, within their annual reports. At the same time, companies should fill in the appropriate questionnaires prescribed and published on the MSE's website. The companies should publish the questionnaires on their website and through the SEI-Net application, within the deadlines for publication of the annual report on the company's operations 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 Corporate Governance Code through the Comply-or-Explain Questionnaire (CEQ Questionnaire). Also, companies fill out the Governance Information Questionnaire (GIQ Questionnaire) which contains the information that companies should publish in accordance with this Code.

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 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.

Given that the Code uses the "comply or explain" principle, when answering the CEQ Questionnaire, and regarding the compliance status, companies can choose different options: "Yes", "Partial", "No" and " Not applicable " (where the circumstances described in the provision of the Code did not occur).

The "comply or explain" approach 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, valuation methodology was used with the following gradation in points:

- In cases where the company is fully compliant with a provision of the Code and the answer in the CEQ Questionnaire is "Yes", 1 point is awarded .
- In cases where the provision of the Code is "Not applicable", the company is considered as fully compliant and 1 point is awarded. Only 17 provisions <sup>1</sup>of the Code can be answered with " Not applicable ". Below are examples of how a provision may be non-applicable :

Provision		Answer given by the company	Clarification
2.14	When selecting potential members of the Supervisory Board, in addition to those established by law, the following criteria are taken into account: a. possession of personal integrity and ethics ; b. possession of professional experience and knowledge that is relevant to the activity of the company and its function ; and c. the ability and availability for active and constructive participation in the discussions and decision-making of the Supervisory Board.	" Not Applicable ""	During 2023, no members of the Board of Directors were elected, which is why this provision cannot be applied.

- In cases where the company is partially compliant with a provision of the Code (including those provisions with more than one question on the CEQ Questionnaire <sup>2</sup>) and the answer in the CEQ Questionnaire is "Partially", 0.5 points are assigned .
- In cases where the company does not comply with the provision of the Code and the

<sup>1</sup> It gets up word for the following provisions to which can yes everything answered with " Not Applicable " : 1.2, 1.3, 1.10, 2.6, 2.1 4 , 2.1 5 , 2.1 6 , 2.2 2 , 2.2 8 , 3 . 3 , 3.5, 3.10, 4.3, 4.4, 5.9, 5.12 and 6.4.

<sup>2</sup>In the cases where the CEQ Questionnaire has several questions for one provision, compliance with the provision was evaluated and not with each question, so if one of the questions is answered with "No" or "Partially", even though there are also answers with "Yes", the answer for the provision will be partial, i.e. scoring was done for partial compliance.

answer in the CEQ Questionnaire is "No", no points are awarded, that is, (0) points are awarded.



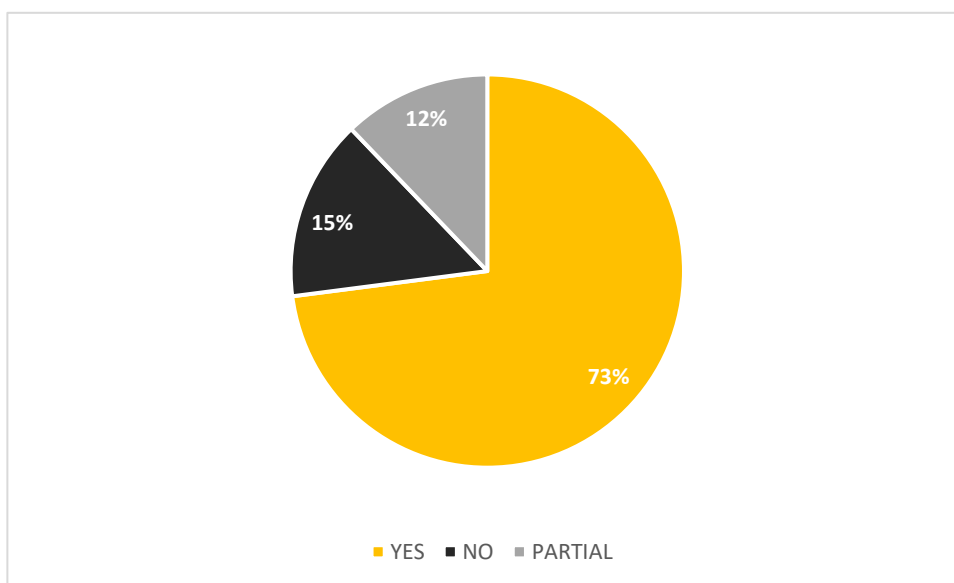
Based on the methodology described above, and using the assessment that the companies themselves indicated about their compliance with the specific provisions of the Code in the 2023 Questionnaires, the average rate of compliance with the Code of all 26 companies is 79%. In 2022, the number of companies that submitted Questionnaires about their compliance with the Code was 27 companies, and the average rate of compliance with the Code was 76%. As this Report refers to the second year in which listed companies were required to implement the Code, a slight increase in average compliance with the Code is expected, as companies had the opportunity to implement or improve some of their corporate practices in operations which are covered by the provisions of the Code.

Exhibit 5: Comparative overview of compliance with the Code in 2022 and 2023



Moreover, in the total number of responses to the provisions in all sections of the Code, the share of responses for full compliance is 73%, for partial compliance is 12%, and for non-compliance is 15%.

## Exhibit 6: Compliance with the Code according to the type of response



This part of the Report includes data and comments on the overall compliance levels of companies in two different forms : (i) according to their level of compliance, whereby companies are grouped into categories based on their compliance rates and (ii) average compliance by all companies for each of the seven sections of the Code .

### Compliance by bands

The table shown in Exhibit 7 shows the percentage of compliance of the companies, which are grouped into bands to indicate the differences in the level of compliance by individual companies. This is particularly useful considering that the sample contains a relatively small number of companies:

Exhibit 7: Percentage of compliance of the companies by bands (2022/2023)

Year	Compliance percentage (%)	0-20	21-40	41-60	61-80	81-100
2022	Percentage of companies (%)	0	0	15	41	44
2023	Percentage of companies (%)	0	0	8	46	46

It is encouraging that Exhibit 7 indicates an overall improvement in the percentage of compliance with the Code in 2023 compared to the previous year. The most evident is the change in the third band, which indicates that the previous year 15% of companies were in the category of compliance with 41-60% of the provisions, while in 2023 the percentage of those companies decreased to 8%, while at the same time the percentage of companies that are compliant with a greater compliance rate is increased. There is an improvement in the percentage of companies that comply with 61-80%, as well as with 81-100% with the provisions of the Code, that is, 46% of

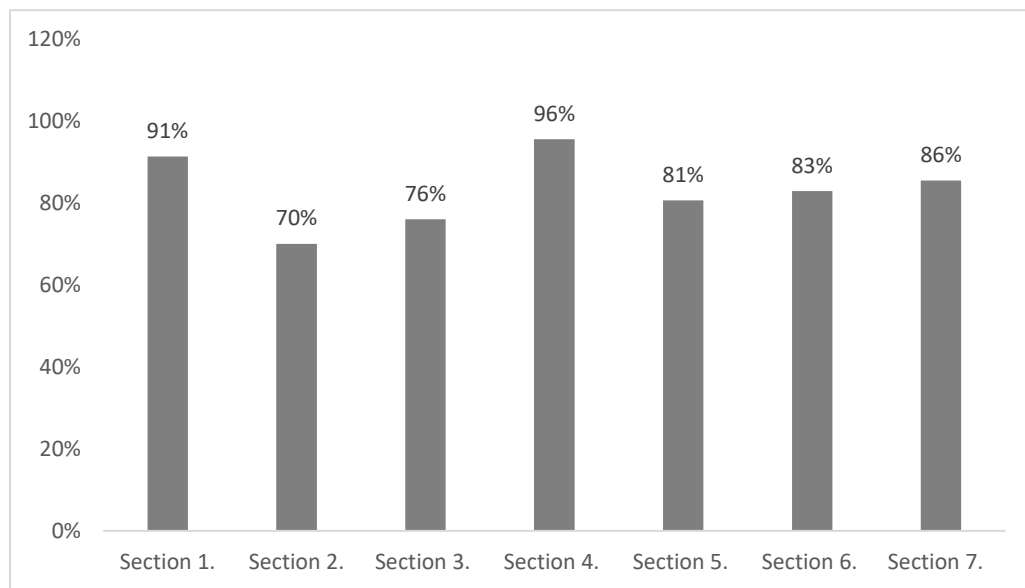
the companies belong to these categories of compliance.

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 the application of the Code, which results from the fact that banks, according to the Law on Banks, have a series of additional normative requirements that arise from the corporate governance rules prescribed by the Council of the National Bank, and in accordance with international standards.

### Compliance by Code sections

Exhibit 8 shows the average percentage of compliance with each section of the Code. As can be seen, there are significant differences in compliance with each section of the Code, ranging from 96% for Section 4 (Conflict of Interest) to 70% for Section 2 (Supervisory Board). This year as well as the previous year, Section 4 (Conflict of Interest) remains the section with the highest compliance, while Section 2 (Supervisory Board) is the section with the lowest compliance. However, it is noteworthy that compliance with these two sections of the Code has improved by 2% compared to compliance with these sections in 2022, when for Section 4 it was 94% and for Section 2 it was 68%.

Exhibit 8: Average percentage of compliance with the Code by Section

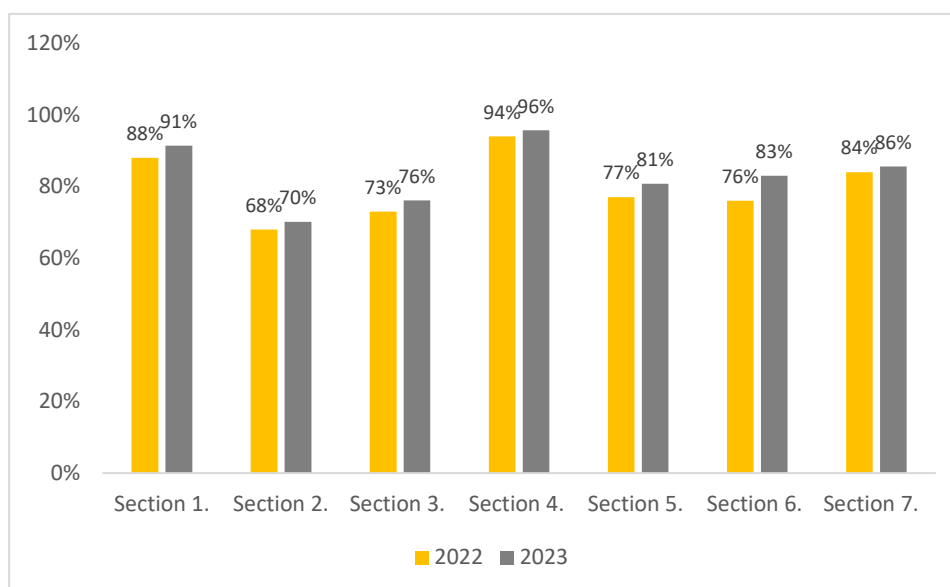


Section 1: Shareholder Rights and Shareholder Relations (15 questions)  
Section 2: Supervisory Board (34 questions)  
Section 3: Management Board (11 questions)  
Section 4: Conflict of interest (4 questions)

Section 5: Risk and control (14 questions)  
Section 6: Stakeholders, sustainability and issues of societal interest (7 questions)  
Section 7: Transparency and disclosure (4 questions)

Exhibit 9 shows the comparative average compliance percentages by sections for 2022 and 2023.

## Exhibit 9: Comparative overview of average compliance percentages by sections for 2022 and 2023



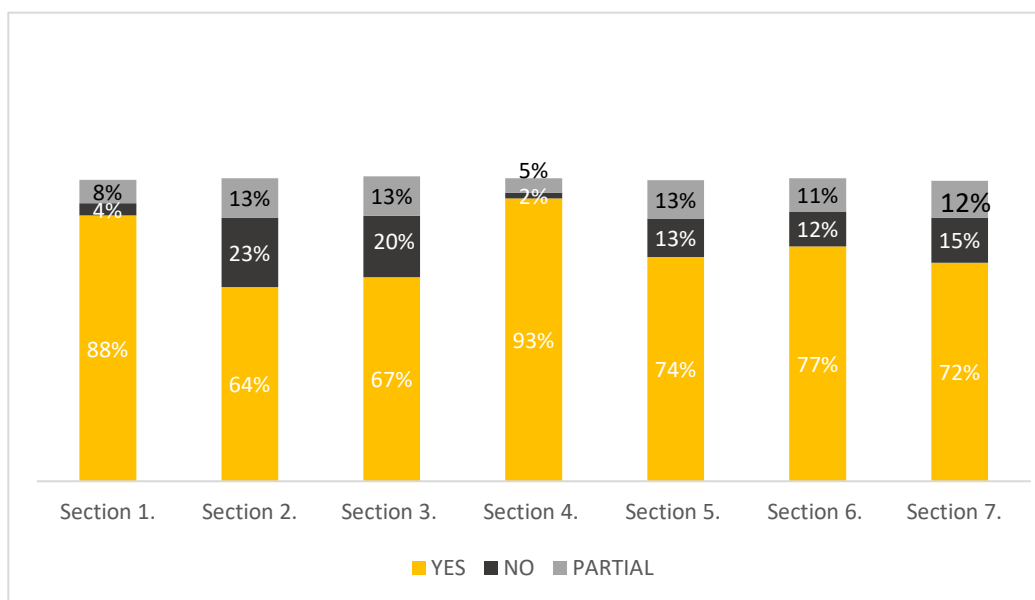
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 Section 7: Transparency and disclosure (4 questions)

The differences in the levels of compliance with the various sections of the Code, both this year and the previous year, can be partly explained by whether there are existing similar provisions in the current legislation or in the MSE Listing Rules. Where this is the case, for example in Section 1, which covers shareholder rights and relations, levels of compliance are generally higher than where there are relatively few existing requirements or standards (such as Sections 2 and 3 on work and the composition of the Supervisory and Management Board). Also, these differences may be the result of the number of questions in the Questionnaire for each part of the Code. Thus, 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 other sections of the Code.

Exhibit 10 further elaborates the data by separating the cases where the companies declared that they are fully, partial or not at all compliant with the provisions of the Code.

## Exhibit 10: Percentage of compliance of the seven sections of the Code by type of answer



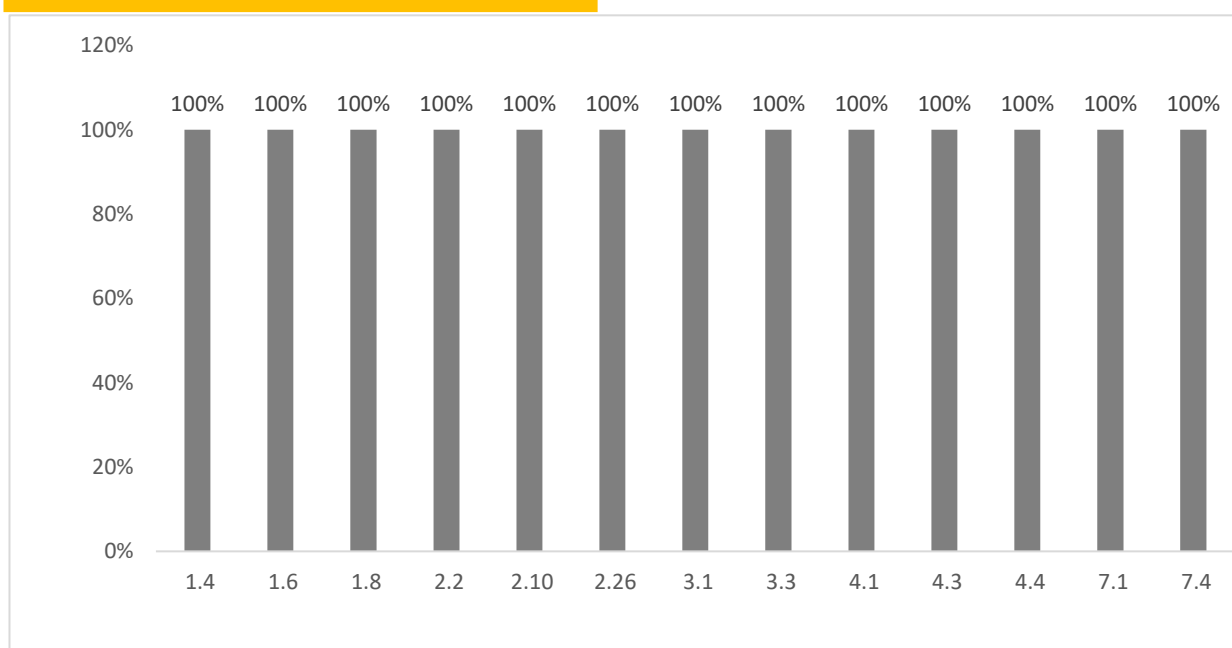
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 Section 4: Conflict of interest

Section 5: Risk and control  
 Section 6: Stakeholders, sustainability and issues of societal interest  
 Section 7: Transparency and disclosure

### Compliance by Code provisions

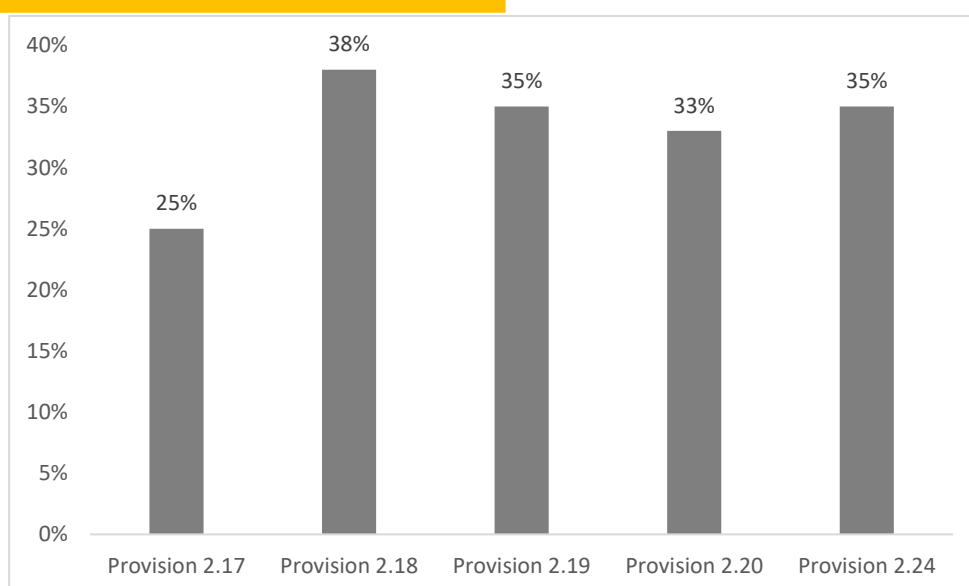
The differences in levels of compliance with sections of the Code are also reflected in levels of compliance with individual provisions, as illustrated in Exhibits 11 and 12 which show the provisions with the highest and lowest rates of compliance. There are thirteen provisions that have a 100% compliance rate, while the previous year the number of these provisions was eight. The number of provisions with the lowest rate of compliance in 2023, as in the previous year, is five, but in 2023 there is an improvement in the percentage of compliance, so the five lowest rates of compliance range from 25% to 38%. All five of the lowest compliance rates and eight of the 10 lowest are in Section 2 of the Code.

## Exhibit 11: Provisions with the highest percentage of compliance



- 1.4 - Details of the Shareholders' Meeting published on the company's website
- 1.6 - The assembly of shareholders is held at a time and place convenient for the shareholders
- 1.8 - The company provides the opportunity to vote by proxy, and the procedure and form for the same is published on the company's website
- 2.2 - The internal acts specify which decisions require the approval of the Supervisory Board
- 2.10 - The Supervisory Board is composed of a sufficient number of members for the effective performance of tasks
- 2.26 - The materials for the meeting of the supervisory board or committees are delivered in a timely manner
- 3.1 - The internal acts specify the responsibilities of the Management Board
- 3.3 - The selection and appointment committee, or the supervisory board determines the knowledge, experience and skills and personal qualities of the management board
- 4.1 - Criteria for members of the Supervisory and Management Boards regarding conflict of interest
- 4.3 - Procedures for transactions with interested parties
- 4.4 - In the event of a potential conflict of interest, the member of the supervisory board does not participate in the meeting
- 7.1 - Information that must be published on SEI-NET and/or in the annual report
- 7.4 - The Management Board to confirm all published information

## Exhibit 12: Provisions with the lowest percentage of compliance





- 2.17 - Publication of the succession plan of the supervisory board
- 2.18 - Formation of an audit committee
- 2.19 - Formation of a nomination and selection committee and a compensation and rewards committee
- 2.20 - Publication of the rules for the work of the committees of the supervisory board
- 2.24 - Publication of information on the membership and meetings of the committees of the supervisory board

From the individual analysis of the answers for compliance of the companies with the Code, 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**

The detailed reporting on corporate governance by the listed companies 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 may be improved in the future. Namely, according to the answers, 16 out of 26 companies have published on their websites the information that the Code stipulates should be published in that way, and 7 companies have published annual reports that contain information that the Code stipulates should be included part of the annual reports. The MSE 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 under the Code. Companies' transparency through their websites and annual reports will certainly be subject to analysis in future compliance reports as well.

We can conclude that this year a certain improvement in the adequacy of answering the questions was observed, which resulted in a decrease or increase in the percentage of compliance with the Code. Thus, there are companies where there is a difference in the answers from 2023 and 2022, i.e. there is less compliance with the Code in 2023. However, this is due to the fact that those companies, unlike before, answered some questions more precisely and objectively, and this was reflected in the final percentage of compliance. Also, there are companies that this year correctly used the opportunity to answer "not applicable" to a certain provision, where it is allowed, unlike the previous year where they answered "no" to those questions, and thus this year they achieved higher percentage of compliance compared to the previous year.

However, there are also companies that continue to answer the questions from the Questionnaires inappropriately, so that, for example, they answer with "partial" where the answer should be "no". Even more specific are the situations where some companies answered "not applicable" to questions for which this type of answer is not predicted as possible in the template of the Questionnaire published on the website of the MSE. From the analysis of such answers, it can be concluded that the appropriate answer to such questions would be a "no" answer, which it could be assumed that the companies avoided in order not to give an adequate explanation as to why they are not in compliance with the specific provision. For the purposes of analysis and preparation of this Report, such answers were taken as negative and according to the evaluation methodology, no points were assigned to them.

Situations in which answers are given that are contradictory to each other for questions that are interrelated and dependent are also inappropriate answers to questions. Such is the example of companies that responded that they have not established nomination and remuneration

committees (although according to the number of independent members of the supervisory board, the company should form such a committee (provision 2.19), and which responded positively to the provision that the nomination and selection committee reviews the size, composition and functioning of the management board at least once a year.

Hence, we can conclude that there are still companies that were not quite sure what the appropriate answer is for a specific question. Furthermore, if appropriate explanation is given to the questions answered with "no", such contradictory or unclear situations might be overcome. Having this in mind, the MSE will again take actions to ensure greater clarity and comprehensibility of some issues before the next reporting by the companies on compliance with the Code in the coming year and to prevent the occurrence of the situations of inappropriate response that we mentioned.

Of course, in future reports on compliance, more attention will be paid to the quality of the companies' answers and the analyzes to include that aspect as well, unlike previous year's and this year's analyzes which are based on the assessment that the companies themselves state about their compliance with the specific provisions from the Code. The general impression is that the quality of reporting in the second year has improved compared to the first year of reporting, i.e. there are very good answers that provide detailed and useful information about the companies as well as appropriate explanations as to why the company did not apply a specific provision. However, despite such improvements, there are still answers that contain only minimal information or contain inadequate explanations for the non-application of some provisions. Hence, there is room for improving the quality of information in the future, which is particularly important for good corporate governance.

### Explanations

The MSE's assessment of the quality of the explanations is based on the three criteria specified in the Code, which stipulate that the company should:

- to clarify why he does not apply the provision of the Code and to what extent he does not apply it, indicating the specific reasons and circumstances for that;
- describe the actions it has taken instead of applying the provision of the Code to achieve the objective set out in the relevant principle of the Code; and
- if the company intends to apply the provision of the Code in the future, state when it expects to start applying that provision.

Most of the explanations given by the companies do not meet all three criteria. For example, although many companies responded that they intend to apply a specific provision of the Code in the future, only a few of them stated when they expect to start applying it. Some of the companies that answered the previous year that they would apply a provision in the future and gave the same answer this year, again without specifying when exactly they plan to do it. 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. It can be noted that the largest number of explanations for application in the future are found in the provisions of Section 2, which refer to the board committees, and that here only a few companies have explained precisely when the application of the provision is expected, what actions are taken instead of the application of the provision and what are the reasons and to what extent is the non-compliance. And in this domain, the MSE, until the next reporting period, will undertake activities in order to improve the quality of the explanations, and when preparing future reports, the MSE will continue to monitor and evaluate compliance with the provisions for which it was previously answered that will apply in the future.

The companies that gave appropriate explanations of the provisions to which they replied that

they did not apply them in the reporting period, that is, indicated which other activities are applied instead of those specifically stated in the provision, are worth highlighting. For example, one company reported that it did not comply with Provision 2.16 which refers to whether the company takes measures to ensure that there will be at least 30% female members of the board of directors by 2025 and whether the Annual Report includes a summary of the actions taken to fulfilling this goal. In doing so, the company provides an explanation that in its annual report there is no summary of the activities related to ensuring a 30% presence of women in the management body, but it provides exact percentage of the women in management board and provides an additional explanation of the principles it applies to promote equal opportunities and diversity based on gender, age, culture, religion and other personality characteristics.

And this year, like the previous one, there are companies that did not give a clear reason why they do not apply a certain provision. Failure to provide an adequate and detailed explanation may lead investors and other stakeholders to conclude that the company simply ignored that part of the Code or that the company does not want to disclose the reasons for not applying the provision. To avoid such conclusions, companies should have a different approach when answering the question of the specific provision, an approach that is more appropriate, clear and precise and that corresponds to the circumstances of the company.

Although there were fewer companies this year that 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, again without taking into account that the Code imposes higher standards than the law. 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 impose on companies higher standards than the legal ones.

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

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This chapter of the Report provides a more detailed overview of compliance and existing governance practices of listed companies, categorized according to each section of the 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

The data in this section is based on the CEQ Questionnaire and the GIQ Questionnaire, which are an integral part of the Code, and which were filled out by the companies. The GIQ Questionnaire contains information on some of the company's governance practices, for example, the composition of the board(s) and how often they meet, as well as the remuneration and appointment of board members.

## Section 1: Shareholders rights and relations

Percentage of  
compliance  
**91%**

Section 1 of the Code aims to ensure the protection of the rights of shareholders, regardless of the number of their shares. Therefore, the provisions of this Section address shareholder rights, the Shareholders' General Meeting and related issues.

The average percentage of compliance with Section 1: Shareholders rights and relations is 91%, which in relation to the previous year represents an increase of 3%. Moreover, in the total number of responses to the provisions in Section 1, the share of responses for full compliance is 88%, for partial compliance is 8%, and for non-compliance is 4%. Compared to the previous year, it has been noted that in this section the number of responses for full compliance has increased, and the number of responses for partial compliance and non-compliance has decreased.

Within these figures, there are certain variations in the answers of the companies. For example, all companies that completed the CEQ Questionnaire stated that they fully apply Provision 1.4, which requires the company to publish information about the shareholders' meeting and materials on its website, Provision 1.6, according to which the company holds a shareholders' meeting at a time and in a place that is convenient for its shareholders to be able to participate in the meeting and provision 1.8 which requires companies to allow voting by proxy, to arrange and publish the procedure and not to set conditions in relation to the same, except those prescribed by law.

In addition to the mentioned provisions that are in 100% compliance, it is worth highlighting Provisions 1.3, 1.9, 1.10, 1.11, 1.12, 1.13 and 1.15 where there is no answer "no", which means that the companies are either fully or partially compliant with these provisions, with the average percentage of compliance with these provisions ranging from 88% to 98%. Among these provisions is also Provision 1.15, where the average rate of compliance is 92%, with 85% of the companies fully compliant, the rest of the companies partially compliant, and there is not a single company that responded that it was not compliant (this provision provides that contact data for the person responsible for providing timely and appropriate answers to questions or for providing information to shareholders and investors must be publicly available, i.e. published on the company's website). On the other hand, the average rate of compliance with Provision 1.14 is 62%, with 58% of companies fully compliant, and 31% of companies not compliant, while 11% of companies partially compliant. This provision stipulates that the company organizes events for investors during the year, in addition to the shareholders' meeting. However, even with this provision, as a provision with the lowest percentage of compliance in Section 1, compared to the previous year, an increase of 6% is noticed in the average percentage of compliance.

## Section 2: Supervisory Board

Percentage of  
compliance  
**70%**

Section 2 of the Code addresses the role of the supervisory board (or non-executive members in one-tiered system) and how it can effectively operate to support and oversee the work of

management.<sup>3</sup>

The average percentage of compliance with this Section of the Code is 70%, which, as previously mentioned, is the lowest percentage of compliance of all sections of the Code, although compared to the previous year, it marks a slight increase of 2%. Moreover, in the total number of responses to the provisions in Section 2, the share of responses for full compliance is 64%, for partial compliance is 13%, and for non-compliance is 23%. Compared to the previous year, it was noted that the responses for full compliance increased, while the responses for partial compliance and non-compliance decreased. These low numbers can partly be explained by the fact that many of the practices recommended in this section, for example, board committees and regular evaluation or succession planning, have not previously been widely adopted by listed companies in the country, as well as the fact that until now for the majority of companies, they were not a legal obligation, but compared to the previous year, some of the companies have changed in the direction of starting to take actions for the purposes of compliance with it.

The rest of this part of the Report contains data on the work and composition of the supervisory board (or the board of directors in a one-tier structure), as well as more detailed information on compliance.

### **Number of board meetings**

Provision 2.5 requires companies to state how many meetings the supervisory board or board of directors held in the reporting year. All except two of the 26 companies provided this information. Data from the GIQ Questionnaire show that the overall average number of meetings for both one-tier and two-tier companies is 10.4 meetings per year, with two-tier boards having a slightly higher average number of meetings than one-tier boards at 10.7 against 10 held meetings. As Exhibit 13 shows, most boards met between 6 and 15 times, but there were two standout companies that had over 20 meetings a year.

Exhibit 13: Number of the board meetings in the year 2023

Number of meetings	1-5	6-10	11-15	16 - 20	20+	No data
Number of companies	3	9	10	0	2	2

### **Board composition**

Provision 2.10 of the Code stipulates that the supervisory board (or board of directors) will be composed of an adequate number of members to ensure that both the board and its committees will have sufficient resources for the effective performance of assigned tasks.

For this Provision it is necessary to present the data for one-tier and two-tier board structures separately, since the boards of directors consist of both executive and non-executive members, while all members of the supervisory boards are non-executive members, while the comparative data will be given for the non-executive members in the boards of directors versus members of the supervisory board.

<sup>3</sup> Pursuant to the Code, all references to a supervisory and/or management board should be interpreted to mean the board of directors, with the exception of certain provisions included in Annex B of the Code.

According to the data provided by the companies in the CIQ Questionnaire, the average size of the non-executive functions in the boards of directors is 5.5 members, while the average size of the supervisory boards is 5 members. Exhibit 14 shows the range of board sizes. As can be seen from the chart below, the average size of non-executive positions on boards of directors is affected by one outlier who has a total of 13 non-executive members.

Exhibit 14: The total size of non executive functions in one-tier and two-tier boards

Type of management structure	1-3 members	4-6 members	7-9 members	10+ members
One-tier management system ( non-executive members)	0	10	0	1
Two-tier management system (members of the supervisory board)	3	8	4	0

All boards of directors have a majority of non-executive members, with the number of non-executives ranging from 4 to 13 (4 to 6, excluding the outlier). Information on executive members of boards of directors in companies with a one-tier system and members of the management board in companies with a two-tier management system can be found in the next section of this Report that discusses compliance with Part 3 of the Code.

The Law on Trade companies requires that at least one quarter of the members of the supervisory board (or non-executive members of the board of directors) be independent when there are four or more members of the supervisory board or non-executive members. The Code recommends that all companies have at least one third of independent non-executive members, but this is not contained in a provision but in a recommendation, which is why companies should not report in this regard according to the principle "comply or explain".

Information provided in the GIQ Questionnaire showed that the average percentage of independent members of boards of directors and supervisory boards, as classified by the companies themselves, was identical for both board structures (Exhibit 15). Most of the companies have one or two independent board members, one company has three independent board members, and one company has four independent board members. The fact that in 16 out of 26 companies at least one third of their non-executive members or supervisory board members are classified as independent members is encouraging.

Exhibit 15: The average independence of board members

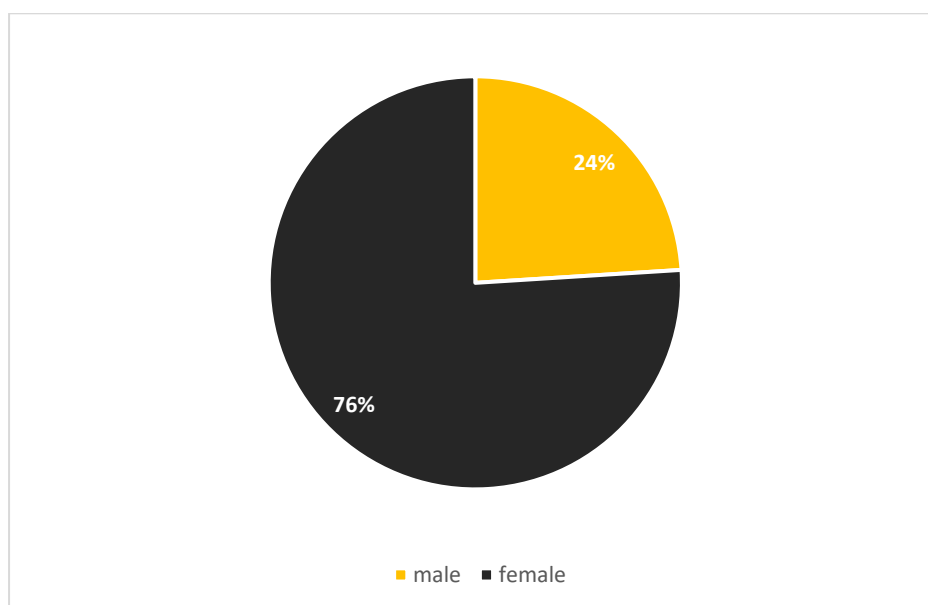
Type of management structure	Average number of independent members	Average percentage of independent members
Board of Directors	1.7	31.7%
Supervisory Board	1.7	34.7%

## Board diversity

Regarding the representation of women on boards, Provision 2.13 of the Code states that companies will take measures to ensure that they have at least 30% female members of the Supervisory and Management boards (or the Boards of directors in a one-tier system) by 2025.

Exhibit 16 shows the representation of female members in the total number of members of the management and supervisory boards and boards of directors of listed companies in 2023.

Exhibit 16: The number of females on one-tier and two-tier board companies



This proportion between men and women, i.e, 24% women and 76% men, is also observed in relation to the executive functions in the boards, so that 24% of the executive members of the boards of directors and of the members of the management boards are women, too.

Exhibits 17 and 18 below show the current levels of representation of female members as members in two-tier and one-tier board structures. For one-tier boards, the figures are split between non-executive and executive board members for a more appropriate comparison.

Exhibit 17: The number of females on two-tier board companies

Two-tier management system	0 women	1 woman	2 women	3 women
Supervisory Board	2	8	3	2
Management Board	3	8	4	0

Exhibit 18: The number of females on the one-tier board companies

One-tier management system	0 women	1 woman	2 women	3+ women
Non-executive members	4	4	2	1
Executive members	8	3	0	0

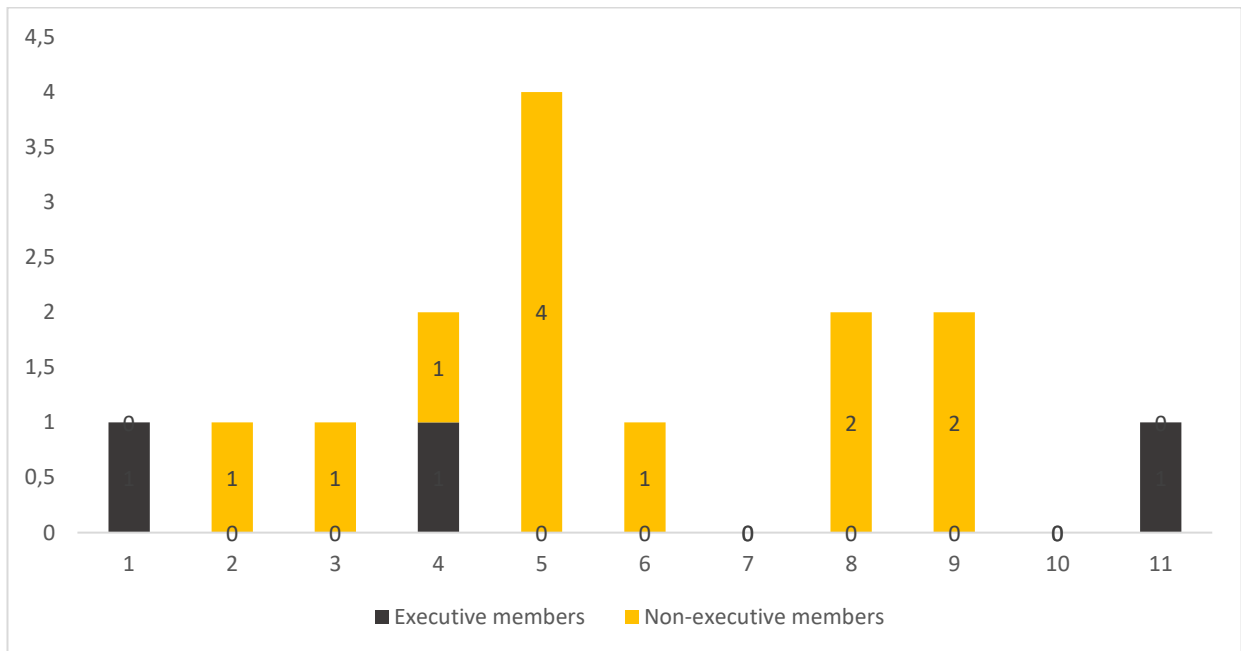
Exhibits 19 and 20 below show the number of women as board members for each of the 26 companies (which have been anonymized). As the data shows, two companies with a one-tier management system do not have women as members of their boards. A total of eight companies do not have women as executive members of the boards of directors from companies with a one-tier management system. Among companies with a two-tier management system, there are three companies where there are no women in the management boards. Most of these one-tier companies typically have fewer executive board members than two-tier companies.

Exhibit 19: Total number of female directors on the Supervisory and Management board of companies with two-tier boards



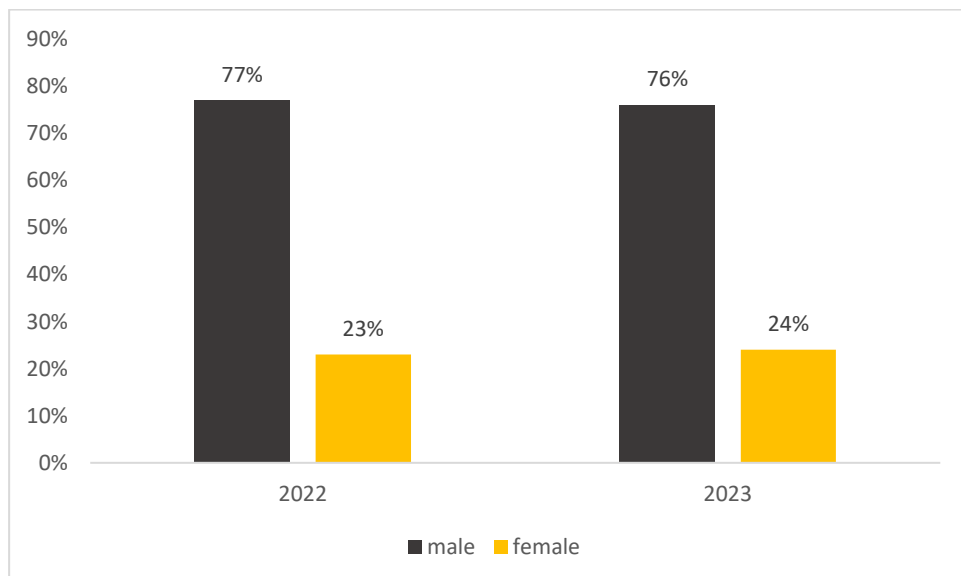


Exhibit 20: Total number of executive and non-executive female directors of companies with one-tier boards



Regarding the representation of women on boards in 2023 of 24%, it is observed that there is a minimal increase of 1% compared to the previous year, which can be seen in Exhibit 21.

Exhibit 21: Comparative overview of female representation in companies boards in 2022 and 2023



## Succession plan

Provision 2.17 of the Code stipulates that the Selection and Appointment committee or the Supervisory Board prepares a board succession plan, which will be included in the annual report. However, the total number of companies that fully complied with this provision was only 6 companies, and only 1 company responded that it was partially compliant. On the other hand, 19 companies did not comply with this provision and therefore this provision has the lowest compliance rate of this part of the Code of only 25%, which, however, compared to the previous year, shows an increase of 6%, i.e. compared to the previous year, the number of companies that fully complied increased, and the number of companies that partially complied or did not comply decreased.

## Board Committees

Provision 2.18 stipulates that the Supervisory board establishes an Audit committee that is responsible for the oversight of the company's risk management, internal control, financial reporting and the work of the external auditor. Despite the importance of the role of this committee, 14 out of 26 companies have not yet established such a committee, and only 8 companies have, while the remaining 4 companies have reported that they are partially compliant.

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 compensation and rewards committee which shall supervise the remuneration of the members of the management board. The functions of these two committees can be combined. The possibility is also foreseen, if more than half of the members of the supervisory board are independent, that the supervisory board can perform these functions independently. 8 out of 26 companies have fully complied with this provision by establishing a selection and appointment committee and a compensation and rewards committee, or a committee that combines both functions as recommended in Provision 2.19, 16 companies have not yet established such a committee and 2 companies are partially aligned.

And this year, Provisions 2.18 and 2.19 remain the provisions with the lowest percentage of compliance, as in the previous year, with 38% and 35% compliance rates.

## Assessment (evaluation) of the board

Finally, Provision 2.25 of the Code stipulates that once a year the supervisory board, the selection and appointment committee or an external consultant specialized in corporate governance evaluate the supervisory board.

According to the information provided by the companies, the total average percentage of companies that have evaluated the board is 48%, which compared to the previous year represents an increase of 5%. And this year, like the previous one, the provision for evaluation was applied more by companies with a two-tier management system than by companies with a one-tier management system, whereby 53% or 8 of the companies with a two-tier management system performed an evaluation of their supervisory boards, against only 36% or 4 of the companies with a one-tier management system that did the same. From the information published by the companies, it is not possible to determine how many of these evaluations were made by external consultants, because although there are companies that have explicitly stated whether or not they hired an external consultant, there are also companies that have not made a decision regarding this.

## Section 3: Management Board

Percentage of  
compliance

**76%**

Section 3 of the Code refers to the Management Board <sup>4</sup>, 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 one-tier management system (with a board of directors) <sup>5</sup>(for example, Clause 3.4 relating to the size and composition of the board of directors). In any event, most of Section 3 applies equally to executive members of the board of directors.

On average, the compliance rate for this section is 76%, which compared to the previous year represents an increase of 3%. Moreover, in the total number of responses to the provisions in Section 3, the share of responses for full compliance is 67%, for partial compliance is 13%, and for non-compliance is 20%. Compared to the previous year, it has been noted that in this section the number of responses for full compliance and non-compliance has increased, while the number of responses for partial compliance has decreased.

Provision 3.2 of the Code stipulates that the board of directors promotes a corporate culture that encourages ethical behavior, respect for regulations by all employees, and requires companies to have a code of ethics that is published on their websites. The application of this provision in 2023 shows an improvement compared to 2022 in all three answer options, i.e. the number of companies that responded positively to it increased from 17 to 20, and the number of companies that are partially compliant or that do not apply it the provision decreased in both categories of answers from 5 to 3 companies.

Provision 3.4 states that the selection and appointment committee or supervisory board should review the size, composition and functioning of the board of directors during the reporting year. This year, 80% of companies with a two-tier management system reported that they are in compliance with this provision. Provision 3.5 of the Code establishes that the selection and appointment committee shall ensure that the members of the management board can devote sufficient time to their duties. If the members of the management boards have positions in boards/bodies of other companies, information about such positions must be published in the annual report. Such information is contained in the annual reports of 87% of the companies with a two-tier management system, 13% of the companies partially report on the same, and no company is non-compliant with this provision.

Regarding the remuneration of the management board, the Code indicates that it is necessary for the company to publish in the annual report complete and accurate data on the remuneration of each individual member of the management board in the previous year. Compliance with Provision 3.11 is 52%, with some companies choosing to publish only the combined figures for the awards of all board members or executive members.

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<sup>4</sup>In accordance with Annex B of the Code, in the case of companies with a one-tier management system, references to the board of directors should be interpreted as references to the executive members of the company's board of directors.

<sup>5</sup>According to Annex B of the Code, provisions from 3.3 to 3.6 do not apply to companies with a one-tier management system.

## Size of the Management Board

Based on the information published by the companies regarding the size of the management board and the number of executive members in a one-tier management system, the following was determined:

Exhibit 22: The number of executives in a one-tier board and size of management board on a two-tier board

Management system / member type	1-2 members	3-4 members	5-6 members	7-8 members
One-tier management system (Executive board members)	10	1	0	0
Two-tier management system (Management board members)	0	8	6	1

There is an obvious difference between the average size of the Management Board of a company with a two-tier management system (4.3 members) and the average number of executive members in the board of directors of a company with a one-tier management system (1.3 members). None of the companies with a one-tier management system have more than 3 members, while there are 10 companies with a two-tier management system that have more than 4 members in the Management Board.

## Section 4: Conflicts of interest

Percentage of compliance  
**96%**

This Section of the Code stipulates that it is important for companies to have stable and transparent processes for removing or managing 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, according to the responses received from listed companies, this section has a high compliance rate, with an average compliance rate of 96%, which compared to the previous year represents an increase of 2%. Moreover, in the total number of responses to the provisions in Section 4, the share of responses for full compliance is 93%, for partial compliance is 5%, and for non-compliance is 2%. Compared to the previous year, it was noted that in this section the answers for full compliance increased, and the answers for non-compliance decreased, while the answers for partial compliance remained the same.

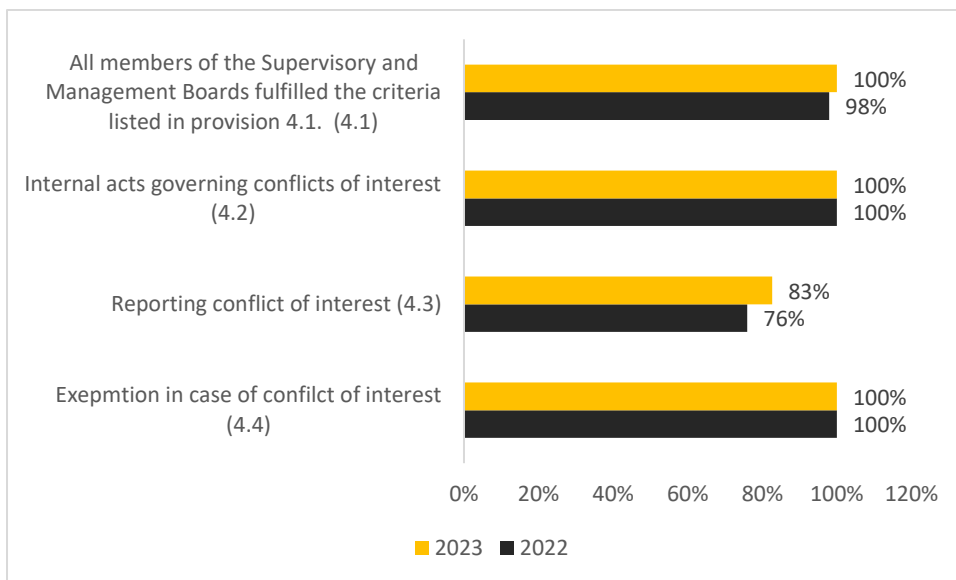
In the CEQ Questionnaire, 100% of the companies stated that their supervisory and management board members meet the criteria specified in Provision 4.1. In addition, 100% of the companies stated that they fully comply with provision 4.3 of the Code, that is, that the presidents of the supervisory board and the management board were informed by the board members about any

conflict of interest that directly affects the interests of the company. Also, 100% of the companies stated that they are in compliance with provision 4.4 which requires the member of the supervisory board to be exempted from discussion and/or decision-making at a meeting of the supervisory board in the event of a potential conflict of interest.

In contrast, 19 of the companies reported that they fully complied with provision 4.2 which lists the various issues related to the conflict of interest that must be covered in the company's internal acts, 2 companies reported that they did not comply, and 5 companies that they did. partially aligned.

Exhibit 23 shows a comparative overview of compliance with the provisions of Section 4, prepared on the basis of the answers given by listed companies in the questionnaires for 2022 and 2023.

**Exhibit 23: Comparative overview of compliance with the provisions of Section 4 in 2022 and 2023**



**Section 5: Risk and Control**

**Percentage of compliance 81%**

The purpose of this section of the Code is to ensure that companies are able to achieve their strategic goals, take advantage of growth opportunities and ensure their long-term existence by identifying and managing the risks they face.

In this section, the average percentage of compliance is 81%, which compared to the previous year represents an increase of 3%. Moreover, in the total number of responses to the provisions in Section 5, the share of responses for full compliance is 74%, for partial compliance is 13%, and for non-compliance is also 13%. Compared to the previous year, it was noted that in this section the responses for full compliance increased, while the responses for non-compliance and partial

compliance decreased.

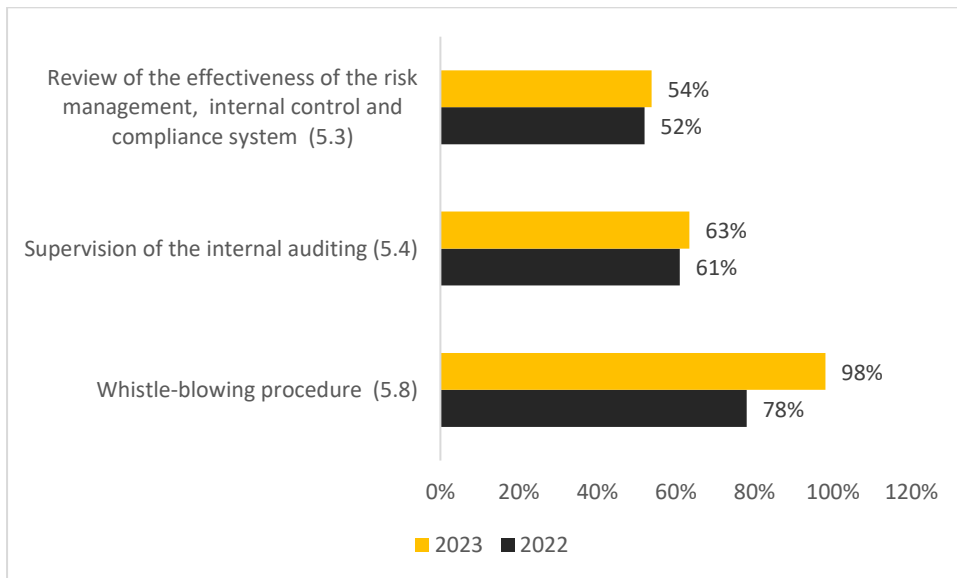
In this section, it is important to note that the percentage of compliance with the various provisions varies, that is, it ranges from 46% to 98%, which is largely the result of the connection of the questions with the questions from Section 2 that refer to the board's committees, or more specifically the audit committee. For example, provision 5.3 stipulates that at least once a year, the audit committee reviews the effectiveness of the system for risk management, internal control and compliance as a whole and makes recommendations to the supervisory and management board, if necessary. Only 46% of the companies stated that they fully comply with this provision. Moreover, this percentage is due to the fact that only 8 out of 26 companies have established an audit committee.

Nor compliance with provision 5.4, which stipulates that the supervisory board must approve the annual work plan of the internal audit service, appoint the head of the internal audit service and the audit committee to supervise the internal audit service and the implementation of its recommendations, is not much higher. This provision has a compliance rate of 63%.

Provision 5.8 stipulates that the company should have a regulated procedure for a protected report made by a whistleblower for crimes committed, as well as for suspected violations of the law, the internal acts or the code of ethics of the company. The average rate of compliance with this provision is 83%, with 73% of companies that are fully compliant, 19% that are partially compliant and 8% of companies that failed to comply with it.

Exhibit 24 provides a comparative overview of compliance with the provisions indicated in this Section of the Code, for 2022 and 2023.

Exhibit 24: Comparative overview of compliance with the provisions of Section 5 in 2022 and 2023



This section of the Code addresses how the company's activities have an impact on all stakeholders, including employees, customers, suppliers, government authorities and the wider community.

The average percentage of compliance for this part of the Code is 83%, and compared to the previous year, it shows an increase of 7%. Moreover, in the total number of responses to the provisions in Section 6, the share of responses for full compliance is 77%, for partial compliance is 11%, and for non-compliance is 12%. Compared to the previous year, it is noted that the percentage of companies that are fully compliant has increased, and the percentage of companies that are partially or not compliant has decreased.

Provision 6.1 in the Code contains several recommendations on stakeholder engagement, including that the board must ensure that it has effective mechanisms to identify the company's main stakeholders and ensure that there is regular engagement. The provision also stipulates that a summary of the achieved communication with the concerned persons should be published in the annual report. At the same time, 20 companies declared that they are fully compliant with this provision, 5 that they are partially compliant and only one company is not compliant at all.

Provision 6.3 states that the company should have internal acts, policies and procedures that relate to its responsibility for the environment and social issues, as well as policies and procedures that will enable the company to identify material factors and their impact on its activities. The provision further stipulates that they should be reviewed at least once a year by the supervisory and management board and published on the company's website. This provision has a 73% compliance rate. Moreover, 15 of the companies are fully compliant, 8 are partially compliant, while 3 of the companies are not compliant with the provision.

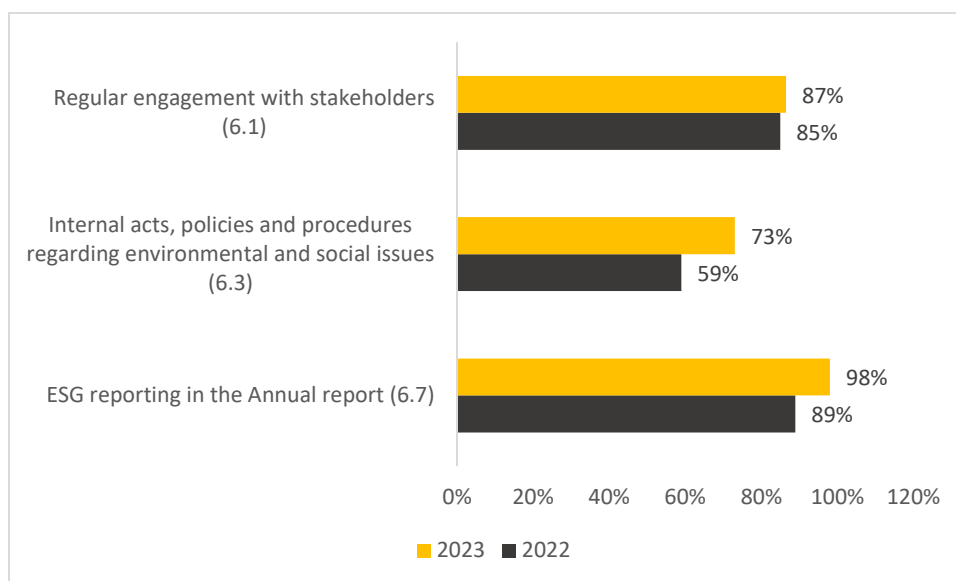
Finally, provision 6.7 states that the company should report in the annual report on environmental and social issues. The total compliance rate is 98%, that is, 25 of the companies responded that they are fully compliant with this provision, and only one company that it is partially compliant.

We emphasize that 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 the companies should disclose, and considering their importance for investors and other stakeholders, the MSE has provided guidelines for ESG reporting in [the ESG Reporting Guide](#). This Guide which aims to help listed companies with a variety of environmental, social, and governance aspects. The ESG Reporting Guide, in addition to providing general guidance to listed companies on the issue in question, is also designed as a specific tool for listed companies that will help them achieve full compliance with this Section of the Code.

Exhibit 25 provides a comparative overview of compliance on key ESG issues enforced by the Code, based on the responses given by listed companies in the 2022 and 2023 questionnaires.

## Exhibit 25: Comparative overview of compliance with the key ESC provisions in 2022 and 2023



### Section 7: Transparency and Disclosure

Percentage of compliance  
**86%**

Section 7 of the Code contains the principles, provisions and recommendations that the company should publicly disclose accurate and timely information about its operations. This ensure that shareholders and potential investors should be given access to regular and reliable information in order to evaluate the company's performance.

In Section 7, the overall average compliance percentage is 86%, an increase of 2% comparing to the previous year. Moreover, in the total number of responses to the provisions in Section 7, the share of responses for full compliance is 72%, for partial compliance is 28%. There were no non-compliant companies in this section. Compared to the previous year, it is noted that the percentage of companies with full compliance with this provision increased by 3%, and the percentage of companies with partial compliance decreased by the same amount.

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

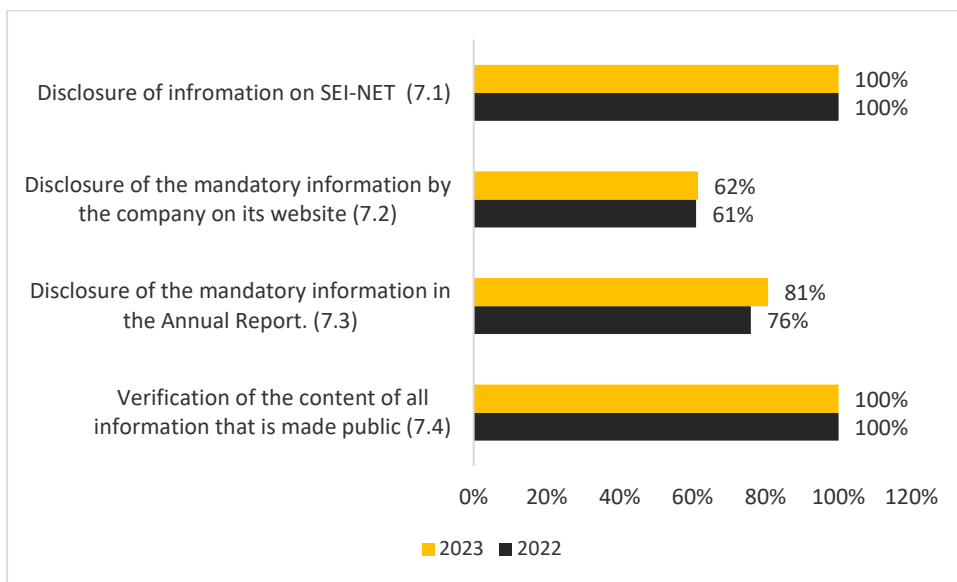
Namely, according to the answers, 16 out of 26 companies have published on their websites the information that the Code stipulates should be published in that way, and 7 companies have



published annual reports that contain information that the Code stipulates should be included part of the annual reports.

Exhibit 26 provides a comparative overview of compliance with the provisions of Section 7 of the Code, prepared based on the responses given by listed companies in the 2022 and 2023 questionnaires.

**Exhibit 26: Comparative overview of compliance with the provisions of Section 7 in 2022 and 2023**



## VI. CONCLUSIONS

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This Report is the second consecutive report which MSE prepared in order to follow the improvement of the corporate governance practices of listed companies that applied with the Code. Compared to the previous year, when the number of listed companies that met the requirements for reporting about the application of the Code was 28, this year that number decreased to 26 out of a total of 93 listed companies. To mark the trend in companies' compliance with the Code, this report provides a comparative analysis of compliance with the Code in the years 2022 and 2023.

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. While analyzing the responses, we used the assessment that the companies themselves state about their compliance with the specific provisions of the Code.

This Report provides a general picture of the prevailing corporate governance practices of the listed companies that are obliged to report on the application of the Code, while the information on the level of compliance with the Code in this Report refers collectively 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.

The comparative group data shows progress in compliance with the Code, in general. The average level of compliance of companies with the provisions of the Code is 79%. This is a good result for the second year after the introduction of this Code, which marks a slight increase compared to the previous year, when the average level of compliance was 76%. This result shows the readiness of most companies to meet the challenge of complying with the reporting obligation and for the implementation of best practices in its corporate governance. When considering this percentage of compliance, it is very important to emphasize once again that it is primarily a quantitative analysis of the answers received from the listed companies, that is, that the degree of compliance results from the evaluations and opinions of the companies themselves. In other words, without a doubt, there is still room for improvement in the future.

The report gives information on the level of compliance with the sections and various provisions of the Code, on the comparative base. If you look in more detail, this year same as the last year, a different level of compliance is evident between the different sections of the Code, which can be partially explained by whether there are similar provisions in the applicable legislation or in the MSE Listing Rules with the provisions provided for in the Code. Where there are such similar provisions, such as in Section 1 (91% compliance) and Section 4 (96% compliance), which cover matters regulated by law, levels of compliance are generally higher than in sections where there is relatively few existing requirements or standards in laws, such as in Section 2 (70% compliance) and Section 3 (76% compliance). But even in these parts this year, a slight increase in the percentage of compliance was observed, which indicates that there is a will among the companies to achieve better results in these areas in the future. Also, these differences may be the result of the number of questions in the Questionnaire for each part of the Code. For example, for Section 2 the Questionnaire contains 34 questions, while in 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 or 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. This year thirteen provisions have 100% compliance rates, three out of which are in Section 1, three are in Section 2, two are in Section 3, three are in Section 4 and two are in Section 7. On the other hand, the five lowest rates of compliance ranged from 25% to 38% and are all in Section 2 of the Code.

Although this Report refers to the second year in which listed companies were required to apply the Code, which in turn contains many recommended practices that are not covered by the current legislation, compliance rates for some provisions are still lower than it would be if the Code would exist and be applied for several years. On the other hand, it is also evident the impact that the announced changes in the legislation and the novelties in the corporate governance of the companies have on the start of activities of the companies to comply with certain provisions of the Code, which in turns gives positive signal that the level of compliance in the future will reach higher percentages and will show improvements in the corporate governance of listed companies.

Taking all this into account, we can conclude that this year's average compliance rate of 79% is quite solid, and the slight increase compared to the compliance rate of 2022, which was 76%, gives us the right to conclude that companies are making progress in its corporate governance.

What we expect in the future from the listed companies that report on the application of the Code, is to improve the quality of the corporate practices they have and/or will establish, guided by the principles imposed by the Code, and for them to report fully, accurately and objectively. We believe that listed companies will not refrain from full and consistent application of the Code and that further progress in terms of compliance with the Code will be noted in future monitoring reports.

The MSE continues with its commitment to promote principles and values that mean better corporate governance and remains open to cooperation with companies in order to improve the quality of their reports. We hope that the Code helps companies to upgrade their business systems and processes, to strengthen internal and external control mechanisms, to establish ESG goals and to incorporate ESG factors into their management systems, to improve transparency, and all that in interest of the shareholders, management, employees and community in which they operate. Good corporate governance is a condition for achieving long-term sustainability and success and companies are aware of that, which makes us especially pleased. We encourage them to walk on that path without hesitation.

## Annex 1 : List of listed companies that have the obligation to report about the application of the Corporate Governance Code of the Macedonian Stock Exchange AD Skopje for the year 2023

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Pursuant to Article 42-a of the Listing Rules, joint stock companies that have the obligation to report about the application of the Code in 2023 are the following:

- 1 Alkaloid AD Skopje
- 2 Granit AD Skopje
- 3 Komercijalna Banka AD Skopje
- 4 Makedonija Turist 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 Tikvesh AD Kavadarci
- 14 Vitaminka AD Prilep
- 15 ZK Pelagonia AD Bitola
- 16 Liberti AD Skopje
- 17 Makedonski Telekom AD Skopje
- 18 Makedonija osiguruvanje AD Skopje
- 19 Prilepska Pivarnica AD Prilep
- 20 Replek AD Skopje
- 21 Teteks AD Tetovo
- 22 Tutunski kombinat AD Prilep
- 23 Fersped AD Skopje
- 24 Hoteli Metropol AD Ohrid
- 25 Cementarnica USJE AD Skopje
- 26 Ading AD Skopje