



**BUDAPEST STOCK EXCHANGE LTD.**

**CORPORATE GOVERNANCE COMMITTEE  
MONITORING REPORT**

**ON COMPLIANCE WITH THE CORPORATE  
GOVERNANCE RECOMMENDATIONS**



13 December 2017



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## I. INTRODUCTION

The general purpose of the application of corporate governance recommendations is to promote the transparent and efficient operation of the market, to support the implementation and enforcement of legislation, especially in terms of shareholders' rights and ownership functions, and to harmonise the interests of the issuers, the investors and the issuing company's environment. Effective corporate governance facilitates the increase of the issuing company's value, and also ensures that the rights of shareholders and other stakeholders are well-represented.

The Budapest Stock Exchange (BSE) published its Responsible Corporate Governance Recommendations in 2004, which was later superseded by the Corporate Governance Recommendations. The Corporate Governance Recommendations were last amended in 2012. In addition to the amendment of the Recommendations the external – community and domestic – legal environment has also changed: Act V of 2013 on the Civil Code (Civil Code) entered into force on 15 March 2014, and issuers have gradually rolled out the new provisions of the Civil Code. However, not all companies implemented the new provisions fully. As a result, non-compliance with certain recommendations also constituted violation of the law.

According to Commission Recommendation 2014/208/EU<sup>1</sup>, in order to motivate companies to comply with the relevant corporate governance code or to better explain departures from it, efficient monitoring must be carried out at the national level, within the framework of the existing monitoring arrangements.

As a professional committee of the BSE, the general tasks of the Corporate Governance Committee (the Committee) include the supervision of the continued development of Corporate Governance Recommendations by taking domestic industry requirements, EU legislation and other community acts of legislation, and general international trends into consideration, as well as the representation of industry considerations in the field of the further development of corporate law. In compliance with the provisions of Commission Recommendation 2014/208/EU, the BSE, together with its professional organisation, has reviewed and analysed the 2016 corporate governance reports provided by the issuers, the most important findings of which are summarised in this Monitoring Report.

Based on the unique methodology applied for the purposes of this Monitoring Report, the Report focuses on the statistical data included in the corporate governance reports that concern levels of compliance, emphasising the reasons underlying more important deviations, or deviations that can be generalised (in certain cases per issuer category), and occasionally changes in terms of compliance compared to the previous year. The aggregations are based on the complete acceptance of corporate governance reports by the issuers, with the caveat that, in some cases, we had to point out conflicts in the data and, in certain cases, the lack of coherence.

## II. SUMMARY CONCLUSIONS

The Corporate Governance Committee of the BSE

- based on its review of the 2016 corporate governance reports published by the issuers,
- taking the provisions of Commission Recommendation 2014/208/EU into consideration,

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<sup>1</sup> Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting ('comply or explain') (2014/208/EU),

- has made the following summary conclusions

in the interest of the appropriate information of shareholders, investors and other stakeholders:

Considering that the issuers have published their corporate governance reports, it can be established that they consider compliance with the recommendation to provide appropriate information to the public important. According to the assessment of the Committee, in the interest of creating a uniform practice going forward (i.e. to ensure uniform quality standards and level of detail for information across all reports, and to avoid the shortcomings experienced in this round), the Committee has issued recommendations.

The Committee calls the attention of the issuers to the necessity of preparing the report specified in Annex 1 to the Corporate Governance Recommendations, and to the substantive and detailed elaboration of all sections therein.

The Committee recognises and appreciates compliance with the individual recommendation and proposal categories, but calls on issuers to enhance the level of compliance with content- and process-related expectations, in addition to meeting the associated formal requirements.

The Committee notes that, in the event of departures from the recommendations, it is expedient to present the substantive reasons underlying the departure, describe the measures undertaken in place of compliance and show how those measures lead to compliance with the recommendation or the attainment of the objectives of the recommendation in such a manner that shareholders, potential investors, and other stakeholders are able to appropriately assess the company's corporate governance practices, and make informed decisions regarding their investment. Considering that potential non-compliance – provided that it does not also constitute an infringement of the law – does not necessarily in itself mean that a company is adversely regarded, and that the level of compliance of the individual issuers cannot be identical due to industry-specific features and differences in operating practices, with regard to cases of non-compliance, the Committee reminds issuers that in their explanation of departures from recommendations they should also elaborate on how a measure taken in place of compliance contributes to the good corporate governance of the company. The explanation can only fulfil its true purpose if it includes an elaboration of how, even though the objectives specified in the Corporate Governance Recommendations are not implemented using the solutions listed in the Recommendations, they can be attained through solutions that are more suited to the given issuer.

The Committee noted that under certain topics where proposals were more prominent, explanations of departures were less likely to have been included, as explanations of departures from the recommendations are not mandatory.

The Committee did not note any substantial changes in the fact that levels of compliance for individual committees (remuneration committee and nominating committee) were considerably lower than those of questions related to committees required by law (audit committee). In connection with this, the Committee reiterates its call to issuers who are not compliant with the relevant recommendations to consider setting up these committees in the interest of the implementation of an appropriate corporate governance practice, or at least elaborate in their explanations in more detail on any solutions that are equivalent to the operation of such committees.

The Committee welcomed the fact that a substantial positive shift took place in terms of compliance in certain areas of concern in the Recommendations. The recommendations in question related to the

preparation and conduct of general assemblies, development and operation of internal controls and risk management systems, and recommendations related to public disclosures. Based on the above, it can be established that issuers pay more attention to investor information and investor relationship management, and that they recognise that an adequate internal control system can increase confidence in the company. Substantially more attention must, however, be paid to the enforcement of the requirements related to the concrete exercise of certain shareholder rights.

Furthermore, the Committee has established that in regards to the application of the principle of “comply or explain”, in their justification of departures, the issuers provided explanations based on a non-uniform set of considerations. Therefore, the Committee intends to facilitate the improvement of the quality of the reports by issuing a more detailed guidance document.

In the course of the review of the reports, the Committee noticed that different issuers interpreted certain recommendations differently, and have provided divergent answers, even if their relevant practices were similar. Such anomalies included the following in particular:

- Certain recommendations are not relevant to certain issuers (e.g. no nominating committee exists), and in such cases a portion of the issuers answered “No”, while another (smaller) number of the issuers answered “N/A”, despite previous requests from the Committee to the contrary.
- For certain recommendations, compliance is related to the occurrence of a specific event (e.g. in relation to other engagements of the auditor). In this case, a large majority of the issuers answered “No”, when no such event occurred, but it remains unclear whether an answer of “Yes” means that an event has occurred and the company was compliant, or that no such event occurred but they would have been compliant had it occurred – due to the fact that compliance does not need to be justified.
- Certain recommendations require issuers to comply with several conditions at the same time. The majority of the issuers answered “No” if they fail to comply with any of the conditions, even if the purpose of the recommendation was achieved.

During its review of the Corporate Governance Recommendations, the BSE takes the comments of the Committee included in the monitoring report into consideration, thereby facilitating the improvement of the corporate governance practices of issuers, the preparation of corporate governance reports and the attainment of a higher standard of investor information.

### **III. COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS**

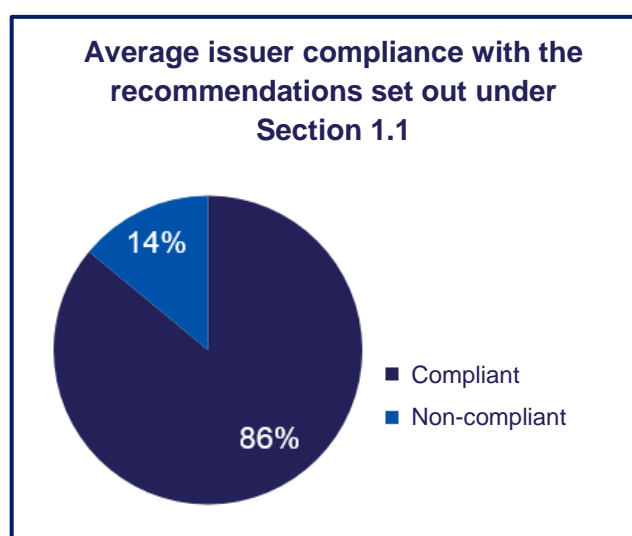
Annex no. 2 and 3 of the Corporate Governance Recommendations of the BSE require that issuers declare the extent to which they have implemented the recommendations, proposals specified in the relevant sections of the Corporate Governance Recommendations of the BSE, by completing tables as part of their corporate governance reports. The Monitoring Report below contains a summary assessment of these issuer declarations.

#### **1.1 General Principles: Provision of Information, Voting Rights**

1.1.1 All issuers (100%) complied with the BSE recommendation, which specifies that the Administrative Board or the Board of Directors must ensure that shareholders have timely access to any information that is essential for their ability to exercise their rights. It is, however, cause for

concern that, as it relates to certain specific information recommendations, proposals issuers' compliance is not complete (see sections 2.4.1, 2.5.4, 2.5.6, 2.7.1, 2.7.7, 4.1.6, 4.1.9, below etc.).

1.1.2 71% of the issuers complied with the recommendation according to which the company must apply the principle of “one share – one vote” (the 71% compliance is 10% lower than last year). Several of the remaining 29% of issuers issued preferred stocks, which provide voting rights of different extents and weights. Certain issuers apply the principle of voting rights proportionate to the nominal value of the stock, or aligned with the size of the stockholding. Two companies restricted the extent of voting rights per shareholder, depending on the number of shareholders present/represented at the general meeting. Some issuers also issued non-voting preferred stock with liquidation preference and/or non-voting preferred stock with dividend preference. In this respect, compliance with the recommendations did not constitute an infringement of the law.



### 1.2–1.3 General Meeting

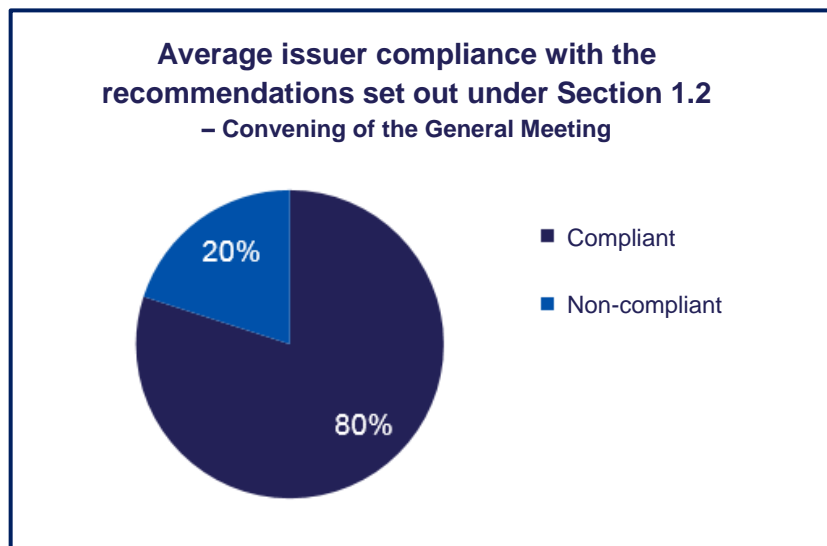
1.2.8 100% of the companies complied with a recommendation that requires companies to ensure that shareholders are able to participate in the general meeting under the same conditions.

1.2.9 Based on the recommendation, the agenda items for the general meeting of the company are specifically identified and drafted, and no other agenda items are discussed during the meeting. All companies except one complied with this recommendation. The issuer that did not comply with this recommendation does not require, as a main rule, its Board of Directors to consider in its proposals the opinions of the supervisory committee, except if the supervisory committee provided the opinion in a matter that it is mandated to address.

More than half of BSE issuers (61%) ensured that the draft resolutions of the general meeting mention the recommendation of the supervisory committee, and to detail the expected impact of the decision (there was a 7% improvement compared to 2015). Issuers that were considered as compliant also include issuers with an audit committee or a Board of Directors in place instead of a supervisory committee, and the recommendations of these bodies are mentioned in the proposals. The majority of the issuers that did not comply with the recommendation (21.9%) did not comply with the recommendation because they do not have a supervisory committee in place, and therefore they are unable to mention the opinions of such a committee. Another 17.1% of the issuers consider that the

nature of the decisions did not make it necessary to explain the impact of the decisions in detail in the proposals, and that there are issuers that provide such explanations in response to questions asked at the general meeting. To issuers, however, failed to provide an explanation as to why they do not provide an explanation of the impact of the decisions. Furthermore, there are companies that publish the draft resolution and the opinion of the supervisor committee separately.

1.2.10 39% of issuers published shareholders' comments on the agenda items of the general meeting two days prior to the general meeting (this represents a 14.5% improvement towards compliance with the recommendation compared to last year's statistics). The reason why the remaining issuers (61%) did not comply with the mentioned recommendation is that shareholders did not modify or provide comments on the agenda items, therefore, the question of compliance with the recommendation did not apply. (There were issuers that mentioned that even though they have not been compliant with the recommendation due to the above reason, as soon as such modifications or comments are received, they will publish them two days prior to the date of the general meeting.)



### 1.3 Conduct of the General Meeting

1.3.1 82.5% of issuers complied with the BSE's recommendation that the Chairman of the General Meeting should be approved by the Meeting prior to the substantive discussion of the agenda items. With regard to the three issuers where no separate resolution is adopted on the person of the Chairman of the General Meeting, the reason is that the Statutes of these issuers state that the role of the Chairman of the General Meeting is fulfilled by the Chairman of the administrative board/Board of Directors.

1.3.2 Issuer compliance is particularly high (97.5%) with the BSE's recommendation to ensure that the administrative board/Board of Directors and the supervisory committee (if such committee exists) should be present at the general meeting in order to answer potential questions, and if the representatives of these bodies are unable to attend, that the chairman of the general meeting should inform the general meeting thereof prior to the discussion of the agenda items, also noting the reasons of their absence.

1.3.3 The BSE's recommendation set out in an FTA also includes provisions that the statutes of the company should make it possible for the Chairman of the administrative board/Board of Directors to

invite anybody to the Meeting and accord him or her the right to make statements if, according to their opinion, that person's presence and expert opinion is important for providing information to the shareholders and for more effective decision-making. Furthermore, it is also recommended for the statutes of the company to allow shareholders to invite a third party, previously requested in writing, to discuss a specific agenda item proposed by them, if they wish to do so, and for the Chairman of the administrative board/Board of Directors to invite that person and accord him or her the right to participate in the discussions of the relevant agenda item. Only half of the issuers (50%) complied with the recommendations specified in this section. Of the issuers that have answered "Yes", two answered "Yes" with the comment that "no provisions to the contrary exist". One among the issuers that have answered "No" noted that even though the Statutes of the company do not contain a provision to this effect, the company's practice is nonetheless aligned with the recommendation.

1.3.4 Issuer compliance is quite high (97.5%), but not complete, with the BSE's recommendation that companies should ensure that shareholders participating in the general meeting have equal rights, and that the company should not restrict shareholders' ability to exercise their rights to request information, add comments and submit proposals for motions, and to not apply any preconditions for such actions, provided that adherence to these recommendations does not lead to the obstruction of the correct conduct of the general meeting. Non-compliance with this recommendation violates the statutory provisions on the equality of shareholders, therefore, such practice is a cause for concern.

1.3.5 Only half of the issuers (50%) answered "Yes" to the question on compliance with the BSE's recommendation that in the event that certain questions at the General Meeting cannot be satisfactorily answered by the representatives of the bodies of the company or by the company's auditor, the Chairman of the company should make arrangements for the answers to be published on the company's website within 3 days following the General Meeting, unless company interests warrant otherwise, and if the company decides to abstain from providing a response, then information on that fact – together with a detailed justification – should be published within 3 days following the General Meeting. It should, however, be noted that several issuers answered "No" with the comment that "no such issues have been encountered".

1.3.6 All issuers declared that they are compliant with the BSE's recommendation that the Chairman of the Meeting and the company should ensure that, in responding to questions at the Meeting, the disclosure principles of Hungarian laws and regulations and BSE regulations are not violated, that they are respected – which means that issuer compliance with this expectation is 100%.

1.3.7 There was a relatively low level of compliance (32.5%) with the BSE's expectation that companies should issue press releases on decisions adopted at the general meetings of the company that significantly impact the company's life, and to hold press conferences on such decisions within one hour of adjourning the general meeting in the interest of informing market stakeholders. At the same time, two of the companies that have answered "No" commented that the company published the decisions adopted at the general meeting in accordance with the applicable legal requirements on all publication platforms, and one issuer mentioned that even though the company did not hold a press conference, the general meeting was open – conditional upon advance registration – to the representatives of the press.

1.3.8 Furthermore, the BSE drafted a recommendation on (i) ensuring that comments on the agenda items of the general meeting made in writing should be published two days prior to the general meeting; and that (ii) in the event that shareholders have not had the opportunity before the day of the general meeting to get informed about comments or modifying proposals related to any given agenda item, the Administrative Board/ Board of Directors should make them available to shareholders at least

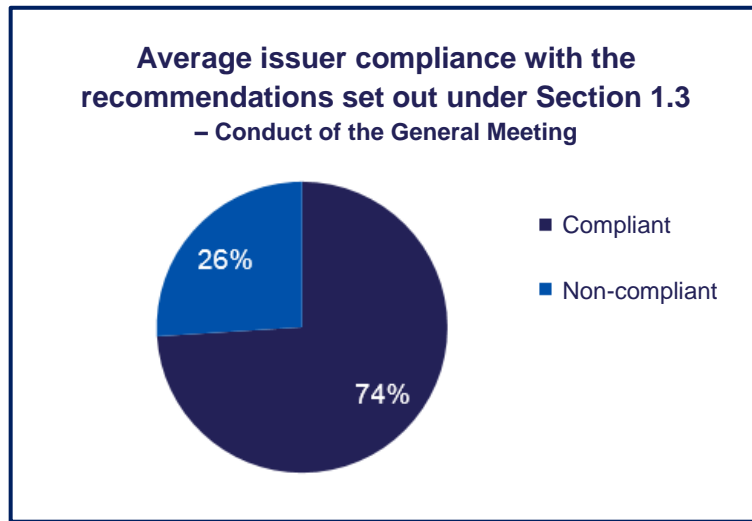


two hours before the start of the general meeting at the venue of the general meeting, but no later than at the time of registration. 60% of issuers responded “Yes” to the question on compliance with the recommendations under this section in the case described under subsection (i), while 68% answered “Yes” in the case described under subsection (ii). However, it should be noted with regard to both of those cases that issuers that have provided an answer other than “Yes” – an answer of “No” or N/A – accounted for 40% of the answers in the case described under subsection (i), and for 32% of the answers in the case described under subsection (ii), all of whom added to their response that no such comments, proposals were received from shareholders within the period under review until the deadline classified in the relevant act of legislation. It should be noted in respect of these results that the interpretations, practices applied by the issuers are not uniform in terms of whether they avail themselves of the opportunity to provide an answer of “Yes” to questions that are event-based (available since the amendment of the Corporate Governance Recommendations in 2012), if no such event occurred during the business year in question, but based on the statutes of the company and/or its practice, the company would have acted in accordance with the Corporate Governance Recommendations had such an event occurred.

1.3.10 Based on the recommendation of the BSE, the election and recall of executive officers should be provided for in separate resolutions for each person, instead of including several persons in one resolution. The level of compliance with this recommendation was also high, as 95% of issuers adhered to the above requirement. One of the issuers comprising the remaining 5% of issuers provided an answer of “No” to the question related to compliance with this recommendation because no senior executive officers were elected or recalled in the period under review. One of the issuers departed from the recommendation on the basis of simplification efforts. In connection with this section, it is preferred to refer back to the content of the last sentence of the assessment of the recommendation specified under 1.3.8.

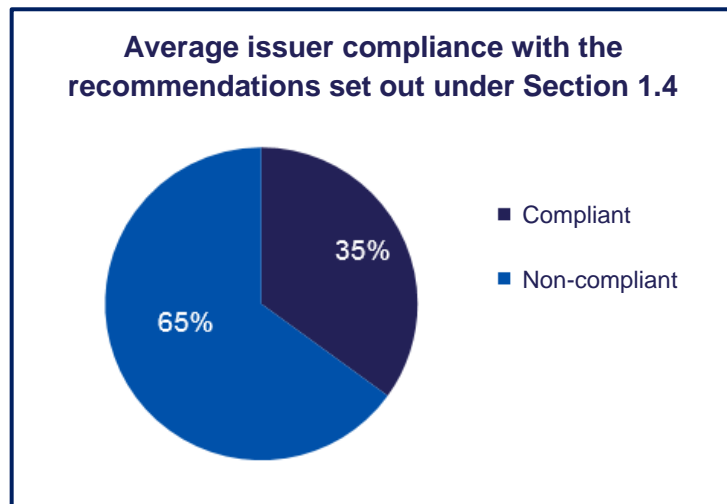
1.3.11 63% of issuers complied with the BSE's recommendation concerning the modification of the company's Statutes; the Shareholders' Meeting has to pass a separate resolution to determine whether to decide on each modification by individual votes, joint votes, or votes combined in a specific way, for the smooth and efficient execution of the meeting. It should be noted that there were issuers among those who had answered “No” and N/A that commented that their statutes had not been modified during the year under review.

1.3.12 90% of issuers complied with the expectation of the BSE that a company should publish the minutes of the general meeting containing the description of the draft resolutions, and the important questions and answers related to the draft resolutions within thirty days after the general meeting. Several issuers have added the comment (which could be considered limiting) to their affirmative answers that publication has occurred to the full or partial extent required by law.

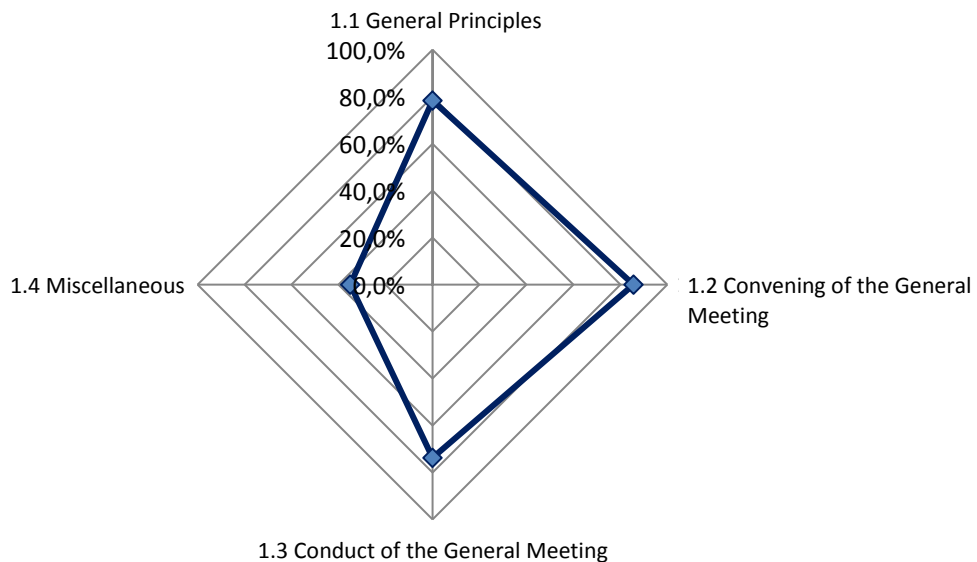


1.4.1 Only slightly more than half of the issuers (53%) complied with the BSE's expectation that if a shareholder has provided all the information and documents necessary for dividend payment, the company should endeavour to pay the dividend within ten business days.

1.4.2 The compliance ratio of issuers is particularly low (18%) with regard to the BSE's recommendation for companies to make public their policies on the anti-takeover devices used by the company.

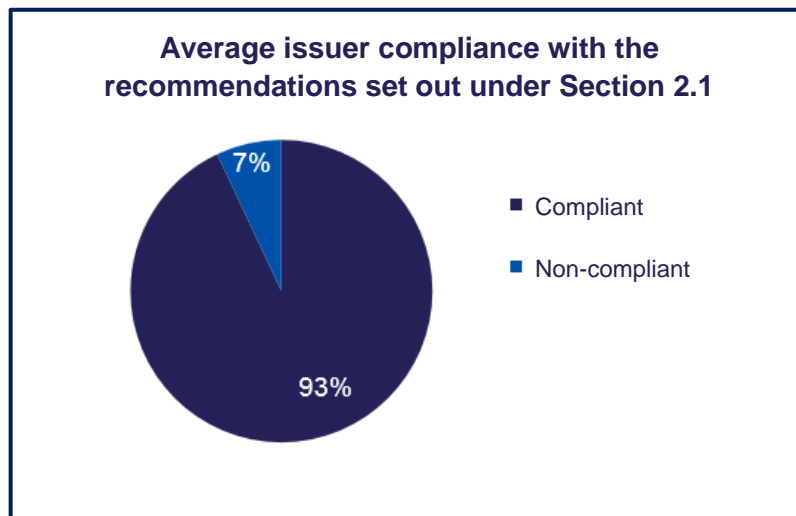


## Summary – Average issuer compliance with shareholder rights and procedures related shareholders



### 2.1–2.3 Meetings of the Administrative Board, Board of Directors, Supervisory Committee

2.1.1 The BSE drafted a recommendation on which areas it considers to be the most important tasks of the administrative board/Board of Directors. The specific tasks noted were the following: participation in the determination of strategic policies; verification of the execution of financial steps; together with the supervisory committee, identification and supervision of corporate objectives; ensuring the integrity financial and accounting reports; definition of remuneration and award principles; management of conflicts of interest; determination of risk management policies; development of appointment and leadership succession mechanisms; drafting and supervision of transparency policies; supervision of the effectiveness and efficiency of the corporate governance practice; and the development of the appropriate method of relationship management. The overwhelming majority of companies (93%) complied with the recommendation. One of the companies that provided a negative answer to the question related to the company's compliance with the recommendation (7% of issuers) justified the answer by stating that every matter that is not within the purview of the general meeting, or the exclusive competence of another corporate body, as per the provisions of the Statutes of the company, belongs in the competence of the Administrative Board (or the executive committee, if the Administrative Board has transferred the relevant responsibilities), however, the list of responsibilities included in the Statutes and the rules of procedure of the Administrative Board do not fully cover the list featured in the recommendation. The other – non-compliant – issuer stated that the nature of the company's activities makes the use of different solutions necessary.



## 2.3 Administrative Board/Board of Directors and supervisory committee Meetings and Meeting Agenda Items

2.3.1 According to the recommendation of the BSE, the administrative board/Board of Directors should conduct meetings at regular, precisely identified frequencies. The vast majority of the issuers (87.5%) complied with this recommendation. Different reasons were stated by non-compliant issuers, explaining their departure from the recommendation. Therefore, in the case of most of the non-compliant issuers, meetings were convened as/if necessary. There were also answers that stated that the Administrative Board convenes four times every year, however, the dates of the meetings are not identified in advance. It should be noted that, according to the Civil Code, the administrative board/Board of Directors should prepare a report on the executive management, the asset situation of the company and its business policy for the general meeting at least once in a year, and if the corporation has a supervisory committee, a report on the same should be prepared for the supervisory committee every three months.<sup>2</sup> As a result, departure from the recommendation could also mean infringement of the relevant statutory provisions.

The BSE recommends that the supervisory committee also holds meetings at a regular, pre-identified frequency. The majority of issuers (67.5%) complied with the recommendation, while the issuers that did not comply with the recommendation (32.5%), were not able to do so due to the lack of a supervisory committee.

The BSE issued a recommendation on ensuring that the administrative board/Board of Directors provide for the conduct of meetings that cannot be planned in advance, and on the matter of providing for decision-making via electronic means in the interest of ensuring that the meeting can be conducted without hindrance. The vast majority of issuers (97.5%) complied with the recommendation; only one issuer stated that the reason for its non-compliance was that in-person attendance of extraordinary meetings was required by the company.

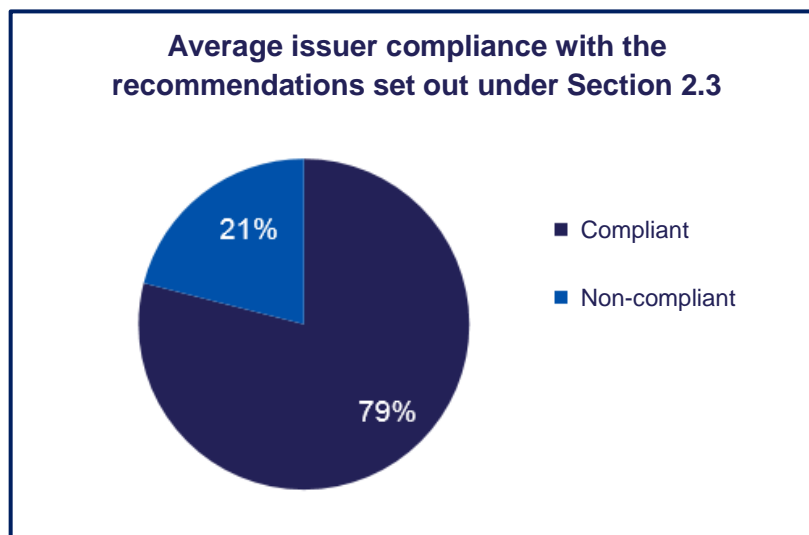
The BSE also issued the above recommendation with respect to supervisory committees, meaning that the rules of procedure supervisory committees should also provide for the conduct of meetings that cannot be planned in advance, as well as on decision-making via electronic means. The majority of the issuers (70%) complied with the above recommendation, with 22.5% of the non-compliant

<sup>2</sup> Section 3:284 (1) of Act IV of 2013 on the Civil Code.

issuers stating that the reason underlying the non-compliance is that no supervisory committee exists in the companies, whereas in the remaining cases, departures stemmed from the prohibition of extraordinary meetings, holding of extraordinary meetings with the requirement of in-person attendance, or the lack of provisions on the use of electronic telecommunication means.

2.3.2 The BSE recommends that members of an executive body have access to the proposals to be presented at the meeting of the executive body at least five days prior to the meeting. 82.5% of the issuers complied with this recommendation. One issuer explained its departure from the recommendation: pursuant to the relevant procedures of the company, members of executive bodies receive the proposals to be presented at the meeting of the executive body three days prior to the meeting.

2.3.3 The BSE recommends that the rules of procedure for executive bodies provide for the regular or ad hoc attendance of non-members at the meetings of the executive body 67.5% of the issuers complied with this recommendation.

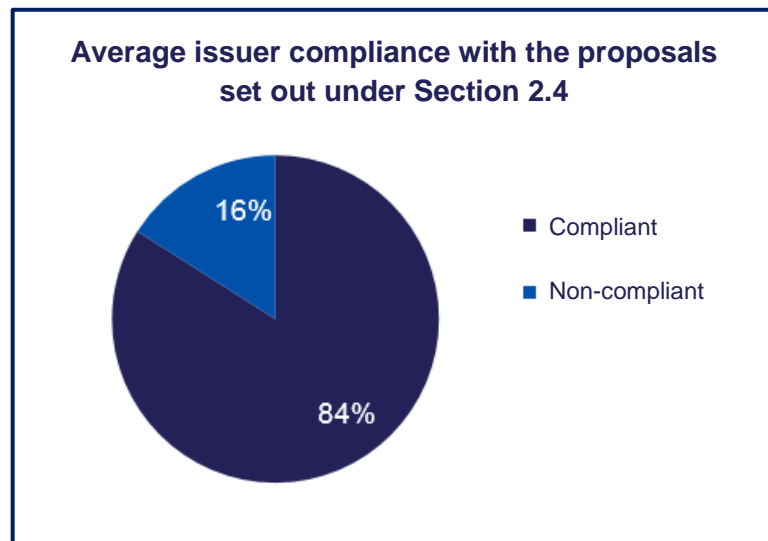


## 2.4 Members of the Administrative Board/Board of Directors and the Supervisory Committee

2.4.1 According to the BSE's recommendation on executive body membership, members should be elected in a transparent manner and information on candidates should be published at least five days before the general meeting. 80% of the issuers complied with this recommendation.

2.4.2 95% of the issuers complied with the BSE's principles on the composition and headcount of executive bodies.

2.4.3 Three quarters of the issuers (75%) complied with the BSE's expectations on the use of an onboarding program for newly elected executive body members.

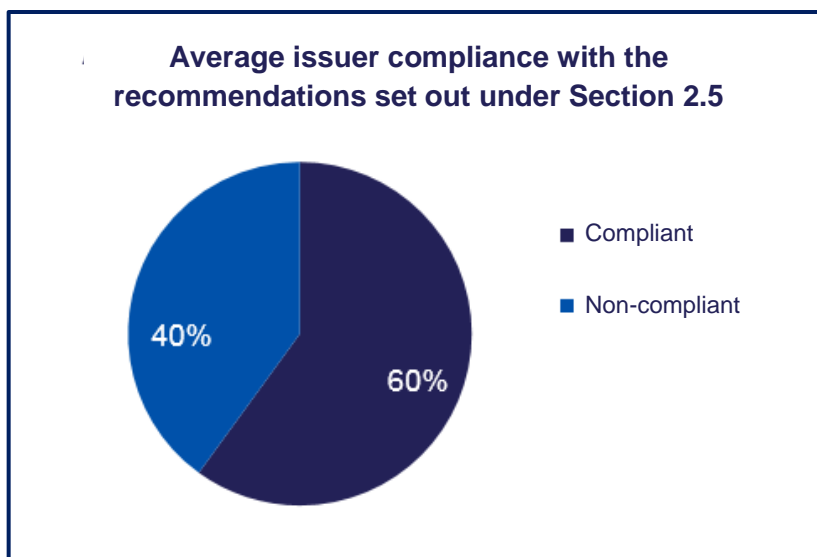


## **2.5–2.6 Transparency, flow of information, conflicts of interest, and independence in the Administrative Board, Board of Directors, and the supervisory committee**

2.5.1 The large majority, 92.5% of the issuers complied with the recommendation that in the interest of ensuring impartiality, there should be a sufficient number of independent members in the Administrative Board, Board of Directors, supervisory committee. The explanations provided by the remaining 7.5% of issuers was not sufficient, as they did not provide a specific explanation for their lack of compliance with the recommendation. (Therefore, the explanation that stated that “the majority of the members of the supervisory committee must satisfy the relevant independence criteria in a company that has a Board of Directors operating in a non-uniform governance system” is not sufficient. Neither is the explanation, “the Administrative Board coordinates the operation of the company adequately, and only the supervisory committee has independent members; while the explanation stating that “two members of the Administrative Board are employees at the company” is not a sufficient explanation either.). The statutory provisions on the composition of the Board of Directors/supervisory committee require that the majority of the members of these bodies be independent. Therefore, departure from this recommendation also constitutes a violation of the law.

2.5.4 The BSE made a recommendation according to which the administrative board/Board of Directors should require its members to confirm their independence on a regular basis (in connection with the annual FT report). The relative majority (62.5%) of issuers complied with the recommendation. 10% of the issuers partially complied with the recommendation, while the others did not comply with the recommendation, as one of them stated that the company did not have a supervisory committee in the year in question, whereas in the case of another three issuers, the Administrative Board did not comply with the requirement but the supervisory committees did. Of the 27.5% non-compliant issuers, two stated that the Civil Code does not require companies to confirm the independence of the executive body members, and used this argument to explain the departure from the recommendation. One of the issuers did not provide an explanation. In another, members provide updates on any changes in their status proactively to issuers. In their explanations, the other issuers stated that independent members satisfy the relevant criteria. Although the confirmation of the independence of executive body members is not required by law, the issuer can only satisfy the requirement of independence if they check compliance on a regular basis (at least every year).

2.5.6 Based on the recommendation of the BSE, companies are advised to publish on their websites the independence criteria applied to their Administrative Board, Board of Directors, and supervisory committee. Only 17.5% of issuers complied with the recommendation. The majority of non-compliant issuers (82.5%) stated that they acted in accordance with the contents of the Civil Code. Furthermore, there were companies that cited the absence of supervisory committee as a reason. Furthermore, one company noted that the relevant rules of procedure contain the conflicts of interest and independence criteria, which were published on the company's website. Another company made a promise to ensure compliance with the recommendation the next year.



2.6.1 Based on the recommendation of the BSE, the member of the administrative board/Board of Directors informs the body and the supervisory committee or the audit committee if they personally have a significant interest in one of the transactions of the company (or any of the subsidiaries thereof) or if any closely related persons have such a significant interest. The vast majority of the companies (67.5%) comply with the recommendation, whereas the remaining issuers (32.5%) answered “No”, because no such cases occurred in the period under review. Failure to provide such information is cause for concern because obtaining this declaration is also indispensable for the determination of the independence of the member of the Board of Directors/supervisory committee.

2.6.2 The BSE considers it important to ensure that more stringent transparency rules are applied to transactions between the company, its subsidiaries and management members and persons closely related to them. Slightly more than half, 57.5%, of companies declared that they comply with the recommendation. The remaining 42.5% only stated that they did not comply with the recommendation because no such cases occurred during the period under review. Another two companies stated that these transactions were conducted pursuant to the transparency rules set out in the general terms of business. In one case, such transactions were only possible following the joint approval of the supervisory committee and the Administrative Board.

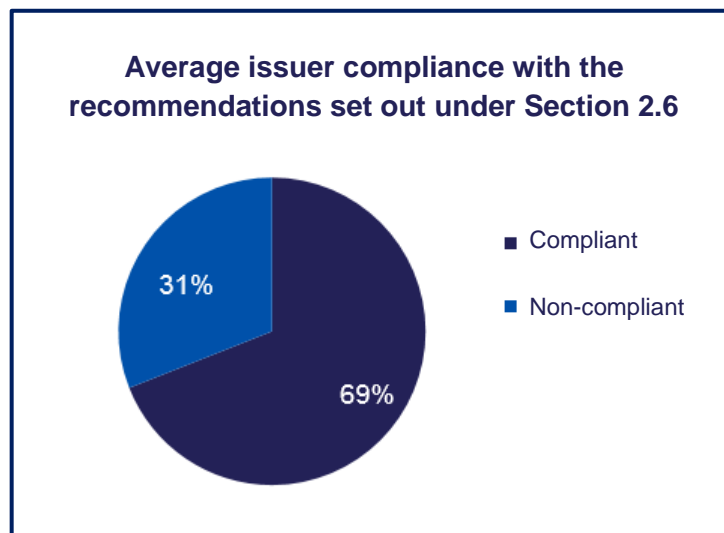
The following recommendation of the BSE, which states that companies are advised to seek approval from the supervisory committee and/or the audit committee for transactions that depart from the above general practice, is related to the above recommendation. Less than half of issuers i.e. 42.5% complied with this requirement. 57.5% failed to comply with the recommendation. The supervisory committee is informed of such transactions at two of the companies included in this group. Two companies cited the fact that the company does not have a supervisory committee as the reason

underlying the departure from the recommendation. Several companies mentioned that their departure from the recommendation was caused by the fact that they had not encountered such cases. One company did not provide an explanation.

2.6.3 Furthermore, the BSE considers it expedient for executive body members to inform the supervisory committee/audit committee (nominating committee), if they have received any solicitations for membership in the executive bodies, or management of other companies that are not part of the company group. 67.5% of issuers complied with this recommendation. Several of the 32.5% of issuers that did not comply with the recommendation mentioned that no such solicitations had taken place. In one case, the company stated that a member should inform the Board of Directors of such solicitations and also mentioned that the chairman of the supervisory committee attends the meetings of the Board of Directors as a standing attendee.

2.6.4 The BSE considers it particularly important to ensure that the directors/Board of Directors create the rules of procedure on the flow of information and the management of insider information within the company. The vast majority of companies, 90%, declared that they comply with the recommendation. Out of the other non-compliant companies (10%), in one case, this matter was regulated by way of a CEO directive. In another case, a separate rules of procedure was drafted on the management of insider information, but no rules were set out in regards to the flow of information. Another two issuers decided that creating such policies was not necessary due to the size and small number of employees at the company.

2.6.5 Based on the recommendation of the BSE, companies are also advised to set out requirements on the securities trading of insiders. 87.5% of issuers complied with the contents of the recommendation. One of the issuers that did not comply with the recommendation (12.5%) stated that it acted in accordance with the applicable acts of legislation and did not consider it necessary to set out such regulations; one of the issuers did not provide a response. In another case, the matter was regulated by way of a CEO directive.





## 2.7 Performance evaluation, remuneration of the Board of Directors/administrative board, supervisory committee

2.7.1 The directors/Board of Directors is advised to draft remuneration guidelines with regard to the remuneration of the members of the supervisory committee and of management. Substantially less than half, 35%, complied with the recommendations. Several of the issuers that did not comply with the recommendation (65%) mentioned that, in their companies, this task was within the purview of the general meeting. Others have stated that the drafting of such guidelines has not been necessary so far; they did not think that these guidelines should be drafted, either because no such remuneration occurred or because remuneration is determined on a different basis, e.g. it depends on consideration or is not performance-based. The statutory provisions place the adoption – but not the drafting – of the remuneration guidelines within the exclusive purview of the general meeting, therefore failure to meet this requirement is cause for concern.

The BSE's recommendation for the supervisory committee to provide an opinion on these directives is also related to this. Even fewer issuers, 32.5%, complied with this recommendation. The remaining 67.5% of issuers cited several different reasons. There were some that mentioned that their companies did not have a supervisory committee. Several issuers noted that they do not have such directives, and there were others that mentioned that these tasks were not within the purview of the supervisory committee.

The BSE's proposal stating that the general meeting should approve the remuneration principles of the administrative board/Board of Directors and that of the supervisory committee in a separate agenda item is also related to recommendation no. 2.7.1. Only 45% of issuers complied with this recommendation, while the remaining issuers (55%) failed to do so, citing various reasons. Many issuers noted that this is not an issue that belongs within the exclusive competence of the general meeting, and some issuers mentioned that the general meeting only decides on the extent of the remuneration but not on the principles on the basis of which that remuneration is provided. Several issuers have mentioned the lack of remuneration guidelines. There are some issuers that did not provide an explanation, while others have mentioned that they did not have a separate remuneration system. For any joint stock companies traded publicly in accordance with the Civil Code, the long-term remuneration and the definition of the incentive programmes for senior executive officers, members of the supervisory committee and employees in leadership roles falls within the exclusive purview of the general meeting and, therefore, the statutory provision partially overlaps with the recommendation.<sup>3</sup>

2.7.2 The administrative board/Board of Directors should evaluate its own performance during the business year in question. The majority of issuers, 85%, complied with this recommendation of the BSE. The other companies (15%) either mentioned that no such evaluation had occurred, or stated that this is not a matter that is within the purview of the administrative board/Board of Directors; and one company made a promise to comply with this recommendation in the future.

2.7.2.1 The supervisory committee should also evaluate its own performance during the business year in question. 75% of issuers complied with this recommendation. The remaining 25% cited several different reasons, among them the lack of a supervisory committee, and the fact that they would comply with the recommendation in the future.

2.7.3 Controlling the performance of and establishment of the remuneration for the executive management falls within the competence of the administrative board/Board of Directors. 72.5%

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<sup>3</sup> Section 3:268 (2) of Act IV of 2013 on the Civil Code.

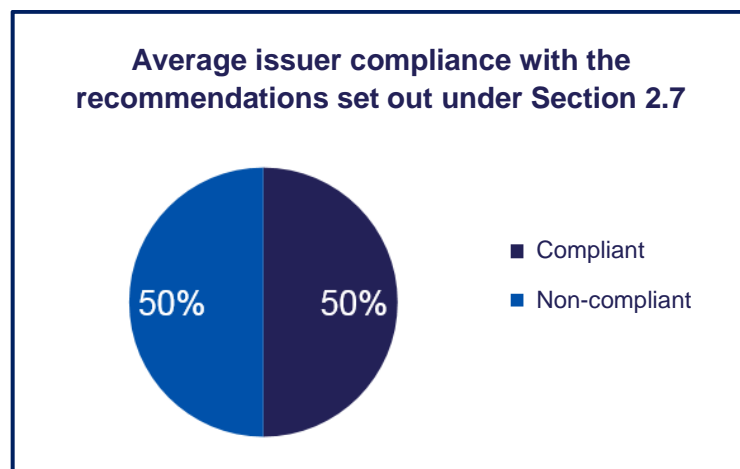
complied with the recommendation; 2.5% partially complied with the recommendation, while the remaining companies (25%) departed from the recommendation, mainly citing reasons of a lack of purview.

2.7.4 Approval should be sought from the general meeting in terms of the principles of stock-based remuneration arrangements. 37.5% complied with the recommendation; while the remaining 62.5% of issuers stated that no such remuneration arrangement exists in their companies.

Prior to the above decision, the shareholders must be informed in detail. Interestingly, more issuers complied with this recommendation (40%), even though in principle they do not use such remuneration arrangements. Companies that do not comply with the recommendation (60%) have mentioned the lack of such an arrangement as the reason explaining their departure from the recommendation.

2.7.7 The company prepared the remuneration declaration and tabled it to the general meeting. Only 40% complied with this recommendation, while the remaining 60% did not comply, saying that they did not have such an arrangement or such arrangements did not fall within the purview of the general meeting.

The remuneration declarations must contain the remuneration of the administrative board/Board of Directors, supervisory committee, and management. 55% did not comply with this recommendation citing the above reasons, while 45% of the issuers complied with the recommendation.



## 2.8 The System of Internal Controls and Risk Management

2.8.1 A large majority of the issuers complied with the BSEs recommendations on risk management (namely that the administrative board/Board of Directors or the committees operated by it are responsible for the supervision and management of the entirety of the company's risk management): 92.5%; the administrative board/Board of Directors reviews the effectiveness of risk management procedures at a pre-identified frequency: 90%; the administrative board/Board of Directors took the necessary steps to identify the most important areas of risk: 95%). Different explanations have been provided to explain the negative responses: the company's size does not justify it, there is no financial activity, and in one case no explanation was provided.

2.8.2 70% of the issuers complied with the risk management related proposal according to which it is recommended that the administrative board/Board of Directors develop its fundamental risk management principles and fundamental rules of risk management in cooperation with those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company's daily operations.

2.8.3–2.8.5 The level of issuer compliance with recommendations on the general issues of internal controls is relatively high. The administrative board/Board of Directors of 80% of issuers developed the principles related to the system of internal controls. The system of internal controls developed by management in 82.5% of BSE issuers ensures the management of the risks inherent in the business activity of the companies, and the attainment of their corporate objectives. 85% of issuers stated that their administrative board/Board of Directors took the aspects featured in the Corporate Governance Recommendations of the BSE into consideration during the development of their internal control system. 82.5% of issuers stated that it is the management's task and responsibility to establish and maintain a system of internal controls. There were several explanations that mentioned the size/lack of a business organisation, or the company itself. Therefore, such a response was typically received from small and medium-cap companies. At the same time, there was one issuer that had a well-structured risk management and internal control system, but provided a negative response due to the way in which the question was asked, as it only partially complied or only complied with the recommendation with amendments.

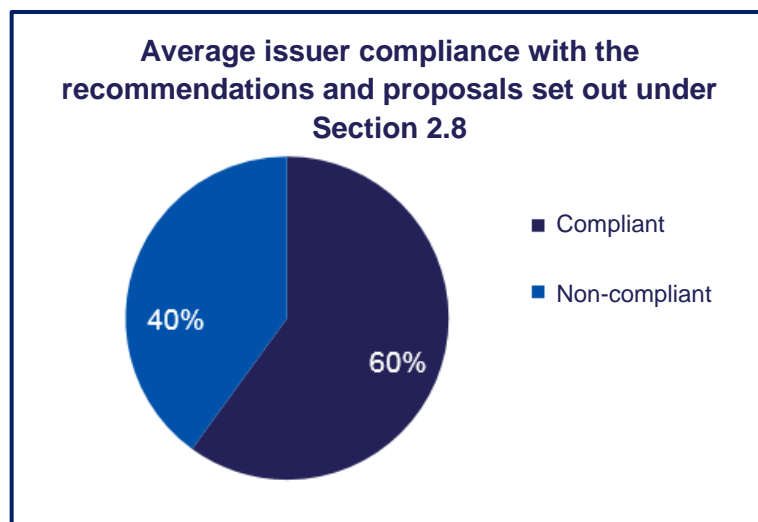
2.8.6–2.8.8 The level of compliance by BSE issuers was significantly lower on questions requesting a more detailed, content- or process-related account of internal controls: less than half of issuers complied with any of the recommendations. Only 35% of issuers created an independent internal control function that reports directly to the audit committee/supervisory committee. Only 40% of issuers complied with the recommendation that requires the internal audit group to submit a report at least once a year to the audit committee/supervisory committee on the operation of the risk management, internal control, and corporate governance functions. Less than one quarter of issuers (22.5%) said that internal audit and internal audit activities were conducted based on a mandate from the audit committee/supervisory committee. 35% complied with the recommendation according to which internal audit should be organisationally separated from management in charge of operating tasks. The internal audit plan was approved by the company's administrative board/Board of Directors (supervisory committee) based on a recommendation from the audit committee at only 37.5% of issuers. 42.5% of issuers stated that it was the administrative board/Board of Directors that prepared the report on the status of the operation of internal controls for shareholders. 40% of issuers provided an affirmative answer to the recommendation according to which the administrative board/Board of Directors should develop its procedures on the receipt, processing of reports compiled on the status of the operation of internal controls, and on the preparation of its own related report.

2.8.10 Pertaining to the recommendation related to the more detailed, content- and process-related issues of internal controls, 60.4% of BSE issuers complied with the recommendation, which advises that the company's administrative board/Board of Directors take the aspect featured in the Corporate Governance Recommendations of the BSC into consideration for the evaluation of the company's internal control system.

The explanations for the negative responses provided for questions related to the more detailed, content- and process-related issues of internal controls are mostly related to the assertion that the size of the company does not require compliance; no business organisation exists that would need to be controlled; management performs the internal control function, and/or that the issuer does not have an organisational unit responsible for internal control.

2.8.11 Nearly half of issuers (52.5%) stated that their administrative/Board of Directors identified a significant shortcoming in the internal control system and conducted a review and assessment of the related activities as a result. 15% of the responses, however, are negative, because no shortcomings were identified, meaning that the review was, ostensibly, conducted.

2.8.12 Nearly half of issuers (47.5%) complied with the recommendation according to which a company's auditor should survey and evaluate the company's risk management systems and the risk management activities of company management and submit the related report to the audit committee/supervisory committee.



## 2.9 External Advisor, Auditor

2.9.1 Part of the proposals related to the topic are related to the recommendation that the rules of procedure for bodies/committees should contain provisions on the procedure to be followed if the services of an external advisor are used. The rate of compliance in respect of the various bodies and committees was low:

- Administrative Board: 37.5%,
- supervisory committee: 35%,
- audit committee: 32.5%,
- nominating committee: 7.5% (the typical explanation for “No” answers is that no such committee is in place at the company),
- remuneration committee: 7.5% (the typical explanation for “No” answers is that no such committee is in place at the company).

Overall, the ratio of negative answers provided to this group of questions is not explained. It is also noteworthy that there are five premium-category issuers where none of the rules of procedure contain provisions on the procedure to be followed for the use of an external advisor; and there's only one issuer where there was a procedure containing such provisions. At the same time, we found two standard-category companies that responded “yes” to all questions in the subsections. In one case, however, it is interesting that the company stated under section 3.1.1 that the company does not have a nominating committee, which means that the responses provided are inconsistent.

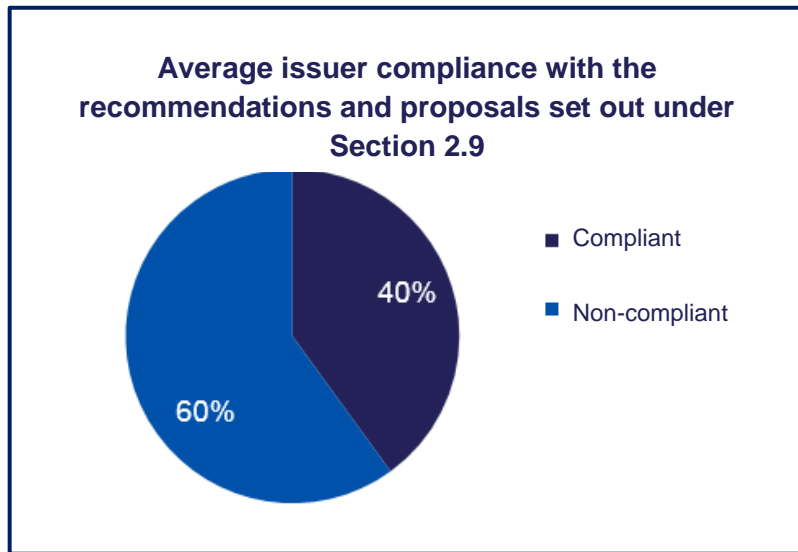
2.9.2 Only slightly more than half of BSE issuers (53.4%) provided an affirmative answer to the question of whether the administrative board/Board of Directors, supervisory committee, and the audit committee were notified in every case when the engagement of the auditor, due to the nature of the engagement, would potentially create significant cost implications, result in conflicts of interest or impact business in any other significant way. The negative answers provided, without exception, all related to the fact that no events that would trigger the notification specified in the recommendation occurred in the period under review. This does not allow for determining whether they would have complied if such an event had occurred. Furthermore, it is also unclear whether such an event occurred in each case for issuers providing a “Yes” response, or whether they would have verifiably complied with the recommendation if it had occurred, and therefore, they said they comply.

2.9.3 37.5% of issuers complied with the BSE recommendation, pursuant to which the administrative board/Board of Directors must notify the supervisory committee that it engaged the business association or external expert performing the audit in relation to an event that materially affects the company's operation. The typical explanation for non-compliance was that no such event occurred or no such assignment was given at the company, or that there is no supervisory committee in place at the company. It should be noted that the FDA body text also includes the notification of the audit committee as an option, but the questionnaire only features the supervisory committee. As a result, one premium-category issuer provided a negative response.

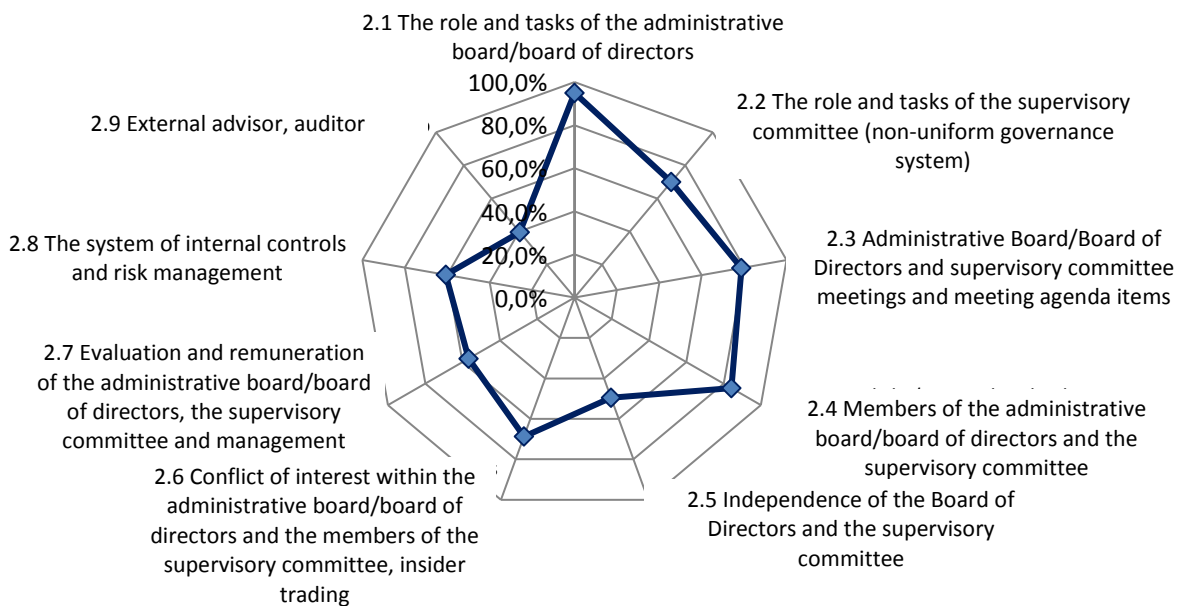
Barely over a quarter (27.5%) of issuers complied with the recommendation that states that in its resolution, the administrative board/Board of Directors should record in advance what events may be considered as materially affecting the company's operation. Among negative responses, several cited the fact that there was no such decision, or that the Board of Directors individually assesses the events materially impacting the given company. In the case of an issuer active in the insurance sector, the company referred to sector-specific legal regulations (Act on Insurance).

2.9.4 At the same time, issuer compliance was high (80%) with the recommendation according to which the administrative board/Board of Directors should invite the Company's auditor in an advisory capacity to the meetings where the board discusses the agenda items of the general meeting. According to the effective statutory provisions, the company's appointed auditor must be invited to the meeting of the supreme body of the company where the company's report is discussed, therefore, failure to do so constitutes a violation of the law.

2.9.5 Slightly fewer issuers, but still a vast majority (72.5%) complied with the recommendation that states that the internal audit cooperates with the auditor in the interest of the successful completion of the audit. The reason for non-compliance is typically the absence of internal audit, while one issuer active in the financial sector said that the legal regulation does not allow for this.



## Summary – Average issuer compliance on the scope of competence of the Administrative Board / Board of Directors and the supervisory committee



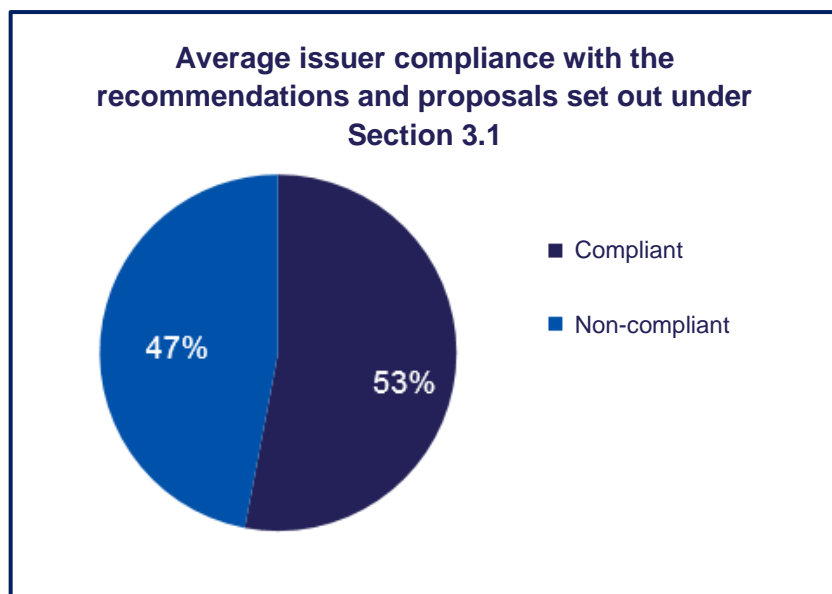
### 3.1 Committees: General Principles

3.1.2 Regarding the audit committee, the nominating committee and the remuneration committee, the Corporate Governance Recommendations set forth that the chairman of the relevant committee provide regular information to the administrative board/Board of Directors on certain meetings of the committee, and that the committee prepare at least one report for the managing body and the

supervisory committee in the given business year. Regarding the audit committee, which is also regulated by the Civil Code, the compliance of issuers is logically 8% higher (78%) compared to the previous year than – indicated as explanations for “No” answers – regarding the nominating committee and the remuneration committee, which companies put in place significantly less frequently (slightly more than one third of issuers gave “Yes” answers). In the case of the Audit Committee, higher compliance may also be hindered by the fact that, pursuant to the provisions of the Civil Code, the Audit Committee is a committee assisting the supervisory committee (and the Board of Directors), meaning that it reports to these bodies and not to the Administrative Board.

3.1.4 Compliance with the recommendation on committee members having appropriate and suitable skills, expertise and experience is also almost complete (98%) The level of compliance with the recommendation on the content of the rules of procedure of committees is also relatively high (75%).

3.1.6 In respect of the audit committee, the nominating committee and the remuneration committee, the Corporate Governance Recommendations set out proposals that the company publish on its website the tasks delegated to the audit committee, the objectives of the committee, its rules of procedure and composition (indicating members’ name, short biography and time of appointment). Regarding the audit committee<sup>4</sup>, which is also regulated by the Civil Code, the compliance of issuers is logically 9% higher (60%) compared to the previous year than – indicated as explanations for “No” answers – regarding the nominating committee and the remuneration committee, which companies put in place less frequently (one quarter of issuers give “Yes” answers).



## 3.2 Audit Committee

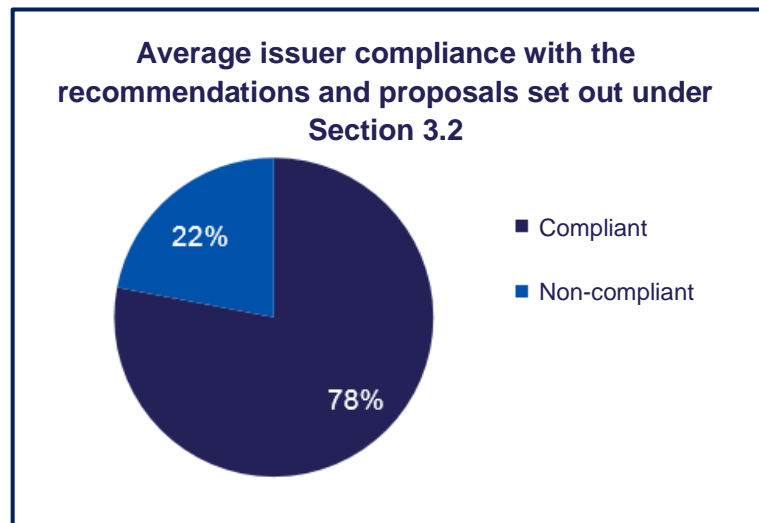
3.2.1–3.2.4 The tasks of the audit committee are set out in the Civil Code (as well as certain sector-level acts), and presumably this is the reason why the compliance of BSE issuers in matters related to the audit committee is relatively high, more than two out of three among all issuers (and even higher in the premium category):

- 75% of issuers comply with the recommendation that stipulates that the audit committee/supervisory committee supervise the efficiency of risk management, the operation

<sup>4</sup> Section 3:291 of Act IV of 2013 on the Civil Code.

of the internal control system and the activity of internal audit (the explanation for some of the negative responses was that this activity is performed by the Board of Directors, while in other cases negative responses cited internal organisational reasons, e.g. size of the company, absence of an internal audit unit),

- compliance is almost complete (99.8%) among issuers with the recommendation that states that the members of the audit committee/supervisory committee must receive comprehensive and full information on the unique features of the company's accounting, finances and operation.
- 75% of issuers (an improvement of 8% over last year) comply with the recommendation stating that the audit committee/supervisory committee has received accurate and detailed information on the audit programme of the internal auditor and the independent auditor; and has received the auditor's report on irregularities uncovered during the audit (the explanation for the majority of negative answers is that there is no internal auditor at the company);
- 65% of issuers comply with the recommendation that stipulates that the audit committee/supervisory committee request the new auditor candidate to submit the disclosure statement (the explanation for some of the negative responses was that there was no new auditor candidate at the company).



### 3.3 Nominating Committee

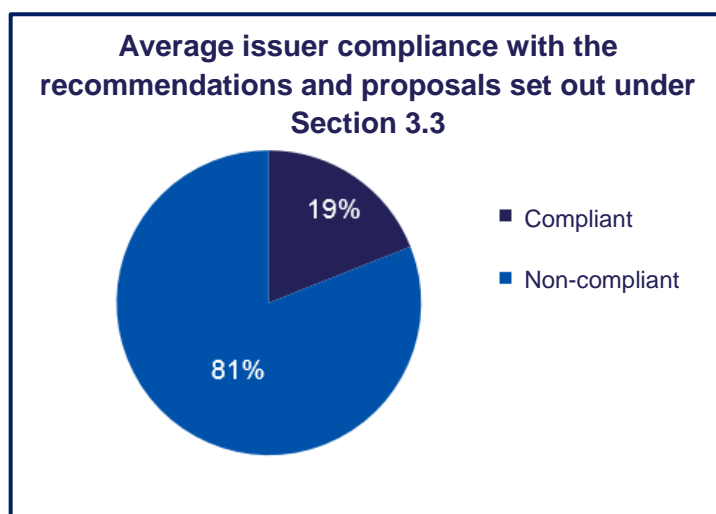
3.3.1 Among BSE issuers, very few companies have a nominating committee in place. Among the 40 publicly traded companies, only four premium- and one standard-category issuer (13% of all issuers, which is 23% less than in the previous year) gave a positive answer to whether it has a nominating committee in place. The reasons for the differences are typically the following: the Administrative Board is responsible for this task, nominations are made by shareholders, the size or activity of the company does not make this necessary or it is not set out by legal regulations. There are issuers that operate the nominating and remuneration committees as a merged committee, and there have been cases where the nominating committee convened only temporarily.

3.3.2–3.3.4, 3.3.5 The responses given to questions pertaining to tasks performed by the nominating committee feature slightly more “Yes” answers than in Section 3.3.1, because certain issuers, approaching questions from the content side, answered “Yes” to some questions even if the given activity – in the absence of a nominating committee – is performed by another corporate body. The



corporate governance reports also reveal that, among companies where a nominating committee has been put in place, the majority of the companies concerned gave a positive response to questions related to its operation. For issuers active in the banking sector, certain nomination-related matters are governed by sector-level legal regulations (ACIFE).

3.3.4 Respecting the composition of the nominating committee, the Corporate Governance Recommendations propose that the majority of nominating committee members should be independent. In relation to this particular proposal, four premium- and one standard-category issuers (13% of all issuers) declared that the majority of the members of the nominating committee are independent.



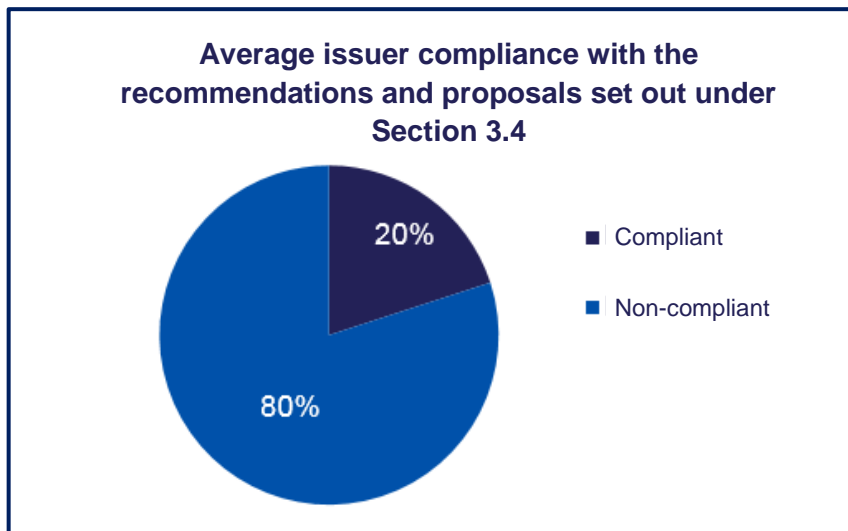
### 3.4 Remuneration Committee

3.4.1 Among BSE issuers, very few companies have a remuneration committee in place. Among the 40 publicly traded companies, only four premium- and one standard-category issuer (15% of all issuers) gave a positive answer to whether it has a remuneration committee in place. The reasons for the differences are typically the following: the Administrative Board is responsible for this task, such matters are decided on by the general meeting, the size or activity of the company does not make this necessary or it is not set out by legal regulations. There are some issuers that operate the nominating and remuneration committees as a merged committee, and there have been cases where the remuneration committee convened only temporarily.

3.4.2–3.4.5 The responses given to questions pertaining to tasks performed by the remuneration committee feature slightly more “Yes” answers than in Section 3.4.1, because certain issuers, approaching questions from the content side, answered “Yes” even if the given activity – in the absence of a remuneration committee – is performed by another corporate body. The corporate governance reports also reveal that companies where a remuneration committee has been put in place, the majority of the companies concerned gave a positive response to questions related to its operation. For issuers active in the banking sector, certain remuneration-related matters are governed by sector-level legal regulations (ACIFE).

3.4.6–3.4.7 Pertaining to the composition of the remuneration committee, the Corporate Governance Recommendations contain one proposal (the remuneration committee is made up solely of non-operative members of the Administrative Board / Board of Directors) and one recommendation (the

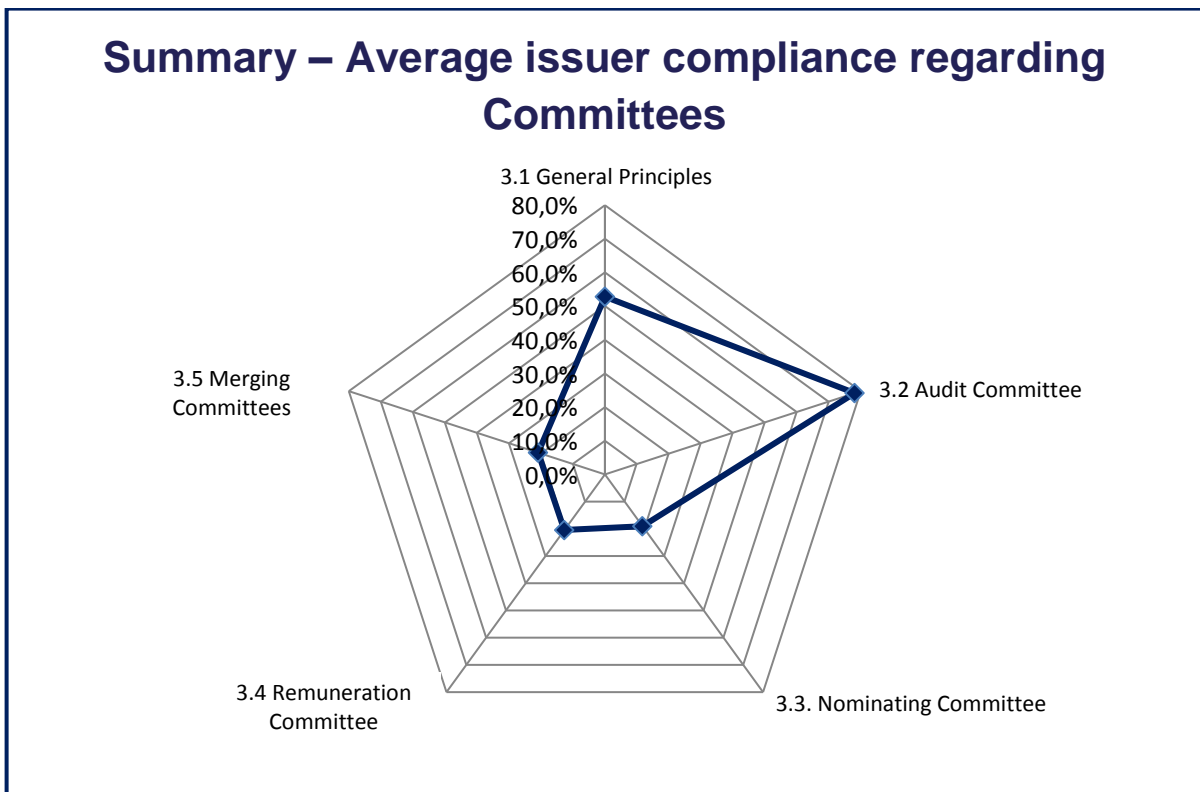
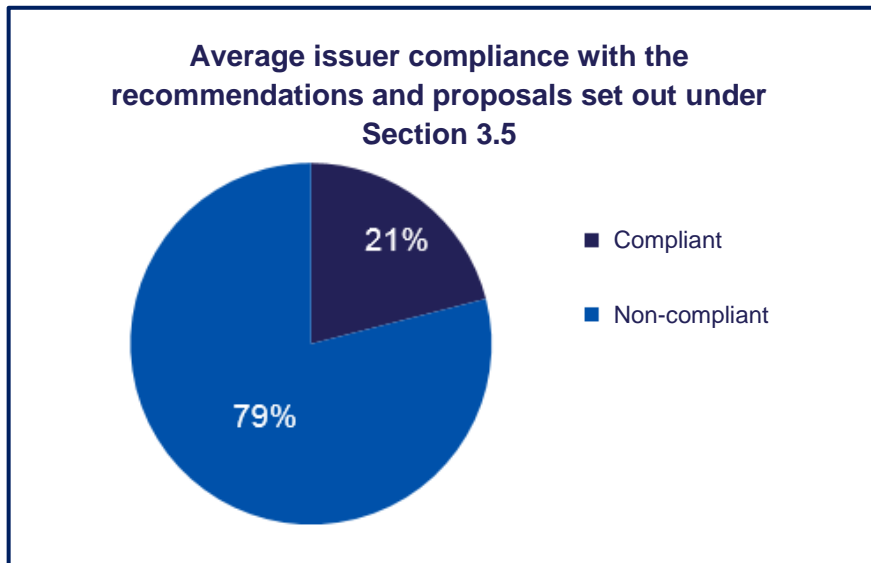
majority of remuneration committee members should be independent). Compliance with the recommendation on independent majority members corresponds to the answers given on the establishment of the committee, while only two premium- and one standard-category issuer (8% of all issuers, which is 37% less than in the previous year) comply with the recommendation on full membership.



### 3.5 Merging Committees

3.5.1 The nominating committee and the remuneration committee had been merged at two premium- and two standard-category issuers that disclosed the reasons for merging. In other words, compliance in the relevant, otherwise narrow (10%), group is complete.

3.5.2 Of BSE issuers, ten publicly traded companies (nyrt. – 25% of all issuers) released information that the Administrative Board/ Board of Directors is responsible for performing the tasks of the nominating committee and the remuneration committee. The reason for the majority of negative responses is structural in nature (i.e. these tasks are not performed by the Administrative Board / Board of Directors). However, in some cases, although the explanation is factual (e.g. no information is provided in case of matters regarding the general meeting, the company's shareholder composition, structure or size does not make the releasing of such information necessary), it does not help investors in clarifying the actual reason for the discrepancy.



#### 4. Transparency and Disclosure

4.1.1, 4.1.3 The vast majority of BSE issuers (77.5%) drew up disclosure guidelines on the basis of the recommendation setting out such guidelines. Five of these issuers, however, fail to elaborate on the procedures of electronic, online disclosure. The general justification of non-compliance is that the given issuer acts in conformance with legal regulations, BSE regulations and supervisory resolutions.

All company websites had been designed by taking disclosure aspects and the objective of providing information to investors into account.

4.1.2 Irrespective of share category, all issuers (100%) ensured that, as part of information provision, all shareholders and market players are subject to equal treatment and that the company's website is designed taking disclosure aspects and the objective of providing information to investors into account.

4.1.4 The survey aimed at the efficiency of disclosure processes was carried out by the vast majority of issuers (87.5%).

4.1.6 72.5% of issuers comply with the recommendation that the administrative board/Board of Directors, in its annual report and on its website, inform the public of its strategic objectives, as well as its policies on its core activity, business ethics and other stakeholder parties.

4.1.7 82.5% of issuers comply with the recommendation on preparing the company's financial statements in line with International Financial Reporting Standards (IFRS).

4.1.8 Exactly half (50%) of issuers comply with the recommendation that the Administrative Board / Board of Directors should, in the annual report, disclose the nature and size of any other assignments given to the auditing firm in charge of auditing the annual financial statements / reports by the company or its subsidiary. The reason behind some of the "No" answers is that in the given period, there were no such assignments and, as such, it is impossible to know whether the companies would have complied.

4.1.9 72.5% of issuers complied with the recommendation that the administrative board/Board of Directors, in its annual report and on its website, publish information on the professional careers of members of the administrative board/Board of Directors, supervisory committee and management. The explanation for most negative answers is that the given information is not published on each forum, and that the information in question is presented when nominating the members.

4.1.10 67.5% of issuers complied with the recommendation that the company disclose information on the internal organisation and operation of the administrative board/board of directors and the supervisory committee. In many cases, the explanation for non-compliance is that the company does not publish separate information since this information is already contained in one of the company documents (e.g. Statutes, rules of procedure of executive bodies). Negative answers were also given in cases where a company only failed to comply with one part of the complex question.

There was low compliance (40%) with the recommendation that the company provide information on the aspects taken into account when evaluating the work of the administrative board/Board of Directors and management as well as the individual members thereof. The explanation for many negative answers was that this information is available to the public as part of the annual general meeting process.

4.1.11 Less than half (45%) of issuers gave positive answers to the recommendation, according to which the company, in its annual report and in a remuneration declaration published on its website, should inform the public of the remuneration rules applied, in particular of the remuneration of the members of the administrative board/Board of Directors, the supervisory committee and management. The large ratio of negative answers is in relation to strict questioning, as three criteria must be met (annual report, website, remuneration declaration), meaning that companies that did not prepare a remuneration declaration or only published the information in one place gave "No" answers. Overall,

based on the responses, almost all issuers disclosed the information on the remuneration of members of the administrative board/Board of Directors, the supervisory committee and management in one form or another.

4.1.12 Less than half (42.5%) of issuers complied with the recommendation that the administrative board/Board of Directors must publish its risk management policies (details on the system of internal controls, the risk management principles applied and their fundamental rules and key risks). The typical explanation for negative answers was that the company only discloses data that is required by legal regulations. There are five issuers that do not even comply with recommendations 2.8.3–2.8.5, and as such have nothing to disclose. Another sixteen issuers drew up the guidelines relating to the internal control system, but did not publish these. It is worth adding that pursuant to Section 95 (6) b) of Act C of 2001 on Accounting, the risk management policy and the main risks arising in the given business year must be presented in the business report prepared as part of the annual report.

4.1.14 Slightly more than half (55%) of issuers comply with the recommendation, pursuant to which the guidelines relating to the trading of the company's shares and securities by insiders must be published on the company's website. The most frequent explanation of non-compliance was that the issuer complied with the provisions of the Capital Market Act in force at the time<sup>5</sup> and has the required internal policy in place.

The vast majority (80%) of issuers comply with the recommendation according to which the company, in its annual report and on the company's website, must disclose the share held by members of the administrative board/Board of Directors, the supervisory committee and management of the company's securities and their involvement in the equity-based incentive system. The main explanations for non-compliance were as follows: there is no equity-based incentive system in place, the issuer only complies with the disclosure of information set out in the legal regulations, or only typically provides such information in interim/annual reports.

4.1.15 Less than half (47.5%) of issuers complied with the recommendation that stipulates that the company must disclose, in the annual report and on the company's website, all relationships of the members of the administrative board/Board of Directors and management with any third parties that could impact the operation of the company. The explanation for the majority of negative responses was that there were or there are no such relationships, meaning this matter has been surveyed, although it is unclear. It would be expedient to harmonise this matter with the recommendations under Section 2.6.2 on conflicts of interest, as well as to further clarify the expectation of the Committee.

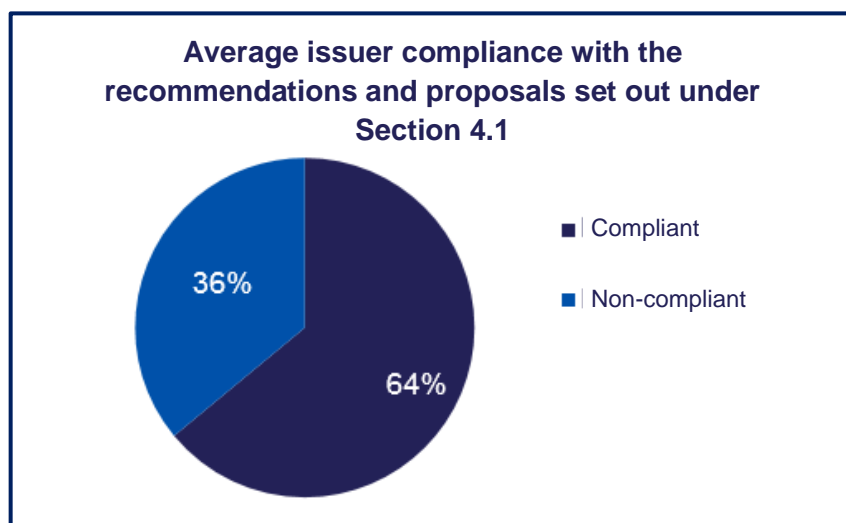
4.1.5., 4.1.13, 4.1.16 In cases where the legal regulation or the stock exchange regulations cover the applicable recommendation of the BSE in part or in whole, the compliance of all issuers or the issuers belonging to the applicable share category is complete, with one exception:

- All issuers in the premium category comply with the recommendation to disclose the calendar of events on the issuer website, and although one issuer has provided a negative response, they have been verified to comply. Apart from them, only four standard- and two technical-category companies comply. As a result, compliance among all issuers is 47.5% (adjusted for the incorrect response). The reason for this clearly is the fact that pursuant to the BSE'S GBR<sup>6</sup>, "Issuers of Premium Equities are obliged to publish their corporate event calendar by 1 January each year (or by the first day of the business year if a different year from the calendar year is used)".

<sup>5</sup> Section 201/D (7) of Act CXX of 2001 On the Capital Market was in force prior to 3 July 2016.

<sup>6</sup> Rules of Listing and Continued Trading, Book Two, Section 18.3.

- All issuers (100%) comply with the recommendation, which states that for the adequate information of market players, simultaneously with the publication of the annual report, the company shall disclose its report on corporate governance. The reason for this clearly is the fact that, pursuant to the BSE'S GBR<sup>7</sup>, “The equity's issuer is obliged to publish its Corporate Governance Report prepared in accordance with the ‘Corporate Governance Recommendations’, published by the Stock Exchange, concurrently with the disclosure of the annual report”.
- With one exception, all premium-category issuers comply with the recommendation on issuers providing English-language information, while apart from these issuers, only one standard-category company complies with this recommendation. As a result, compliance among all issuers is 32.5%. The clear reason for this is the fact that, pursuant to the BSE'S GBR<sup>8</sup>, “as the selected language (or as one of the selected languages), issuers listed or classified into the Premium Equities category are obliged to select English”.



<sup>7</sup> Rules of Listing and Continued Trading, Book Two, Section 18.2.

<sup>8</sup> Rules of Listing and Continued Trading, Book Two, Section 17.1.2.2.