



CANADIAN
BUSINESS
ASSOCIATION

The Annual Report on Business

2009 Corporate Governance and Disclosure
Practices on the Bucharest Stock Exchange

THE BSE NEW CORPORATE GOVERNANCE CODE

In 2008, the Bucharest Stock Exchange or BSE instituted a new BSE Corporate Governance Code, which is based on the OECD Principles of Corporate Governance, requiring that companies admitted to trading on the regulated market of the BSE wholly or partially adopt – on a voluntary basis – the new disclosure recommendations when making their annual disclosure to the BSE and investors. This newly adopted code replaces the 2001 BSE Corporate Governance Code, and comes into force starting with the 2009 fiscal year.

Known as the Corporate Governance Compliance Statement, publically traded companies must now specify which of the recommendations of the new BSE Corporate Governance Code they have actually implemented (and if not; why not) and how in their 2009 fiscal year (as presented in their 2009 Annual Reports disclosed in 2010).

The BSE takes the view that the Corporate Governance Code is supplementary to the legal obligations of publically traded companies under the laws of Romania (*e.g.*, Companies Act, the Accounting Act, the Capital Market Act, etc.).

ANALYSIS OF THE BSE PUBLICALLY LISTED COMPANIES

In a sweeping, two-month review of certain aspects of the new BSE Corporate Governance Code, the Canadian Business Association in conjunction with several corporate partners has examined the corporate governance and disclosure practices of all of the publically traded companies comprising the senior index of the BSE alongside a significant snapshot of the junior exchange (RASDAQ).

Our preliminary findings are that many of these companies fail to meet the soon to be implemented new standards in terms of independent directors and audit committee members, or even in terms of general transparency recommendations. Moreover, many companies do not even meet in any meaningful way existing 2001 BSE guidelines or later statements regarding boards of directors.

Notwithstanding the rapidly deteriorating economic outlook, especially towards the end of 2008 and throughout 2009, and the now historic disruptions to the global banking system and distressed financial markets, corporate boards in Romania have not embraced dramatic change in board composition and governance. This seems counterintuitive since economic studies show that good corporate governance positively impacts on corporate economic performance and higher interest both from investors and lenders.

Investors need a rigorous system of checks and balances. It all comes down to independence.

Poor corporate governance cuts across company size and industry sector, showing up wherever companies exhibit a cavalier approach to protecting shareholders and keeping them informed. This negatively impacts on stock performance; and ultimately the corporate bottom line.

SURVEY METHODOLOGY

To develop its survey, the Canadian Business Association drew from governance standards developed by the BSE, the OECD Principles of Corporate Governance, several EU and non-EU governance standards implemented by other exchanges such as Vienna and the Netherlands, and an array of institutional investors. With its partners, the Canadian Business Association rated the boards and governance practices of all of the companies listed on the BSE senior exchange and a significant snapshot of the junior exchange, as of September 1, 2009. A list of the companies whose information was reviewed is found at the end of these materials.

The analysis team reviewed relevant disclosure and transparency on the part of issuers in light of some eighty highly specific and discreet questions such as: whether employee stock options are excessively dilutive for shareholders; are director elections annual or staggered; is there off-balance sheet disclosure; what is the nature of critical accounting estimates or policies disclosure; is the nature of corporate disclosure transparent and freely accessible; are there corporate governance charters and position descriptions for directors and officers, thus allowing for clear and objective benchmarks for annual reviews; and is there a formal system to evaluate board and director performance.

The Canadian Business Association developed a ranking system in all areas of corporate governance and economic analysis, based on similar studies and economic compilations used for ranking and analysing the Dow Jones Industrial Average (U.S.), FTSE 250 Index (U.K.), the S&P/TSX Composite Index (Canada), SDAX (Germany) and FTSE MIB (Italy). Special interest was given to the BET-10 on the Bucharest Stock Exchange. This ranking system was numerical in nature, thus allowing the analysis team to rank BSE companies vis-à-vis their competitors in order to ascertain which companies are the best and worst in terms of corporate governance and shareholder / investor protections, as well as stock price. This report is a compilation of some of the primary issues and results based on our empirical analysis.

CONTRIBUTORS

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Mr. Pepa is the President of the Canadian Business Association. He is a partner with POP PEPA, a law firm on the Romanian market. He has extensive experience in emerging market M&A and capital markets. Specific practice areas are energy and telecommunications. He is a graduate of Harvard Law School and has worked in the United States and Canada, primarily in cross-border capital markets. Thus, he is very knowledgeable in the revamping of corporate governance protocols and public disclosure for publically listed companies. In the past, he has advised TSX listed, cross-listed NYSE and/or Nasdaq (under 40-F, 20-F or domestic registrant) public companies in accordance with disclosure requirements under Sarbanes-Oxley and associated SEC rules, as well as Canadian equivalents. In 2004, he came to Romania to join the Bucharest office of the then only magic circle law firm on the market.

Laurian Lungu

Mr. Lungu is managing partner of the economic think-tank Macroanalitica. He provides consulting economics services and does regular economic analyses on the Romanian economy. He holds postgraduate degrees from both Liverpool and Cardiff Business School Universities and has worked in the United Kingdom. His areas of expertise are in the fields of macroeconomic forecasting and policy modelling. Mr. Lungu is the author of several articles

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Mr. Voinescu is the Managing Director of the Romanian office of LeitnerLeitner, an Austrian based regional accounting and tax advisory firm. He is a tax advisor with more than 10 years of experience in taxation. His previous experience includes two of the Big Four firms in Bucharest and a French advisory company in Paris and in Bucharest. Mr. Voinescu holds a Masters in European Law obtained with Rennes University in France (1997), and is specialised in corporate and international taxation, mergers & acquisitions, privatisations, individual taxation and transfer pricing.

Claudiu Pop

Mr. Pop is a partner with POP PEPA, a law firm on the Romanian market, and is a board member of the Canadian Business Association. He is a graduate of Bucharest law school and studied EU Law with Paris I Pantheon Sorbonne. Mr. Pop has practiced according to Anglo-American standards with first-tier law firms in Bucharest. Prior to founding POP PEPA, he co-chaired the energy and corporate M&A practice of the Bucharest office of a US based Global top-10 law firm. In the course of his over 10 years of experience as a deal attorney, Mr. Pop has consistently advised publically listed companies in regards to a wide variety of matters from day-to-day corporate to regulatory, from complex capital markets to sophisticated financial transactions.

Daniel Petre

Mr. Petre is currently a Tax Manager in the Bucharest office of LeitnerLeitner, an Austrian based regional accounting and tax advisory firm. Prior work experience includes working for one of the Big Four Firms in Bucharest. Before that he worked for two years as an accountant for one of the major accounting firms in Bucharest.



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WHY CORPORATE GOVERNANCE?

Good governance plays an important role in protecting shareholder rights; as it helps to maximize shareholder value over time by assisting in the creation of dynamic, vibrant and successful corporations. The challenge at the core of good governance is to align the interests of shareholders, boards and managers and clarify accountability, issues that are the subject of this report.

The objective of good governance is to promote healthy, competitive corporations. Boards of directors are stewards of shareholders' assets. Good governance also protects minority shareholders and contributes to well functioning, healthy and transparent capital markets.

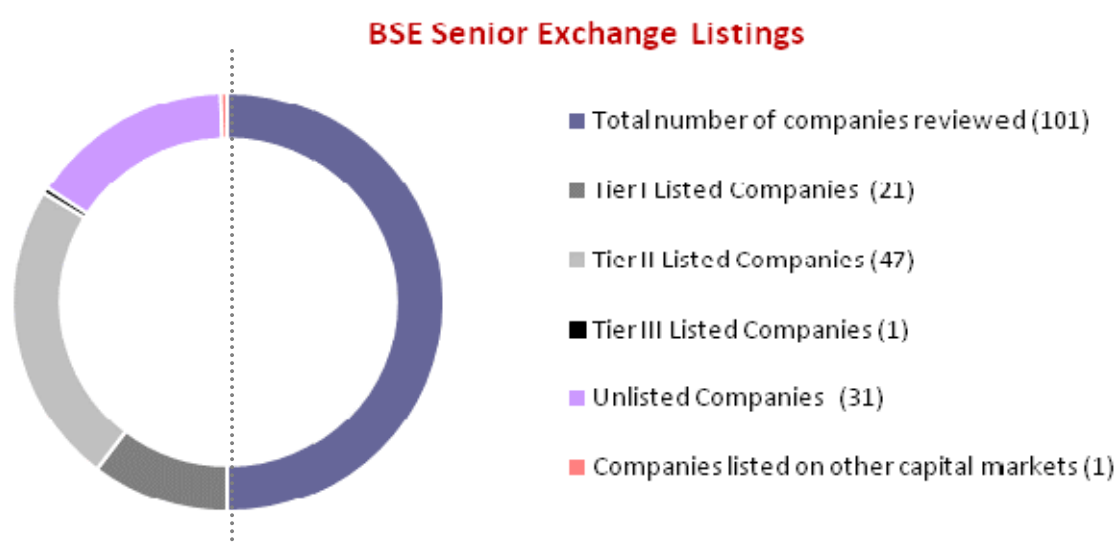
What boards do, and how they do it, is important. Shareholders need to know. Transparency is key. The whole notion of a properly functioning capital market is that for publically traded companies, shareholders should have reasonable expectations about the functions that will be carried out by a board elected to represent their interests. Management should recognize the role of such a board, and the value it can add to the corporation over time.

Gaining, and then sustaining a high market capitalization, can be greatly assisted by effective corporate governance. It is important that good corporate governance is practiced by effective boards.

Ownership patterns can influence the role of boards. Here, especially, in closely held companies, it is important to keep a clear demarcation between boards, management and significant owners.

EXCHANGE LISTINGS

Of the public companies that we reviewed on the senior exchange, only one – Erste Group Bank AG – is listed on other exchanges apart from the BSE (namely, Vienna and Prague). All other companies on the BSE senior exchange are only domestic issuers.



The BSE junior exchange (RASDAQ) is populated by domestic issuers only.

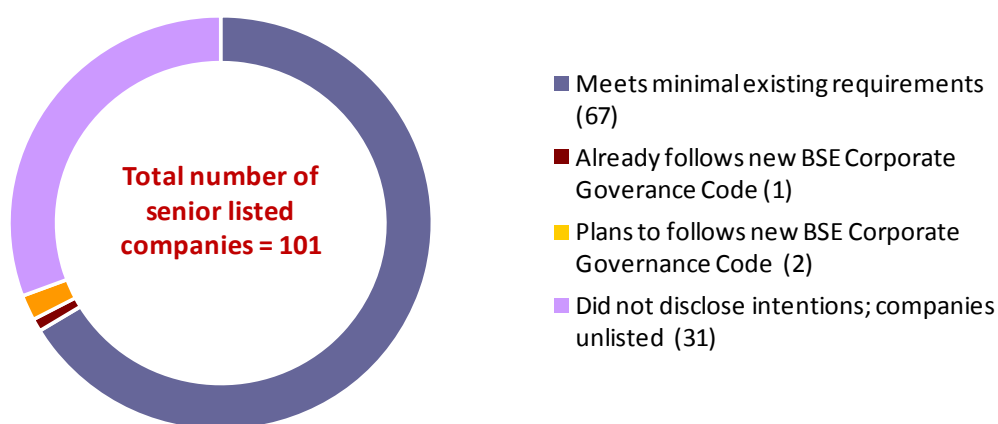
GOVERNANCE GUIDELINES / RULES

Corporate governance reflects the processes adopted by a company to establish the accountability of its board of directors and senior management of the enterprise to the shareholders as owners of the business. In Romania, the predominate governance guidelines are those found in the soon to be implemented Corporate Governance Compliance Statement, although companies have started to take note of other governance guidelines, apart from regulatory requirements in Romania.

BSE RECOMMENDATIONS

In 2008, the BSE approved amendments to its existing corporate governance guidelines, the latter of which were introduced in 2001. Of the publicly listed companies that we examined, the overwhelming majority do not follow the soon to be implemented new Corporate Governance Compliance Statement, nor do they make any attempt to go beyond any basic minimum requirements. The following chart exemplifies the views of the BSE companies on the senior exchange that we reviewed in regards to corporate governance:

Disclosure under the new BSE Corporate Governance Code



The new BSE Corporate Governance Code recommendations are substantially similar to rules adopted by other EU countries and significant non-EU members in the Balkans, and contain significant newly suggested compliance recommendations for officers and boards of directors in the conduct of Romanian public company business.

With respect to the BSE senior exchange, only one issuer – Erste Group Bank AG – already follows the new guidelines, as its disclosure is far and beyond any other company in Romania. Only two other companies indicated in their 2008 Annual Reports that they would follow next year the Corporate Governance Compliance Statement.

Of the remaining issuers on the senior exchange, there were no indications of any interest in favour of the newly adopted BSE guidelines. This lack of interest was also prevalent on the BSE junior exchange (RASDAQ).

THE BOARD OF DIRECTORS AND INDEPENDENCE

An important aspect of board capability is its ability and purpose to independently check management on behalf of shareholders. Of the BSE senior exchange issuers we reviewed, a large number stated that their respective boards are dominated by at least one-third of directors that qualify as “*independent*”. However, these assertions were based on a minimum level of disclosure.

Principle VI of Article 4 (*Composition of the Board*) of the new BSE Corporate Governance Code states that the boards of public issuers should be comprised of individuals that collectively strike a balance between executive directors and non-executive directors – *i.e.*, the typical balance between a management or non-management people on the board. More important, however, is that the new BSE Corporate Governance Code suggests that these non-management people on the board should be independent of the company, such that no individual or small group can dominate the board’s decision-making process.

The question is what is exactly an “*independent*” director? Principle VII of Article 4 (*Composition of the Board*) says that non-executive directors will be considered independent if they do not maintain or have not recently maintained, directly or indirectly, any business relationships with the issuer or persons linked to the issuer at hand; such that these connections are not significant and thus do not influence their autonomous judgement. Rec. 16 of the new BSE Corporate Governance Code sets out a very expansive set of criteria in judging independent directors.

A director is considered independent if he is not a manager or an employee of the company or of an entity controlled by it, and has not been in such a position for the previous five years. He is considered independent if he does not, or has not, received any significant additional remuneration from the company or from the entity that may control it (except for a fee received as a non-executive director). It is important to note that this second requirement is not limited by time for unlike the manager / employee relationship, there is no previous five year limit on such remuneration.

A director is considered independent if he does not represent, in any way, a strategic shareholder with a 10% or greater holding position in the company.

Most important, like in the U.S. where the Securities and Exchange Commission and the New York Stock Exchange have adopted very stringent requirements pertaining to professionals, the new BSE Corporate Governance Code specifically states that independence only exists if the director:

- does not have, and has not had within the last financial year, a significant business relationship with the company or of an entity controlled by it, either directly or as a partner, shareholder, director or senior employee of a body having such a relationship.

Business relationships here include “*a significant supplier of goods or services (including financial, legal, advisory or consulting services)*”, a significant corporate customer and/or “*organisations that receive significant contributions from the company or its group*”.

- is not, and has not been within the last three years, a partner or an employee of the present or former external auditor of the company or of an entity controlled by it.

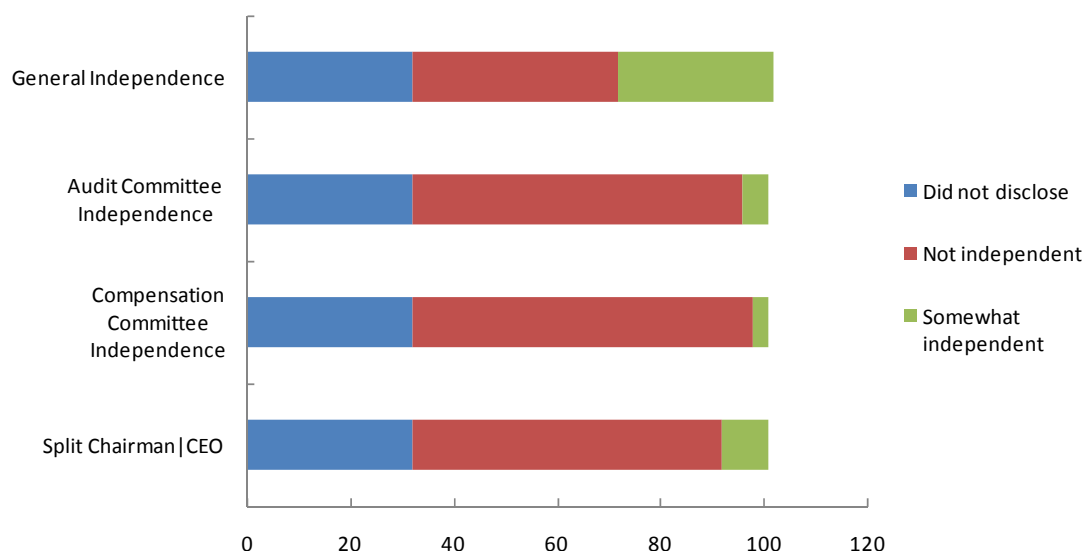
Directors are considered to be independent if they are not “board swapping” with executive directors of their companies. That is to say that a non-independent executive director of one company cannot simply swap boards with another director of the same type of another company, such that each sits on the other’s board as an independent director.

The BSE also states that one can be an independent director on a specific company for only a period of three terms. Anything longer and one is considered to be connected with the company and thus not independent.

Most important is that close family members – either a spouse or a relative up to the 4th degree – of the independent director in question cannot be an executive director or member of management, or a person that meets any of the above criteria.

Our analysis of the BSE senior exchange on such issues indicates some interesting results, which we explain in this and the following sections.

Board Independence



It is important to note that Rec. 16 says that the board of directors as a whole shall evaluate the independence test set out. Applied to the senior issuers of the BSE, it would seem that many companies as it stands do not meet this independence test; nor do they give adequate disclosure in this regard.

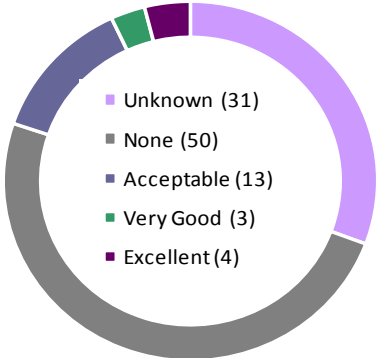
Our analysis of the BSE junior exchange (RASDAQ) indicates the same results.

Not only do the companies comprising the BSE senior exchange have a problem with overall board independence, but, as our empirical results indicate, the actual composition of some of their various board sub-committees such as the audit and compensation committees still does not meet best practices in terms of independent members. As well, there is a tendency to keep the Chief Executive Officer and the Chairman of the Board as one and the same person.

Moreover, the above results are based on very limited disclosure and transparency. The overwhelming majority of the companies comprising the BSE senior exchange do not provide

any meaningful information in order to make an objective empirical analysis of general board and board committee independence.

Explanation of Independence



The companies that are listed on the BSE junior exchange (RASDAQ) do not in any way meet such independence tests.

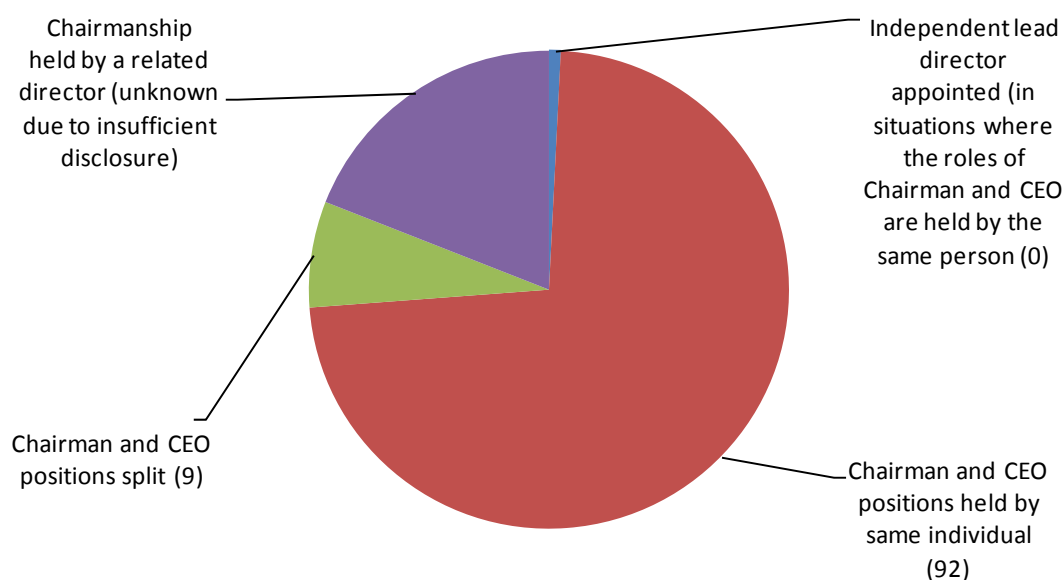
CHAIRMAN AND CEO SEPARATION

As suggested, there is a tendency of listed companies of the BSE senior exchange to not split the position of Chief Executive Officer from the position of Chairman of the Board. Splitting the two positions allows the CEO to focus on management issues while the Chairman to focus on board oversight issues. It also underscores the separation between the two bodies, all in favour of shareholder rights and the protection of investors.

Best practices usually entail that the board:

- appoints a chairman, who is not part of management, with responsibility to ensure that the board discharges its duties;
- together with the CEO, should develop descriptions of respective board / officer positions including a definition of the limits of management's responsibilities; and
- should also develop corporate objectives for which the CEO will be responsible; and assess the CEO against these objectives.

Of the 101 companies surveyed, overwhelming majority state that the role of Chairman of the Board and the position of CEO are held by the same individual. Only nine of the companies state that the roles of the Chairman and CEO are split and that the Chairman is somewhat independent. No company stated that the role of the Chairman is held by a non-independent director. As well, no company disclosed that there is an independent lead director appointed in situations where the role of the Chairman and the position of CEO are held by the same person.



Our empirical analysis of the BSE junior exchange (RASDAQ) did not indicate any meaningful variation to the foregoing results evident from the BSE senior exchange.

BOARD FUNCTIONS AND RESPONSIBILITIES

Independence is important because it goes to board function and capability. As Principle IV of Article 3 (*The Roles and Duties of the Board*) of the new BSE Corporate Governance Code indicates, “*issuers are governed by a Board of Directors that meets at regular intervals, and that adopts decisions, which enable it to perform its functions in an effective and efficient manner.*” Rec. 13 states that the board should, among other functions:

- examine and approve the company’s strategic, operational and financial plans and the corporate structure of the group it heads, if any;
- evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries, having strategic relevance;
- evaluate the general performance of the company and periodically compare the results achieved with those planned;
- examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company’s profitability, assets and liabilities or financial position, paying particular attention to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
- evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, if any; and
- provide information, in the Chapter related to corporate governance from the public issuer’s Annual Report, on the application of the new BSE Corporate Governance Code and, in particular, on the number of meetings of the board and of the executive committee, if any, held during the fiscal year, plus the related percentage of attendance of each director.

These are significant board oversight functions, and are coupled with Principle V of Article 3 (*The Roles and Duties of the Board*), which says that “*the board of an issuer will be responsible for its management. It will act to the best interests of the company and will protect the general interests of the shareholders by ensuring the sustainable development of the company. It will function in a well-informed manner as a collective body.*”

The board should meet often – at least once per quarter – in order to effectively discharge these functional obligations (Rec. 10). This is important for the new BSE Corporate Governance Code recognises the need to have regularity in terms of meetings in addition to an independent composition of the board so that shareholders and investors can be properly protected.

Meeting regularly is important because the new BSE Corporate Governance Code stipulates that it is up to the board to adopt “*appropriate rules in order to avoid its members or the company’s employees becoming guilty of insider dealing or market manipulation of its securities*” (Rec. 11).

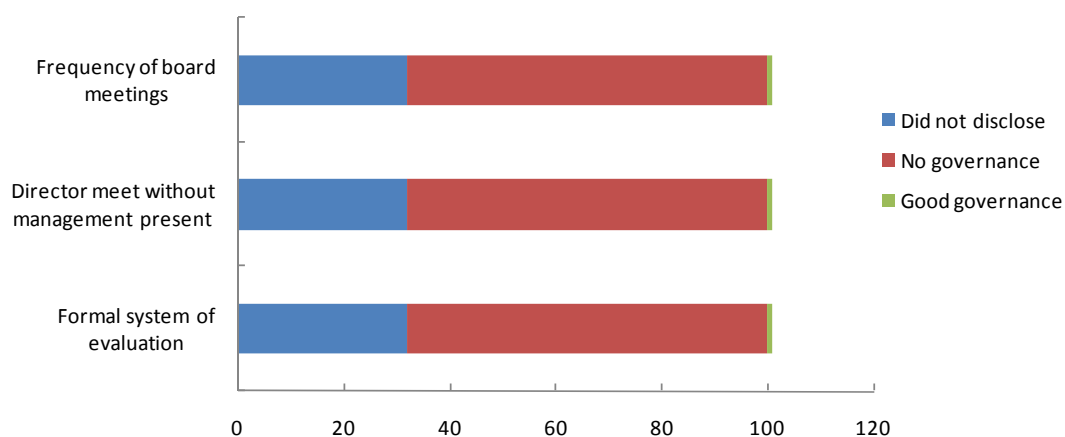
As well, the board should “*formulate a set of rules regarding the behaviour and notification obligations in relation to transactions in the company’s shares or other financial instruments...carried out for their own account by directors and other individuals bound by these obligations. The Rules should expressly specify which information, regarding those transactions, should be disclosed to the market*” (Rec. 12).

In order to carry out these important functions, at a minimum, directors should regularly improve and update their skills and knowledge of their company's activities, as well as corporate governance best practices (based on an international standard). These actions will allow them to fulfil their role on both the board itself and on any committees that they may sit on (Rec. 17). With a view to achieve this, directors need to receive annual corporate governance trainings, and the board needs to do an internal annual self-evaluation. These results should all be disclosed to the market.

Of the 101 companies comprising the BSE senior exchange, the corporate disclosure regarding an evaluation system for board and/or individual director performance was limited. Only a few publically listed companies stated that they review both the board and individual directors.

Applying some of the above recommendations to the 2008 Annual Reports of issuers on the BSE senior exchange, we find that governance in these areas is significantly lacking, and that companies have a long way to go for the 2009 Annual Reports.

Meetings and Self-Evaluation



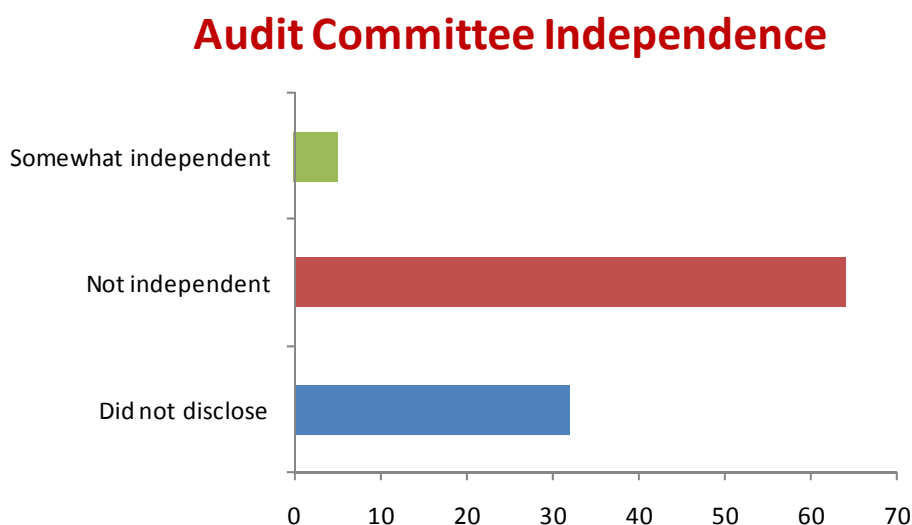
Results of our snapshot analysis of the BSE junior exchange (RASDAQ) reveal even less favourable good governance results. It seems that at this point public companies on the BSE do not fully appreciate the utility of transparency in regards to publishing such minimal disclosure such as meeting attendance.

THE AUDIT COMMITTEE AND FINANCIAL EXPERTS

Principle XIII of Article 7 (*Transparency, Financial Reporting, Internal Control and Risk Management*) states that boards should “*establish strict rules, designed to protect the company’s interests, in the areas of financial reporting, internal control and risk management.*” This is an important obligation, and one that is effectuated by the creation of an audit committee, which should work closely with the internal and external auditors (Rec. 27). The audit committee should regularly examine the effectiveness of financial reporting, internal controls and other adopted risk management systems – *i.e.*, internal controls and procedures (Rec. 28). It should ensure that the annual audit is appropriately carried out, and that any audit reports conform to the audit plan approved by either the board as a whole or the audit committee itself. It should meet at least twice per year itself (Rec. 30) and twice annually with the internal and external auditors (Rec. 27).

The audit committee should monitor the reliability and integrity of the financial information provided by the company, as well as the relevance and consistency of the applied accounting standards (including the consolidation criteria) (Rec. 31). It should be informed of the external auditor’s work programme and receive a report from the auditor describing all existing relationships between the external auditor on the one hand and the company and its group on the other hand (Rec. 32). The audit committee should make recommendations regarding selection, appointment, reappointment and removal of the external auditor and, in addition, the terms and conditions of their remuneration (Rec. 32). It should monitor the independence and objectivity of the external auditor, in particular by monitoring the rotation of the partners of the audit firm (Rec. 32).

As the purpose of the audit committee is very important, its composition is essential. In this respect, the new BSE Corporate Governance Code suggests that the audit committee should be composed exclusively of non-executive (non-management) directors, the majority of which should be independent directors (Rec. 29). In terms of independence, and non-executive (non-management) directors, we found that few companies on the BSE senior exchange have truly independent audit committees:

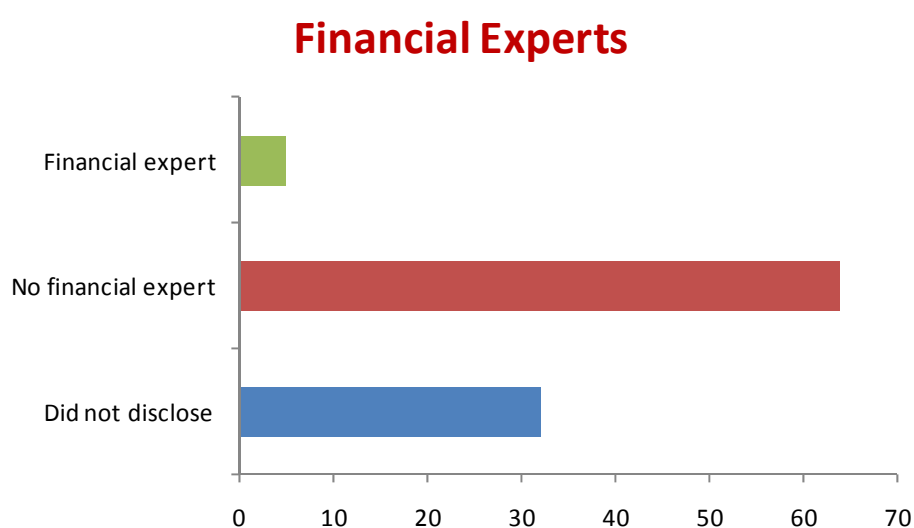


There remains much room for improvement on the BSE senior exchange. As concerns the junior exchange (RASDAQ), the results of our analysis indicates much the same in terms of independence and non-management directors. Generally, BSE public issuers have very little disclosure in this regard.

Although somewhat silent on the matter, it is important to note that corporate governance best practices usually entail that at least one of their audit committee members be a “financial expert”. This is more in keeping with listing requirements in North America and in Western Europe. Generally, a financial expert should have the following attributes:

- an understanding of general accounting principles and financial statements;
- an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing analyzing or evaluating financial statements;
- an understanding of internal controls and procedures for financial reporting; and
- an understanding of audit committee functions.

Based on the foregoing, we examined the BSE senior issuers and found that only a small minority of the companies we surveyed currently disclose whether or not their audit committee has a financial expert:



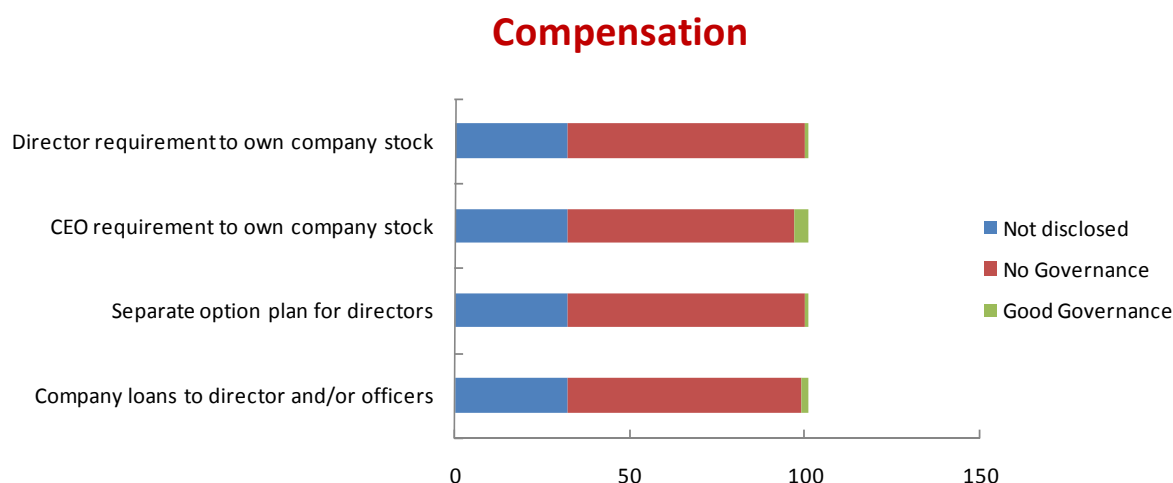
Principle XII of Article 7 (*Transparency, Financial Reporting, Internal Control and Risk Management*) states that the purpose of the new corporate governance framework is to “ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.” It is difficult to assess such disclosure and properly disseminate it to the market if one is unaware of very basic financial expertise.

THE COMPENSATION COMMITTEE

In regards to director and executive compensation, the new BSE Corporate Governance Code makes a number of specific recommendations. The board should establish and organise a compensation committee in order to establish a proper remuneration policy for directors and management (Rec. 21). Any remuneration policies should be subject to shareholder approval at the annual general meeting (Rec. 21). The committee should be composed exclusively of non-executive directors, and like the audit committee, these directors should be predominately independent (Rec. 22). Noteworthy, Rec. 22 also suggests that the compensation committee has the ability to seek assistance from external experts in the fulfilment of its duties. This is an important aspect, which should also be considered as a benchmark for the audit committee.

Compensation is an important aspect of any corporate governance structure. Its extent usually significantly impacts on the level of directors and managers interested in serving a company, and ultimately that company's shareholders. Principle XI of Article VI (*Remuneration of Directors*) of the new BSE Corporate Governance Code states that "*the company will secure the services of good quality directors and executive managers by means of a suitable remuneration policy that is compatible with the long-term interests of the company.*"

This is important for the BSE recognises the challenge at the core of good governance – *i.e.*, the proper alignment of the interests of shareholders and directors / managers through the use of financial inducements. In addition to compensation issues based on salary, however, there are other aspects that should be taken into account; for example, the requirement of directors and the CEO to own shares in the company, the existence of a separate option plan for directors, and the limitation of any loans to corporate directors and officers. Based on these issues, we reviewed the BSE senior exchange and found the following results:



Our analysis of the empirical results shows that very few companies on the junior exchange (RASDAQ) take into account such issues.

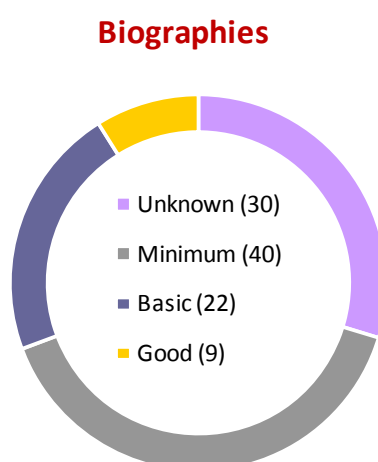
THE NOMINATING COMMITTEE

As Principle IX of Article 5 (*Appointment of Directors*) states, the “*appointment of directors should be a formal, rigorous and transparent procedure.*” It should be objective and use timely information in order to assess potential candidates. This is significant for the new BSE Corporate Governance Code recognises the importance of the calibre of candidates comprising the members of the board.

The nominating committee is important in this regard for it functions as the appropriate forum to vet potential director candidates based on specific requirements of the company (Rec. 20) before making a recommendation to the full board, and in turn, the shareholders at an annual general meeting. Rec. 18 is very specific in this regard, for it states that the “*lists of candidates to the office of director, accompanied by exhaustive information on the personal traits and professional qualifications of the candidates, with an indication where appropriate of their eligibility to qualify as independent directors shall be deposited at the company’s registered office at least fifteen (15) days before the date fixed for the shareholders’ meeting.*” The recommendation goes on to state that the lists of potential candidates should be published, in due time, on the company’s website.

This form of transparency is important for it allows investors to properly gage the level of calibre being courted for the director slots of a publically listed company. Principle X of Article 5 (*Appointment of Directors*) states that the board as a whole should evaluate whether to establish such a nominating committee, which in any event should be primarily staffed by independent directors. The new BSE Corporate Governance Code thus allows listed companies the option of keeping the process fully at arms-length or having full board involvement. In any event, if such a committee is struck, it should be primarily responsible for moving the nomination process forward (Rec. 19).

In light of the new BSE Corporate Governance Code, we analysed the BSE senior exchange in terms of what information, if any, is disclosed to the market in terms of director qualifications. Our empirical results are as follows:



It is important to note that even rudimentary disclosure of this nature is still somewhat haphazard on the BSE.

THE LINK BETWEEN CORPORATE GOVERNANCE AND COMPANIES' PERFORMANCE

In practice, an issue of interest would be to see whether the direct link between the quality of corporate governance and company performance is also testable on the BSE. There is already a substantial body of research on more established global exchanges that underlines this assertion. Companies with weaker corporate governance generally tend to perform more poorly, are less profitable and have higher volatility compared to firms which have stronger corporate governance. The impact of board composition and management practices can have a substantial effect on the evolution of a company's share price. This, in turn, could affect, for instance, a company's ability to raise capital on the stock exchange.

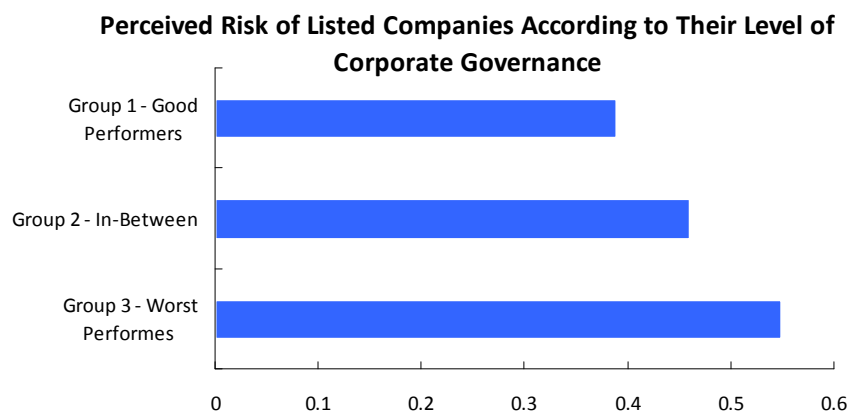
In order to determine how strong is the connection between corporate governance and company performance on the BSE, we carried out a series of tests in two fundamental areas, namely:

- Risk – measured here as the coefficient of variation, a variable which shows how volatile a share price is; and
- Annual Return – computed simply as the yield, expressed in euro cents, obtained by holding a certain share for successive years in the period under consideration.

The analysis has been performed on a representative sample of companies listed on the BSE senior exchange. We split them into three groups, according to the observed quality of corporate governance. The first group comprises companies that are perceived as having a good level of corporate governance.

These are very few – according to our snapshot analysis – that fall under this first category.

The sample companies contained in the second group are those that meet minimal existing disclosure requirements in terms of the new BSE Corporate Governance Code. Our third group of companies include the worst performers in terms of following corporate governance compliance recommendations.



The time span under consideration covers, with a few exceptions, the period August 2006 – August 2009.

Our preliminary results show that as expected, there is a noticeable correlation between the companies' level of corporate governance and their perceived risk. The figure above shows

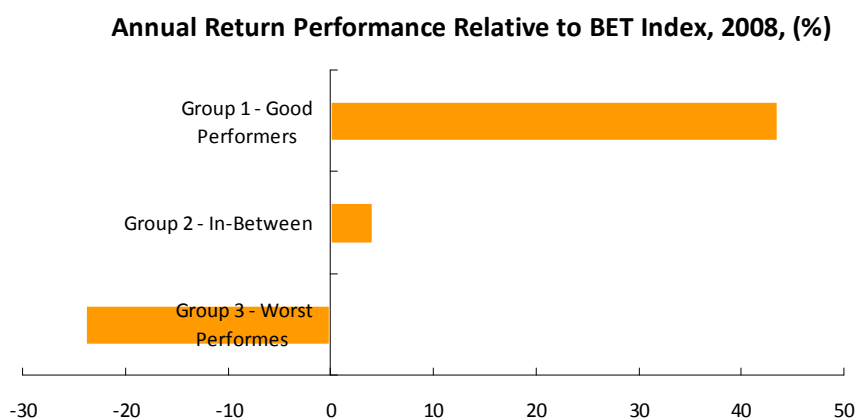
that, the higher the perceived risk, the larger is the coefficient of variation. Companies with better corporate governance are more transparent and thus, less prone to abrupt changes in share valuation due to informational uncertainty.

Overall, for the whole period under consideration the tests on annual returns have proved to be less conclusive than those on the perceived level of risk. However, given the relatively short track record on our surveyed companies and the shallowness of the senior BSE this is the result that we largely expected.

An alternative test we performed was to look at the returns generated by each of our three selected groups relative to the average BET Index in a crisis year, namely 2008.

Given the elevated level of risk aversion that prevailed throughout that year, investors tended to penalise companies that were less transparent and had a poor level of corporate governance.

As our results in the figure below show, this was indeed the case. The Group 1 companies outperformed the average BET index by a remarkable 44% while the group containing the worst performers in terms of corporate governance underperformed the BET by 24%.



As both junior (RASDAQ) and senior Romanian exchanges become more mature, the correlation between corporate governance and company performance is expected to strengthen considerably, following on the steps of other long-established global exchanges.

OTHER PRACTICES

There are numerous other related issues to corporate governance. The remainder of our survey only touches upon a few issues of interest.

FINANCIAL REPORTING

Principle XII of Article 7 (*Transparency, Financial Reporting, Internal Control and Risk Management*) principally deals with informational exchange and corporate transparency. In terms of financial reporting, it is important that timely and accurate disclosure occur on all material matters, including the financial situation and overall performance.

Most of the companies listed have generally fulfilled the obligations regarding the preparation and dissemination of financial information. However, a particular situation arises in case of certain companies that have the obligation to prepare and disclose consolidated financial statements. As of the date of our report, we find a number of companies failing in this regard.

CODES OF CONDUCT

Although not specifically mentioned in its own separate section in the new BSE Corporate Governance Code, corporate governance best practices indicate that listed companies on the BSE should consider publically disclosing whether or not they have a code of ethics for their principal executive officers, principal financial officers, and principal accounting officers or controllers.

Each code of conduct must contain compliance standards and procedures that will facilitate the effective operations of the code. Any waivers of the code may only be made by the board of directors (or one of its committees) and should be promptly disclosed.

WEB SITES

The most effective form of symmetrical disclosure to the market is through the presentation of materials over the internet. Principle I of Article 1 (*Corporate Governance Framework*) is very clear in that “*issuers will adopt a clear and transparent corporate governance framework, which shall be adequately disclosed to the general public.*”

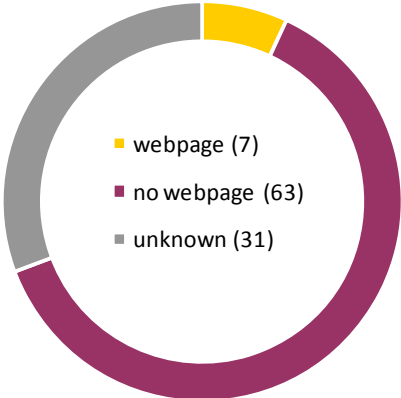
Rec. 1 states that issuers should draw up corporate governance charter / regulation clearly demarcating their respective corporate governance framework and practices.

Rec. 2 expands upon this by stating that there should be position descriptions on the part of the board and management, clearly stating respective powers and responsibilities.

Rec. 3 is most specific for it says: “*In the annual report, the issuers shall provide a Corporate Governance Chapter describing all the relevant events connected with corporate governance that took place in the preceding financial year. If an issuer chooses not to fully implement one or more of the recommendations of the present Code, it should explain its decision in the CG Chapter of its annual report, as well as in the “comply or explain” statement.*”

Applied to the senior exchange of the BSE, we noticed the following use of the internet in terms of corporate disclosure:

Corporate Governance Webpage



At this point, there is very little such disclosure evident on the BSE senior exchange. It remains to be seen the extent of disclosure next year.

LIST OF COMPANIES SURVEYED

Every effort has been made to ensure the accuracy and timeliness of this publication, but the comments are necessarily of a general nature. Interested persons are urged to seek specific advice on matters of concern and not rely solely on the text of this publication.

Abrom S.A.	Electroaparataj S.A.	Rulmentul S.A.
Aerostar S.A.	Electroceramica S.A.	S.C. Transilvania Construcții S.A.
Aeroteh S.A.	Electroputere S.A.	S.N.T.G.N. Transgaz S.A.
Agras Asigurări S.A.	Ema Piatra Neamț S.A.	S.S.I.F. Broker S.A.
Albapam S.A.	Erste Group Bank AG	SIF Banat Crișana S.A.
Alro S.A.	Farmaceutica Remedia S.A. Deva	SIF Moldova S.A.
Altura S.A.	Faur S.A.	SIF Muntenia S.A.
Alumil Rom Industry S.A.	Felinvest S.A.	SIF Oltenia S.A.
Amco S.A.	Flamingo International S.A.	SIF Transilvania S.A.
Amonil S.A.	Foraj Sonde Ploiești S.A.	Sinteza S.A.
Amylon S.A.	GHCL Upscom România S.A.	Șiretul Pașcani S.A.
Antibiotice S.A.	Grupul Editorilor și Difuzorilor de Presă S.A.	Socep S.A.
Armătura S.A.	Grupul Industrial Electrocontact S.A.	Sofert S.A.
Aurora S.A.	Impact Developer & Contractor S.A.	Someș S.A.
Azomureș S.A.	Mecanica Ceahlău	Stratusmob S.A.
Banca Comercială Carpatica S.A.	Mechel Târgoviște S.A.	Șantierul Naval Constanța S.A.
Banca Transilvania S.A.	Mefin S.A.	Șantierul Naval Orșova S.A.
Bermas S.A.	MJ Maillis România S.A.	T.M.K. – Artrom S.A.
Biofarm S.A.	Mobila Alfa S.A.	Teraplast S.A.
Boromir Prod S.A. Buzău (Spicul)	Moldomobila S.A.	Titan S.A.
BRD – Groupe Société Generale S.A.	Nicolina S.A.	Turbomecanica S.A.
C.N.T.E.E. Transelectrica	Oil Terminal S.A.	Turism Felix S.A. Băile Felix
Carbochim S.A.	Oltchim S.A. Râmnicu Vâlcea	Turism, Hoteluri, Restaurante Marea Neagră S.A.
Casa de Bucovina – Club de Munte	Petrolexportimport S.A.	Uamt S.A.
Cercon Ariesul S.A.	Petrom S.A.	UCM Reșița S.A.
Chimopar S.A. București	Prodplast S.A.	Uton S.A.
Comem S.A. Constanța	Prodvinalco S.A.	Uztel S.A.
Comelf S.A.	Rafinăria Astra Romana S.A.	Uzuc S.A.
Compa S.A.	Rafo S.A.	Ves S.A.
Compania Energopetrol S.A.	Rolast S.A.	Vrancart S.A.
Condmag S.A.	Romcarbon S.A. Buzău	Zentica S.A.
Contor Group S.A. Arad	Rompetrol Rafinărie S.A.	Zimtub S.A.
Dafora S.A.	Rompetrol Well Services S.A.	---
Dorobanțul S.A.	Rulmenți S.A.	A significant portion of the junior exchange was reviewed.