



**Budapest Stock Exchange Ltd.  
Corporate Governance Committee Monitoring  
Report  
on the compliance with the Corporate  
Governance Recommendations**





## I. INTRODUCTION

The general purpose of the application of the 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 the issuing company's value, and also ensures that the rights of shareholders and other stakeholders are well-represented.

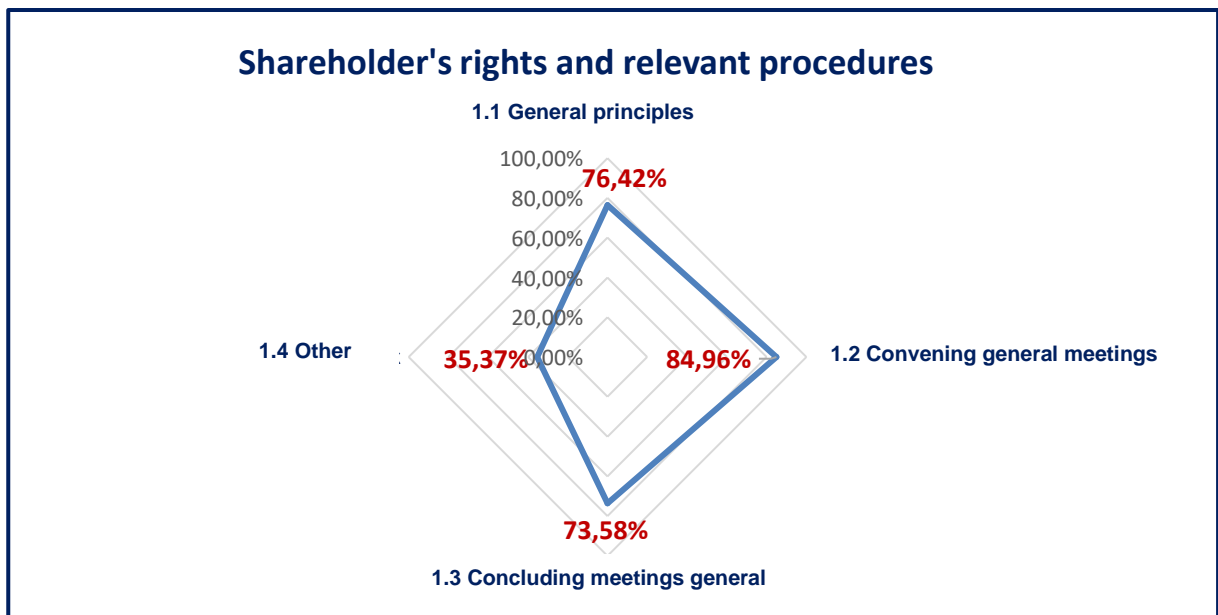
According to Commission Recommendation 2014/208/EU, in order to motivate companies to comply with the relevant corporate governance code or to better explain departures from it, efficient monitoring must be carried out at the national level, within the framework of the existing monitoring arrangements. As a professional committee of the BSE, the general tasks of the Corporate Governance Committee (the Committee) include the controlling of the continued development of Corporate Governance Recommendations by taking into consideration domestic industry requirements, EU legislation and other community acts of legislation, and general international trends, 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 2017 corporate governance reports provided by the issuers, and its most important findings are summarised in this Monitoring Report.

Based on the unique methodology applied for the purposes of this Monitoring Report, it focuses on the statistical data included in the corporate governance reports that concern level of compliance, emphasising the reasons underlying more important or typical deviations (in certain cases depending on which Market the issuer is categorized), and occasionally changes in terms of compliance compared to the previous year.

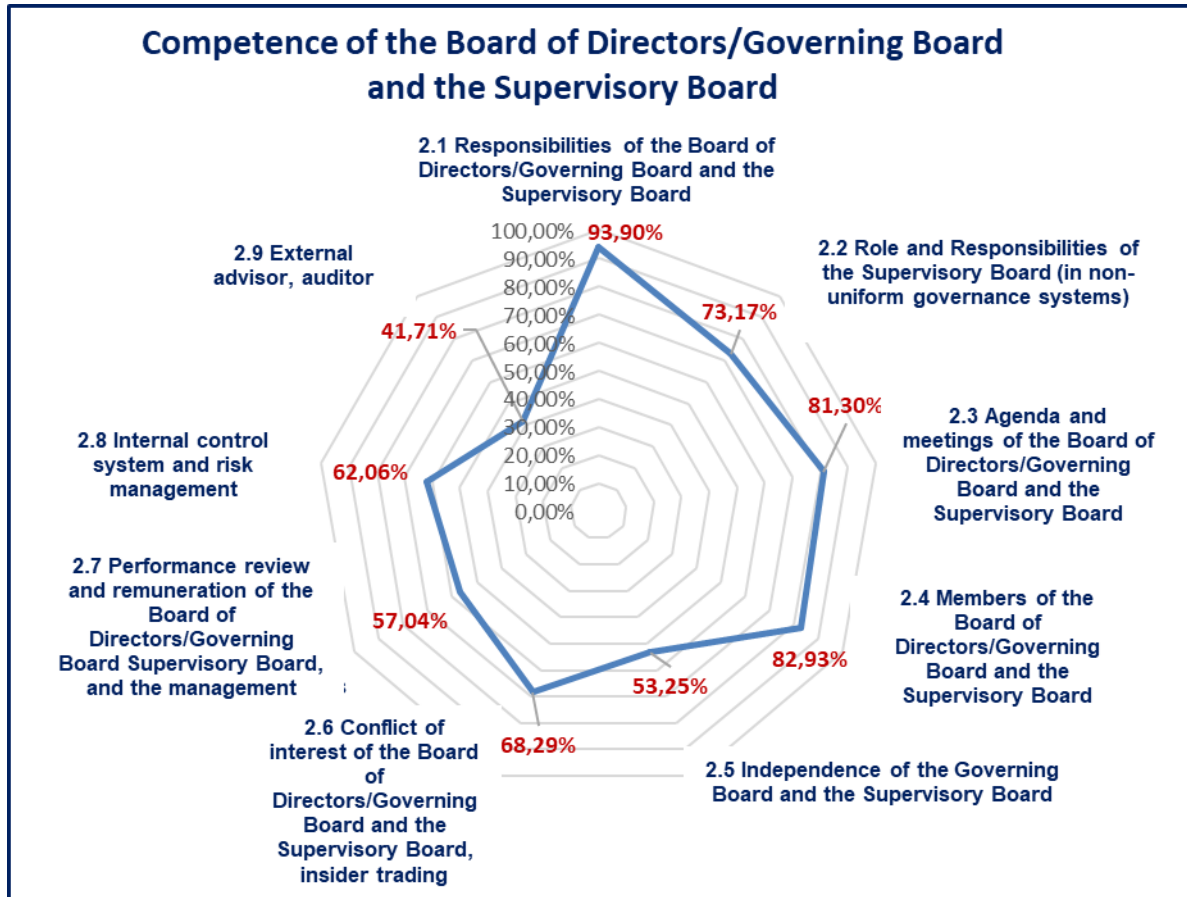
## II. SUMMARY CONCLUSIONS

In order to provide shareholders, investors and other stakeholders with the appropriate information, the Corporate Governance Committee of the BSE has made the following summary conclusions based on its review of the 2017 corporate governance reports published by the issuers, taking into consideration the provisions of Commission Recommendation 2014/208/EU.

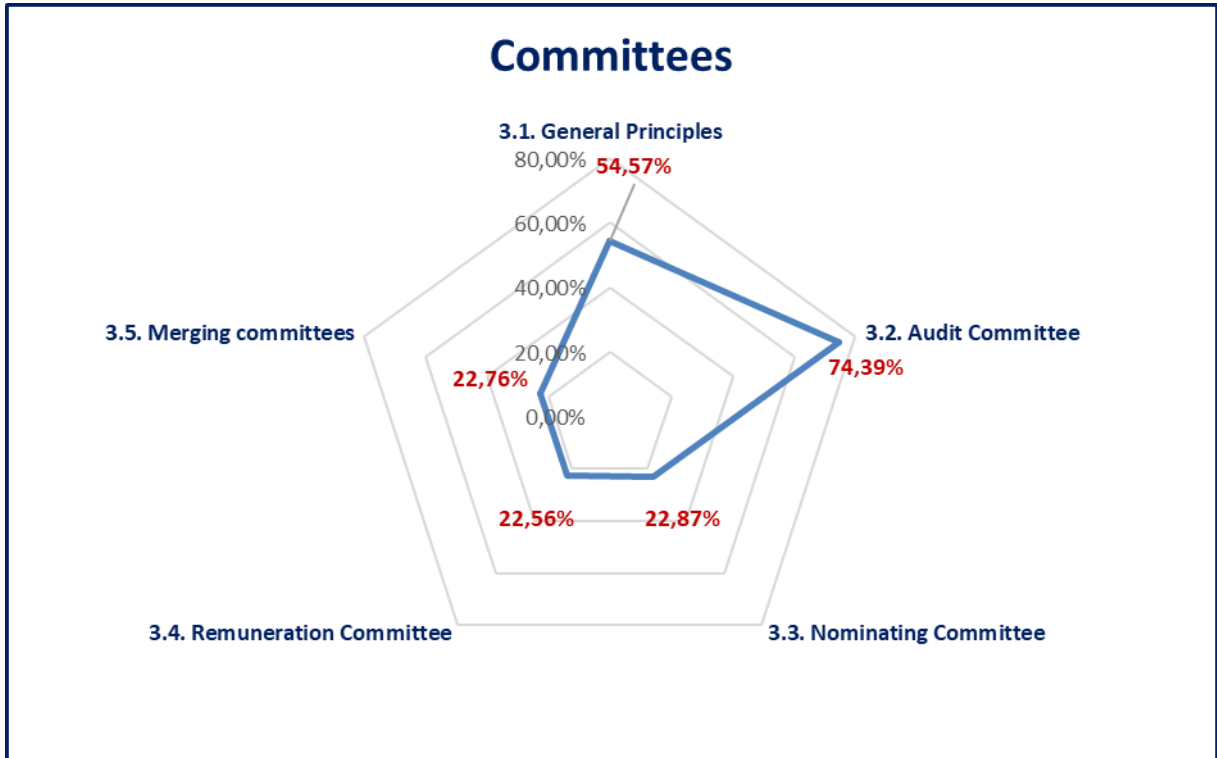
- 1 The reports show that the overall compliance rate of the recommendations is close to 60% (58.88%), which is almost the same as last year's overall compliance rate, showing an indicative 1% improvement.
- 2 A particularly positive point is that the compliance rate of general principles and requirements of shareholder's rights is 75,95%, in particular concerning the convening and conducting of general meetings, which are essential for public companies.



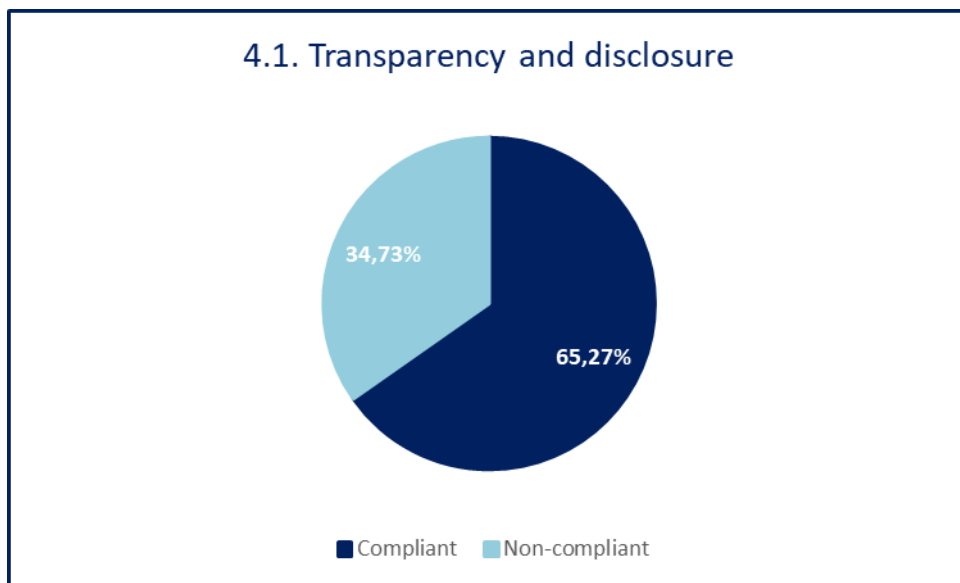
- 3 The average compliance rate for recommendations related to the operation of the Board of Directors/Governing Board and the Supervisory Board was 61.58%. In particular, recommendations on the role and tasks of the Board of Directors/Governing Board have been the most widespread practice (93,90%), while complying with recommendations for the auditors and for the use of external advisors (41,71%) seems to be more challenging. Compliance with the recommendations on the independence of executive officers is also relatively low (53.25%).



4. Compliance with the recommendations on setting up and operating the committees was extremely low (35.89%), similar to the last year. The compliance rate in the Audit Committee is fairly good, given the fact that this committee is governed by the Civil Code. The use of Nomination and Remuneration Committees has not yet become a common practice among issuers, as demonstrated by the low compliance rates (22.87% and 22.56%).



5. The average compliance rate of transparency and disclosure recommendations is 65.27%, which undoubtedly leaves room for an improving tendency, yet a positive example is that the expectations of the main transparency requirements were fulfilled in a higher proportion (such as the equal treatment and information of investors - 97.56%, reports prepared according to IFRS principles - 87.8%), however, English information and the publication of the corporate action timetable are still low (41.46% and 56.1%), although there is a clear improvement over last year.



A detailed description of the compliance with each recommendation, and possible explanations for the deviation could be found in chapter III.

### III. DETAILED ANALYSIS OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

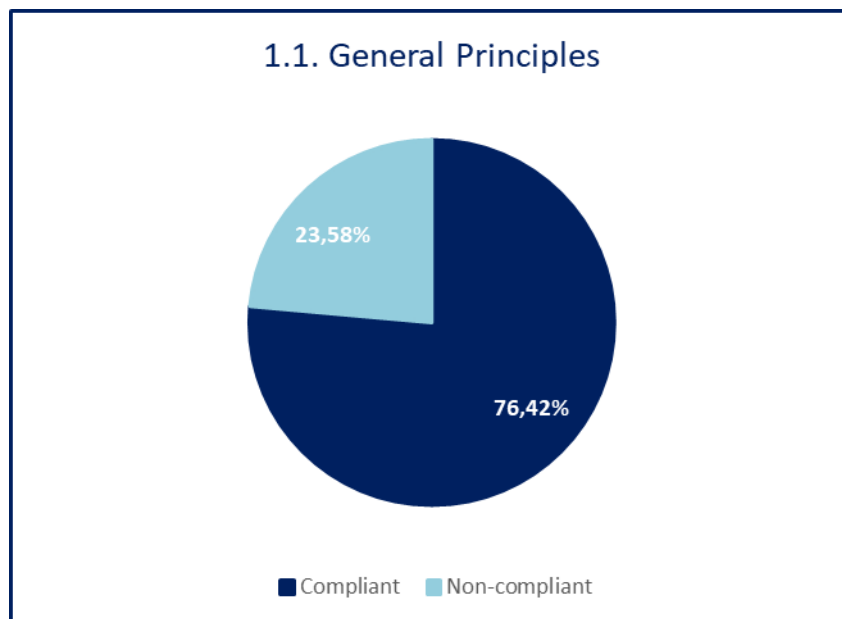
Annexes 2 and 3 of the Corporate Governance Recommendations of the BSE require issuers to declare the extent to which the recommendations and proposals of the Corporate Governance Recommendations issued by the BSE have been applied in their corporate governance practices, as part of their corporate governance reports. These issuer statements are summarized in Chapter III. of the Monitoring Report.

1. 1 Section 1.1.1 of the Recommendations provides that the Board of Directors/Governing Board shall ensure that the shareholders have access to the information necessary for exercising their rights in due time. In 2017, 95.12% of issuers complied with this recommendation.

According to Section 1.1.2 of the Recommendations, the company should apply the 'one share - one vote' principle in its equity structure. 70.73% of issuers complied with this recommendation.

1.1.1 95.12% of issuers complied with the BSE recommendation that requires the Board of Directors/Governing Board to ensure that the shareholders have access to the information necessary for exercising their rights in due time. This ratio is 4.88% below the 2016 compliance rate.

1.1.2 70.73% of issuers complied with the recommendation that requires the company to apply the 'one share - one vote' principle (70.73% is almost identical with the last year's 71%). The relatively high rate of deviation from the recommendation, as explained by the relevant issuers, is caused by the equity structure of the given company which also includes the preference equity series, and the voting rights restrictions set for certain equity series that do not qualify as ordinary shares.



## 1.2 – 1.3 General Meeting

1.2.1 85.37% of issuers complied with BSE's proposal which provides that the company publishes on its website the summary document regarding the conducting of the general meeting and the exercising of shareholders' rights to vote (including voting via proxy), this ratio is below the 2016 compliance rate by 2.13%. Non-compliant issuers did not give explanation.

1.2.2 95.12% of issuers complied with BSE's proposal providing that the company's articles of association are available on the company's website, which is below the 2016 compliance rate.

1.2.3 85.37% of issuers complied with BSE's proposal providing that the company publishes on its website the information set out in Section 1.2.3 of the Recommendations, which is slightly (by 2,13%) below the previous year's compliance rate. Non-compliant issuers did not give explanation.

1.2.4 95.12% of issuers complied with BSE's proposal providing that information set out in Section 1.2.4 of the Recommendations regarding general meetings (invitations, proposals, resolutions, resolution drafts, minutes), which is below the previous year's 100% compliance rate by 4.88%.

1.2.5 97.56% of issuers complied with BSE's proposal providing that the general meeting of the company shall be held in a way that ensures the greatest possible shareholder participation, which is below the previous year's 100% compliance rate by 2.44%.

1.2.6 65.86% of issuers complied with BSE's proposal providing that the additions to the agenda shall be published within 5 days of receipt, in the same manner as the publication of the original invitation for the general meeting, which shows a 3.35% improvement compared to the previous year. It should be noted that the majority of the negative respondents and the issuers who provided N/A response also replied that they had not received a proposal to supplement the agenda in the year concerned (in which case the answer could have been positive if the company had acted in accordance with its statutes, practice and with the provisions of the Recommendation).

1.2.7 97.56% of issuers complied with BSE's proposal that provides that the voting procedure applied by the company ensures unambiguous, clear and fast decision-making by shareholders, which is below the previous year's 100% compliance rate by 2.44%

1.2.8 97.56% of issuers complied with BSE's recommendation providing that the company ensures that shareholders meet the same requirements in order to attend to the general meeting, which is below the previous year's compliance rate by 2.44% (the reason for the deviation is the failure to convene the annual general meeting of one issuer).

1.2.9 According to the recommendation, the description of the items on the agenda and the related proposals should be clearly drafted and no further agenda items are discussed at the meeting. Proposals prepared for the items on the agenda should include an explanation of the impact of the decision and the opinion of the Supervisory Board.

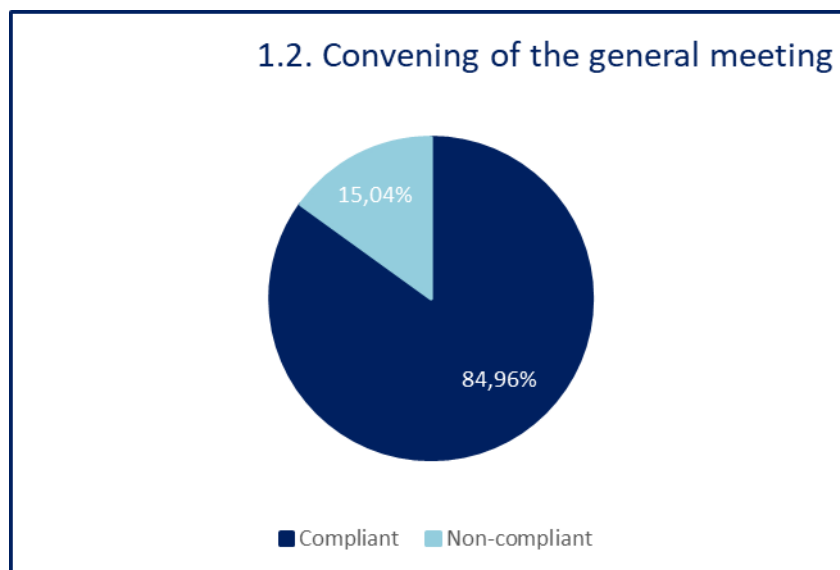


The compliance rate for the first part of the recommendation is very high (97.56%), but only slightly more than half (56.54%) for the second part. This number shows a downward trend, but it should be noted that several issuers have given a negative answer due to that the company does not have a Supervisory Board.

Many of the issuers considered that the nature of the decisions did not usually require a detailed explanation of the effects of the proposal, other issuers responded these questions at the general meeting before voting on the proposal.

1.2.10 65.85% of the issuers published shareholders' comments on and supplements to the items on the agenda at least two days prior to the general meeting, which is 2.44% better than the previous year's compliance rate. Respondents who gave negative answer replied that they did not receive such comments within the deadline, so there was obviously no doubt of compliance with the recommendation. (One issuer indicated that, although it had not yet complied with the recommendation for the above-mentioned reason, but as soon as such comment or addition occurs, it undertakes to publish it no later than two days prior to the general meeting.)

1.2.11 78.05% of issuers complied with BSE's proposal providing that the company shall also provide information on the general meeting electronically upon the shareholders' request, which shows a significant, 8.05% improvement compared to the previous year's compliance rate.



### 1.3 Conducting of General Meetings

1.3.1 82.93% of issuers complied with BSE's proposal providing that the person of the chairman of the general meeting should be approved by the general meeting before the discussion of the agenda items begins. At the four issuers where no separate resolution is made on the person of the chairman of the general meeting, the Articles of Association stipulates that the chairman of the general meeting is the chairman of the Governing Board/Board of Directors.

1.3.2 A relatively high portion of the issuers (90.24%) - although below the 2016 compliance rate by 7.26% - complied with the BSE proposal suggesting that the Board of Directors/Governing Board and the Supervisory Board should be represented at the general meeting in order that they can answer any questions that may arise. If they are unable to attend, the chairman of the general meeting should inform the general meeting before the discussion of the agenda items begins, giving the reason for their absence.

1.3.3 BSE proposal also suggests that the company's articles of association enable the Chairman of the Board of Directors or Governing Board to initiate the invitation of third parties to the general meeting and entitle them to participate and to comment on the agenda at the general meeting. Only less than half of the issuers (48.78%) complied with that proposal. One of the issuers responding "yes" added that they do not have an exclusion clause regarding the proposal. One of the respondents who answered "no" pointed out that the articles of association do not contain this provision, but the company's multiannual practice is accordingly adapted.

1.3.4 Compliance rate is quite large, but not full, almost identical to the 2016 ratio (97.56%) of the BSE proposal which suggests that issuers should ensure that shareholders attending to the general meeting are accorded the same ownership rights. The company should not prevent shareholders attending to the general meeting from exercising their rights to request information, make comments and submit a motion, and shall not stipulate any conditions to exercise these rights, provided they do not hinder the proper conduct of the general meeting.

1.3.5 53.66% of the issuers complied with the proposal suggesting that in the event that certain questions at the general meeting cannot be satisfactorily answered by the representatives of the company's bodies 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 three days of the general meeting, unless company interests justify otherwise. Should the company refrain from providing answers, an official statement should be published containing a detailed explanation for this, within three days of the general meeting.

1.3.6 95.12% of the issuers complied with the proposal suggesting that the Chairman of the meeting and the company should ensure not to infringe the applicable laws, regulations and BSE regulations by answering the risen questions. Compared to the 100% compliance rate in 2016, the decrease was caused by the failure of the annual general meeting of one issuer.

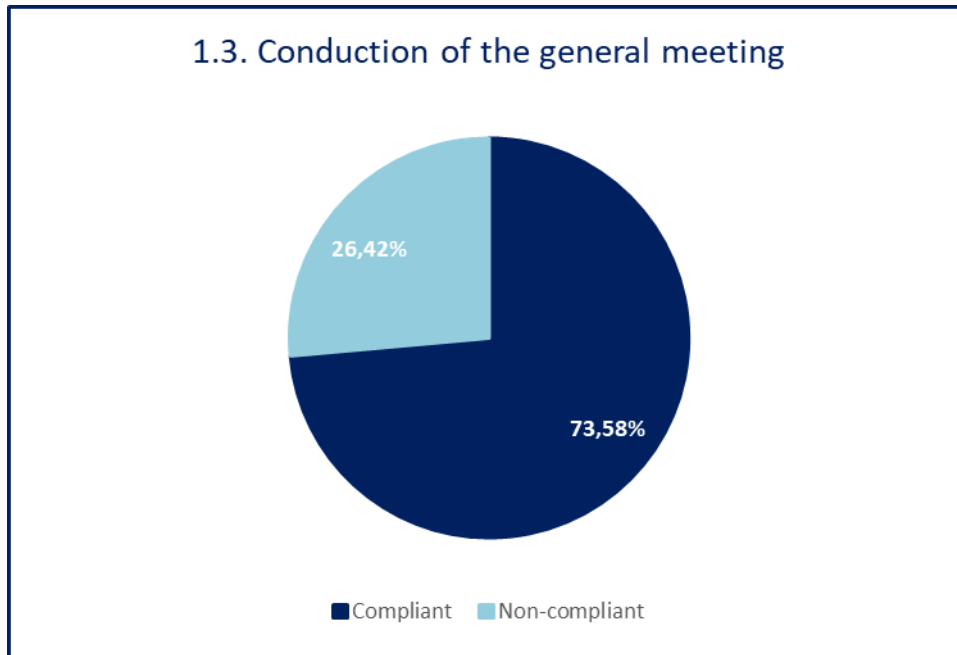
1.3.7 The compliance rate of the BSE proposal is relatively low (41.46%), but compared to last year's compliance rate it has improved, which suggests that decisions passed at the general meetings of the company having significant influence on the company's operations are published in a press release, and, in order to keep market participants informed, that a press conference is held by the company on such decisions within one hour of the end of the general meeting. At the same time, one of the negative respondents commented on the fact that, according to the law, the company had published the general meeting decisions at all places of publication, and one issuer pointed out that although the company did not hold a press conference, the general meeting was public for the press by pre-registration.

1.3.8 According to the recommendation, (i) it shall be ensured that written comments on the agenda items of the general meeting are published two working days prior to the general meeting, and (ii) in the event that shareholders have not had the opportunity to become informed about comments or modifying proposals related to any given issue on the agenda before the day of the general meeting, it is recommended that the Board of Directors / Governing Board makes them available to shareholders at least two hours before the beginning of the general meeting at the venue of the general meeting, but at the time of registration at the latest. In the case of point (i), 63.41% and in the case 75.61% of (ii) of the issuers answered “yes” to the question, while in both cases it should be pointed out that issuers which gave a formal “no” answer also added to their reply that within the period prescribed by law, no such comments were received from the shareholders. In this context, we note that the interpretation and practice of issuers in responding is still not unified as to whether they use the option that has existed since the 2012 Corporate Governance Recommendations and that allows issuer to give a “yes” answer to event-based questions even if such event has not been occurred in the given business year, however, the issuer would have acted in accordance with the Corporate Governance Recommendations at the time of such event according to the Articles of Association or practice.

1.3.10 According to BSE recommendation, in the case of general meeting resolutions relating to the appointment and dismissal of executive officers vote should be held separately for each person and not one vote regarding every candidate. The compliance rate was also high for this recommendation, 85.37% of issuers complied. However, this represents a decrease of 9.63% compared to the 2016 compliance rate. Two issuers gave a negative answer to the recommendation as there were no executive officers appointed or dismissed during the reference period. In the case of an issuer, a derogation from the recommendation was made with reference to simplification.

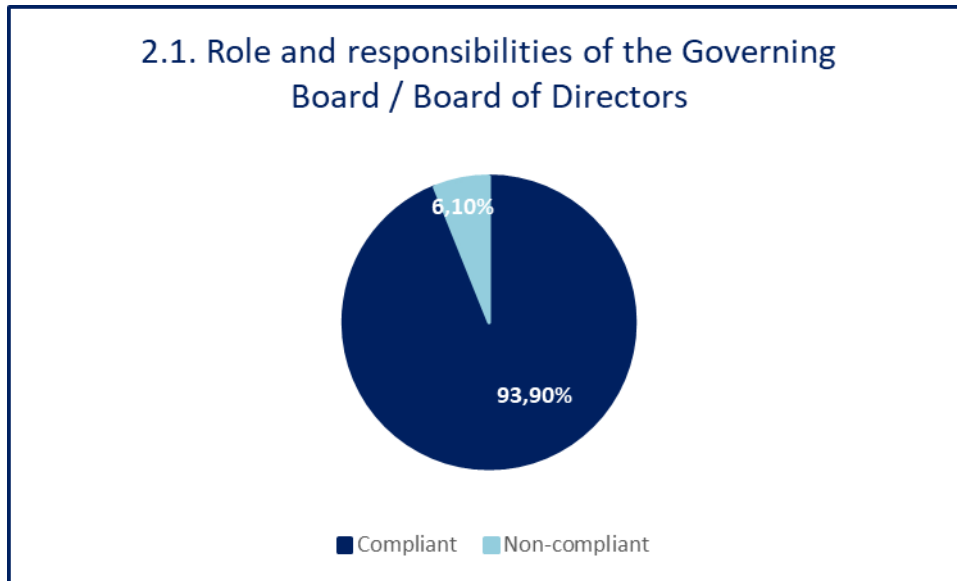
1.3.11 65.85% of the issuers complied with the proposal suggesting that before discussing agenda items regarding the modifications of the articles of association the general meeting passes a separate resolution on whether, in order to ensure the undisturbed and efficient conduct of the general meeting, it intends to decide on the different amendments of the articles of association by individual votes, joint votes or votes combined in a particular way. It should be noted that only one negative respondent commented on the answer, most of the negative respondents did not give a reason for non-compliance.

1.3.12 82.93% of the issuers complied with the proposal suggesting that the company publishes the minutes of the general meeting containing resolutions, the presentation of draft resolutions, as well as important questions and answers relating to draft resolutions within 30 days of the general meeting. This represents a decrease of 7.07% compared to the previous year’s compliance rate. Some issuers have indicated which part of the proposal they have been complied with, but they either did not give reasons for the derogation or commented on the fact that the disclosure was in compliance with the law.



## **2.1 – 2.3 Meetings of the Board of Directors, Governing Board, Supervisory Board**

2.1.1 The BSE drafted a recommendation on which areas it considers to be the most important tasks of the Board of Directors / Governing board. 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 Board, 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 (92.68%) complied with this recommendation. One of the companies that provided a negative answer to the question – just like in the previous year – justified the answer by stating that every matter that is not within the scope of the general meeting, or the exclusive competence of another corporate body, as per the provisions of the articles of association, belongs in the competence of the Board of Directors (or the executive committee, if the Board of Directors has assigned the relevant responsibilities), however, the list of responsibilities included in the articles of association and the rules of procedure of the Board of Directors do not fully cover the list featured in the recommendation. Thirty-eight companies from the forty-one fully complied with the recommendation, while one company gave a negative answer and two companies failed to reply.

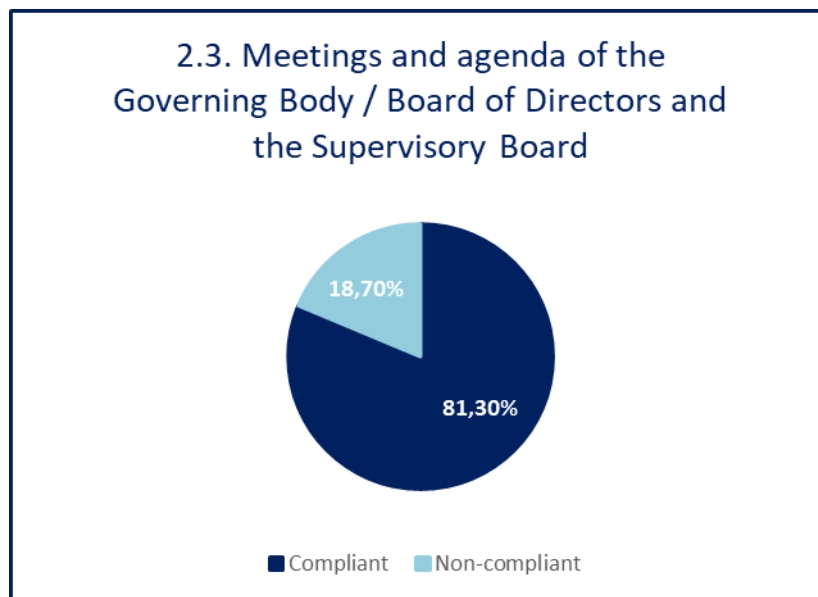


2.3.1 According to the recommendation of the BSE, the Board of Directors/Governing Board should conduct meetings at regular, precisely identified frequencies. The vast majority of the issuers (87.8%) complied with this recommendation. Different reasons were stated by non-compliant issuers, explaining their departure from the recommendation. Therefore, and in the same way as last year, in the case of most of the non-compliant issuers, meetings were convened as/if necessary. There was also an answer that stated that the Board of Directors convenes four times every year, however, the dates of the meetings are not identified in advance and there was also a response that explained the non-compliance with the fact that the company had not previously had a Board of Directors. It should be noted that, according to the Civil Code, the Board of Directors/Governing Board should prepare a report on the executive management, the financial 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 Board, a report on the same subject should be prepared for the Supervisory Board every three months. As a result, departure from the recommendation could also mean infringement of the relevant statutory provisions. It should also be noted that there is also an example for the Governing Board of the company meeting more frequently than previously defined, depending on the development of business processes, or exercising its rights and obligations continuously through electronic means. Thirty-six companies in the forty-one complied fully with the recommendation, with four companies giving a negative answer, while one company failed to reply.

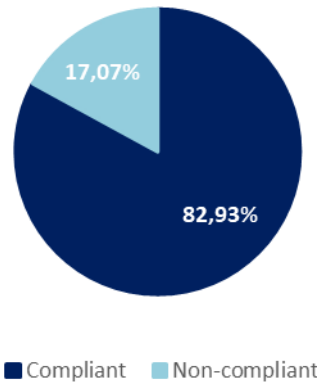
The BSE recommends that the Supervisory Board also holds meetings at a regular, pre-identified frequency. The majority of issuers (68.29%) complied with the recommendation, while most of the issuers that did not comply with the recommendation (were not able to do so due to the lack of a Supervisory Board). In the case of non-compliant issuers, there were other reasons besides the lack of a Supervisory Board, one issuer only convened the Supervisory Board if it was necessary. Twenty-eight companies in the forty-one were in full compliance with the recommendation, twelve companies answered a negative question, while one company failed to respond

The BSE issued a recommendation on ensuring that the rules of procedure of the Board of Directors/Governing Board provide regulations for the conduct of meetings that cannot be planned in advance, and on the matter of providing decision-making opportunity via electronic means to ensure the barrier-free meeting. On the basis of the feedbacks, it can be stated that the rules of procedure of each of the issuers provide for the conducting of unforeseeable meetings, with the exception of one company, the decision-making via electronic means is ensured everywhere. Thirty-nine companies in the forty-one are in full compliance with the recommendation, a company in part, while one company failed to respond.

The BSE also issued the above recommendation with respect to Supervisory Boards, meaning that the rules of procedure Supervisory Boards 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 (75,61%) complied with the above recommendation, most of the non-compliant issuers stating that the reason underlying the non-compliance is the lack of Supervisory Board, 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 communication means. It is worth mentioning that, compared to last year, the number of companies complying with the recommendation increased by more than five percent. Twenty-eight companies in the forty-one fully complied with the recommendation, four companies in part, eight companies gave negative answer, while one company failed to respond.



## 2.4. Members of the Governing Board / Board of Directors and the Supervisory Board



## 2.5. Members of the Governing Board / Board of Directors and the Supervisory Board

2.5.1 90.2 % of the issuers complied with the recommendation that in the interest of ensuring the independence of the Governing Board / Board of Directors / Supervisory Board, there should be a sufficient number of independent members, which shows a 2% decline compared to last year's answers. However, the explanations given for the "yes" answers indicate that the real compliance rate is 85%. In the case of "no" answers, it cannot be considered a satisfactory explanation that "a member of the Board of Directors is an employee of the company", "the Board of Directors coordinates properly the operation of the company and independent members are only in the Supervisory Board" and also "at companies which do not operate a Governing board within an uniform governance system, the majority of the members of the Supervisory Board must fulfill the criteria of independence". A substantially similar explanation to the latter was given by two other issuers, however, they said that they were in compliance with the recommendation. According to the Corporate Governance Recommendations issuers are subject to stricter requirements than those of the Civil Code. Compliance with the rules of the Civil Code does not remedy the lack of compliance with the recommendations, so the reference to them cannot provide sufficient explanation.

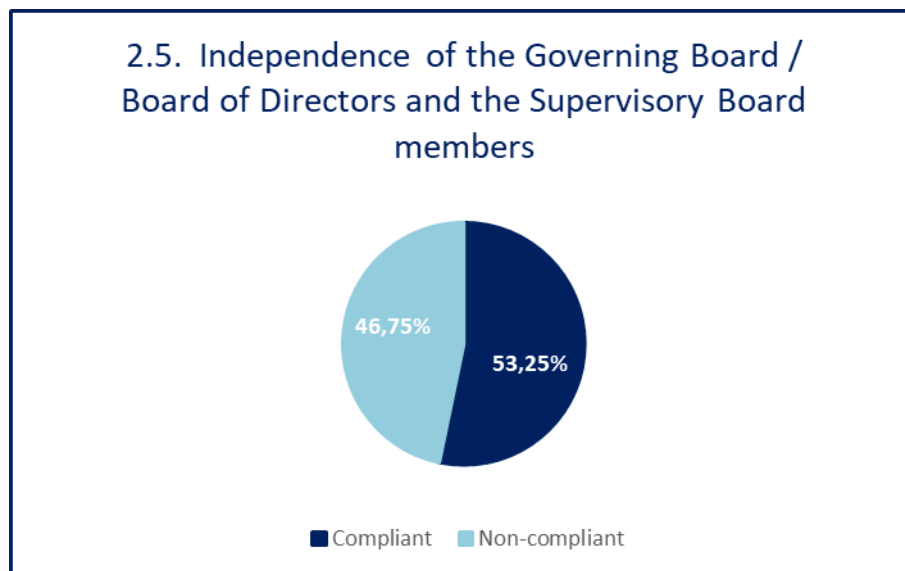
2.5.2 Half of the issuers (48.8%) said that they separate the responsibilities of the Chairman from those of the Chief Executive Officer in the basic documents of the company, which represents an improvement of almost 4% compared to last year's compliance rate.

2.5.3 12.2% of issuers (about 2% more than last year) complied with the proposal that suggests, that if the positions of Chairman and CEO are fulfilled by the same person at the company, the company shall provide information about the means by which it can be ensured that the Governing Board / Board of Directors makes an objective assessment of the work of the executive management. The reason for the low number of "yes" answers is that either the two positions are filled by a separate person or there is no CEO at all.

2.5.4 BSE proposal suggests that the Governing Board / Board of Directors and the Supervisory Board seek their members' confirmation on independence in connection with the preparation of the annual corporate governance report. The vast majority of issuers (73.2%) stated that they complied with the recommendation, from which a comment on a "yes" answer indicates that the issuer does not comply with the recommendation, therefore the real compliance rate is 70.7%, which is not changed essentially compared to last year. In many cases, respondents mentioned that the Civil Code does not require the confirmation on independence or the members indicate the change in their status if necessary. Explanations are inappropriate for reasons similar to those in Section 2.5.1.

2.5.5 70.7% of the issuers do not have any member of the Supervisory Board who have held functions in the Governing board / Board of Directors or in executive management in the three years preceding their nomination. This compliance rate improved by more than 8% compared to the previous year.

2.5.6 According to the BSE recommendation, issuers should publish their guidelines on the independence of the Governing Board / Board of Directors and of the Supervisory Board on the company's website. Only 24.4% of issuers complied with the recommendation. Although the relatively low compliance rate has improved compared to the 17.5% of last year, the indicator is also aggravated by the fact that the majority of non-compliant issuers did not publish such criteria because they apply the independence requirements of the Civil Code, therefore they have no additional guidelines to publish.



## **2.6 Independence of the Board of Directors / Governing Board and Supervisory Board Members**

2.6.1 Subject to the BSE recommendation, the members of the Board of Directors / Governing Board inform the respective board and the Supervisory Board or the Audit Committee, if there is a significant personal interest or a closely related person have such interest in a transaction of the company or any of its subsidiaries. Nearly 30% of the issuers replied with "no" answer with that there was not concluded any transaction described hereinabove. The issuer may comply with this recommendation if such



notification has not been made due to the absence of any relevant triggering event, therefore, without any opposing information, it may be established as not just the 70% of the issuers answering with a “yes” comply with the recommendations, but the former issuers comply as well. The compliance rate was 67% in the last year, however, the reason for non-compliance was similar indicating that no such transaction was concluded.

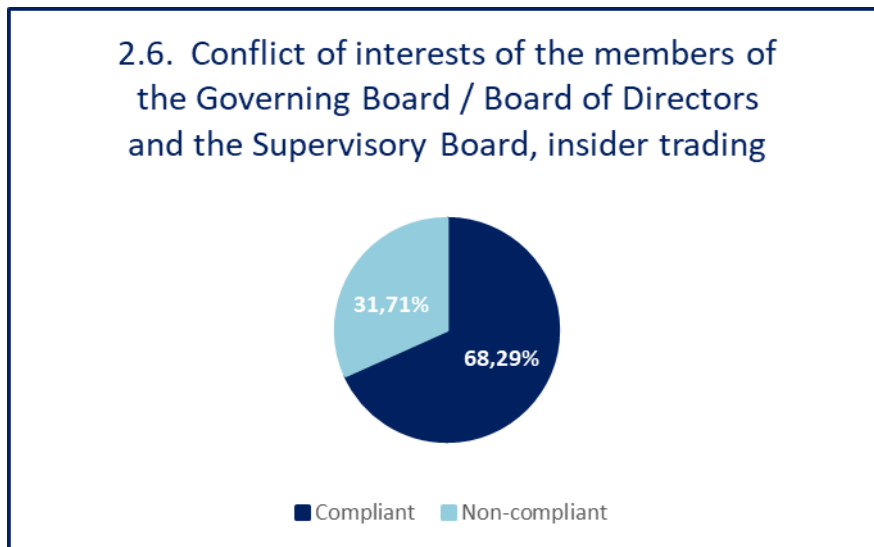
2.6.2 It is essential for BSE that transactions concluded between the management members or closely related persons and between the company or its subsidiaries are conducted under stricter transparency rules. 61% of the issuers declared to comply with the recommendation in this year, compared to last years 57,5%. Several issuers answered with a “no”, but similarly to Section 2.6.1 more than one issuer indicated that no such transaction – as hereinabove described – was concluded. This fact may be evaluated as these issuers comply with the recommendation. Only three issuers replied that they are not in compliance, but these transactions are concluded according to the general business principles.

The second half of the recommendation specifies that the hereinabove described transactions and its terms and conditions should be approved by the Supervisory Board, if there is one, or in case of operating by a Governing BoardBoard, it shall be approved by the Audit Committee. With regards to this part of the recommendation, it has to be mentioned that most of the issuers answered with non-compliance may actually comply with the recommendation, as no such transaction were conducted in 2017. In comparison to the first part, the lower, 43,9% rate of the “yes” answers are caused due to the fact that several issuers indicated that they are applying different procedures for similar transactions or that there are no Supervisory Board at the company. In the former case, the explanation is not acceptable, if it contains only a reference to the applicable procedural rules of the issuer, whereas acceptable the explanation, if it briefly describes these rules of procedures. In the latter case, the absence of the Supervisory Board is not a satisfactory answer, as in this case the Audit Committee should participate in the approval of the transaction. This ratio did not change significantly compared to the previous year, where it was 42.5%.

2.6.3 Furthermore, BSE considers it appropriate for the board members to provide information to the Supervisory Board and to the Audit Committee (Nomination Committee) about that they have received an offer for board membership or an offer for an executive management position in a company which is not part of the company group. Only one issuer responded with a non-compliance answer and explained that the members of the Board of Directors shall inform the Board of Directors (in the relevant cases), but the Chairman of the Supervisory Board is a standing invitee to the meeting of the Board of Directors. The other issuers declared that they comply with the recommendation or, in case of non-compliance, they explained that no such offer was made in 2017. Therefore, the opinion already explained several times is applicable in these cases, as these answers may also represent compliance with the recommendations.

2.6.4 BSE considers it particularly important that the Board of Directors / Governing Board adopt rules of procedures on the flow of information within the company and on the management of inside information, and the regulations governing the insider dealings with securities. One issuer did not adopt rules of procedures on the flow of information and another one on insider dealing because they did not

consider necessary to implement such rules. Another issuer indicated to have relevant practice, however, the procedures are not written as it is not justified due to the size of the company. Furthermore, the CEO adopted such rules instead of the Board of Directors at one issuer. Every other issuer answered “yes”, in other words, they comply with the recommendation. In our opinion, it is necessary that issuers have a written policy and detailed rules of procedures covering the entire issue of inside information. Notwithstanding this, the compliance rates are relatively high, 87.8% for insider dealing and 82.9% for insider trading (both values show a slight deterioration compared to the compliance rates of the last years: 90% and 87.5%).



## **2.7 Performance Evaluation and Remuneration of the Governing Board / Board of Directors, Supervisory Board**

2.7.1 The Board of Directors / Governing Board adopted a remuneration policy covering the remuneration and the performance evaluation of the work of the Board of Directors / Governing Board, the Supervisory Board and the management.

With the requirement to adopt a remuneration policy, the recommendation elaborates one important competence of the General Meeting set forth in the Civil Code, which represents a specific rule regarding the transparent and traceable (by shareholders) operation of the company. The essence of the statutory provision and of the recommendations is that the long-term remuneration and incentive schemes of the managers and the members of the Supervisory Board are controlled in a prefund framework within the limits set by the shareholders, and that the shareholders participate actively in the development and monitoring of these schemes by the general meeting.

Regarding this recommendation, the compliance rate (36.59%) of the companies barely exceeded the last year's, which is highly unfavorable. The reason for non-compliance was explained as the recommendation was applied solely to the members of the Board of Directors / Governing Board and the Supervisory Board, whom either exercise their corporate functions free of charge or for a fixed

remuneration and the recommendation does not cover the remuneration of the officers with employment contract, therefore, the issuers considered unnecessary to develop a remuneration policy.

The explanations for the deviation do not comply with the committee recommendation regarding the quality of the corporate governance reporting ("comply or explain" principle), which requires not just an explanation of the deviation and its nature, but – among other things – requires to present the way in which the resolution was made within the company causing this deviation, planned date of compliance with the recommendation, or explaining how the measures taken – instead of compliance – fulfill the objectives of the recommendation.

Therefore, it is expected that the compliance with the recommendation regarding the review of the remuneration policy by the Supervisory Board is around the same rate (31.7%), however, the lower compliance rate means that where such policy was even adopted, the Supervisory Board does not review it at every issuer. The opinion of the Supervisory Board could be an important element of the company's operation, because the statutory guarantees and requirements of independence are delegated to this monitoring body by the Civil Code, therefore, without such review the companies lose this important opportunity.

Although the amendment of the Directive (EU) 2017/828 of the European Parliament and the Council regarding the incentive of the long-term shareholder participation provides detailed guidance on the presentation of the remuneration and also presenting its desirable structure, however, in the absence of the implementation of the domestic implementation of the directive, the companies have not yet undertaken to implement the transparency set out in the regulations of the directive. A body – of mostly independent person – complying with such conditions could be the organizational guarantee for the objective remuneration, but the absence of the opinion of the Supervisory Board on the remuneration may involve unexpected operational risks.

Taking into account the above, it is unexpected that 48.78% of the companies were in compliance with the recommendation to approve the remuneration policy of the Board of Directors / Governing Board, Supervisory Board and its amendments by the general meeting under a specific agenda item. According to our interpretation, this proportion of compliance refers to the intention that, if the companies adopt a remuneration policy, then the general meeting would discuss this as a separate agenda item under the internal regulations of the companies.

2.7.2 Compliance with the requirement in this recommendation (85.37%) is highly compelling. Certain companies justified the non-compliance by their specific corporate characteristics (the tasks of the management were carried out by the CEO or were performed by the remuneration and Nomination Committee). According to some companies, the evaluation was conducted with the business plan approved by the general meeting. The annual assessment of the work of the corporate bodies is also essential, as the shareholders are informed in this way of the specifics of the operation and activities, and how the corporate bodies and its members contributed to the effective operation of the company.

2.7.2.1 The compliance rate was also high regarding the recommendation of the self-assessment of the Supervisory Board (73.17%), but it was deteriorated compared to the previous year's compliance rate

(75.00%) and remained below the compliance rate of the self-assessment of the Board of Directors' work. The reason for the latter may be explained with the existence of the Governing Board in which case there is no separate Supervisory Board.

2.7.3 Regarding the control and remuneration of the management, the decrease of compliance - 68.29% compared to last year's 75.00% - may be considered as an unfavorable trend. The reasons for non-compliance are that this responsibility is in the competence the CEO or the general meeting.

In the explanation of the deviation, there was no indication whether the work of management was assessed or not, who performs this, and it was also not indicated how the objectives of the recommendation were fulfilled by the measures taken instead of the compliance.

The general meeting approved the framework of the non-standard remunerations of the management and its modifications under a separate agenda item.

The low level of compliance (41.46%) – regarding the approval of the non-standard remuneration of the management and its changes under a separate agenda item – was excused by that no such remuneration was provided.

In our view, if the company's internal regulations and operational rules stipulate that the non-standard remuneration of the members of the management shall be the approved by the general meeting as guarantee, the compliance with the recommendation is ensured even if such a remuneration is not in place.

2.7.4 The shareholders received detailed information of the equity-based remuneration schemes prior to the decision of the general meeting (subject to the requirements in Section 2.7.4 at least).

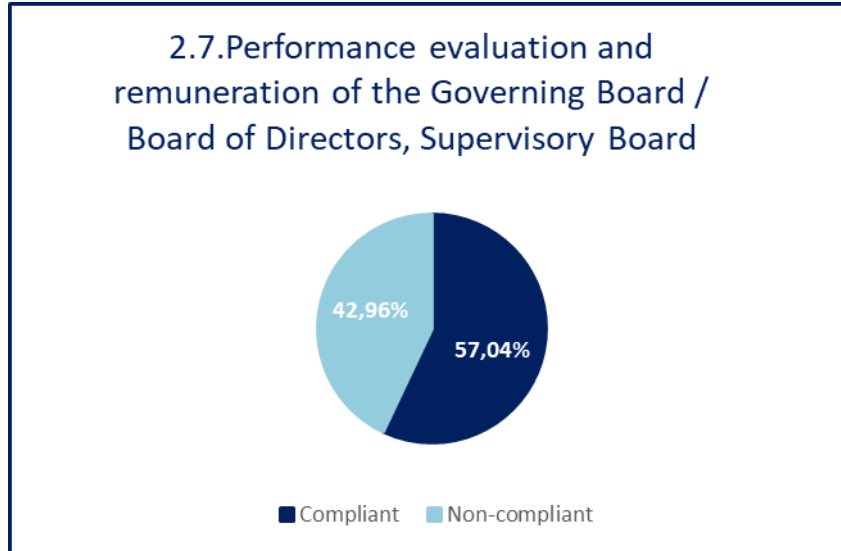
Regarding the low compliance rate (41.46%) in connection with the approval of the general meeting of the equity-based remuneration scheme, the explanations indicated that there was no such remuneration.

The absence of informing the shareholders on the equity-based remuneration scheme may also be attributed to the absence of the application of such scheme.

2.7.7 There was a low compliance rate (43.9%) regarding the preparation of the remuneration statement mainly due to the absence of the remuneration policy. Some companies included the management's cumulative remuneration in the audited report in order to comply or limited the report solely for the remuneration for the participation in the managing body, other companies transferred the remuneration options into an Employee Equity Program, whose transparency is outside the scope of the shareholders' review.

Notwithstanding the low compliance rate, more companies indicated that the remuneration statement contains the remuneration of certain members of the Board of Directors / Governing Board, Supervisory Board, management than the companies indicated that such remuneration statement was prepared and proposed to the general meeting. This suggests that some companies have a detailed statement of

remuneration, including the remuneration of managers, but they were not proposed to the general meeting.



## 2.8 Internal Controls and Risk Management

2.8.1 The vast majority of issuers comply with the BSE recommendations regarding risk management (the Board of Directors / Governing Board, or the committee managed by them is responsible for the companies' complete risk management. 92.68%; the Board of Directors/Governing Board is informed on a regular basis about the effectiveness of the risk management: 87.8%; the Board of Directors / Governing Board took the necessary measures to identify the major risk areas: 92.68%). The explanations of the negative answers are different: the company does not have a separate remuneration scheme, its size does not justify, there is no financial activity and in one case, there was no explanation.

2.8.2 73.17% of the issuers complied with that risk management recommendation which stipulate that the Board of Directors / Governing Board develops the risk management principles and general rules in cooperation with the managers, who are responsible for planning, operating, controlling and implementing (in the daily operation of the company) these risk management procedures.

2.8.3 - 2.8.5 The compliance rate of the issuers regarding the general issues of internal controls are relatively high. The general principles of the internal control system were adopted by the Board of Directors / Governing Board at 73.17% of the issuers. The internal controls developed by the management ensures the companies operational risks management at 82.93% of the issuers of BSE. 82.93% of the issuers' Board of Directors/Governing Board took into account the proposals of the BSE Corporate Governance Recommendations in the course of developing the internal controls system. Developing and managing the internal control system is the responsibility of the management at 80.49% of the issuers. Numerous explanations justified the negative response with the size or absence of the companies' work organization to be controlled, so this is mostly typical for small and medium cap

companies. However, there was also an issuer that has a well-structured risk management and internal control system, but provided a negative response due to manner in which the question was asked, as it only partially complied with recommendation or the recommendation would have to be amended in order to comply with it.

2.8.6 - 2.8.8 The compliance rate of issuers of BSE is significantly lower regarding the more detailed questions for the content and processes of internal controls: less than half of the issuers complied with these recommendations. Only 41.46% of issuers have developed an independent internal audit function that is accountable to the Audit Committee / Supervisory Board. Only 41.46% of the issuers complies with that recommendation which proposes that the internal audit team should report at least once in a year to the Audit Committee / Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions. The internal audit performs its responsibilities on the basis of the mandate of the Audit Committee / Supervisory Board at less than a third of the issuers (29.27%). 43.9% is the compliance rate of the recommendation that internal control should be separated from the management on organizational level. Only 41.46% of the issuers approved the internal audit plan by the Board of Directors / Governing Board (Supervisory Board) with the proposal of the Audit Committee. The Board of directors / Governing Board prepared the report for the shareholders on the operation internal controls at 39.02% of the issuers. 39.2% of issuers responded positively to the recommendation that the Board of Directors / Governing Board developed the procedures for receiving, processing the reports on the operation of internal controls and for preparing its own report.

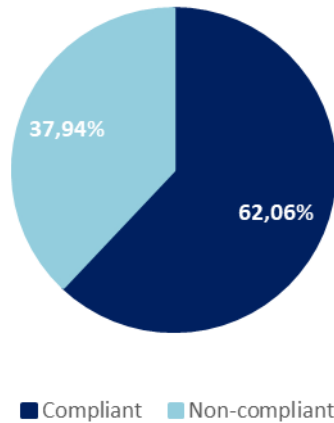
2.8.10 In the case of the more detailed, content- and process-related proposal of internal controls, 65.85% of BSE issuers complied with the recommendation that the Board of Directors / Governing Board took into account the proposals contained in the Corporate Governance Recommendations of BSE when assessing the internal control system.

The negative answers – regarding the more detailed, content- and process-related questions of the internal controls – are mostly related to that the size of the company does not justify compliance, there is no work organization to be controlled, the management or the Supervisory Board performs the internal control function, or there is no internal audit function at all.

2.8.11 At more than half of the issuers (53.66%), the Board of directors/Governing Board identified material deficiency in the internal control system and reviewed, reassessed the related activities. 15% of the answers were non-compliant because there was no deficiency, concluding that the review was probably carried out.

2.8.12 More than half of the issuers complied with the recommendation that an auditor shall assess and evaluate the risk management of the company and the management's risk management, and that a report was submit to the Audit Committee / Supervisory Board thereof.

## 2.8. Internal Controls and Risk Management



## 2.9 External Advisor, Auditor

2.9.1 Several of the relevant recommendations in this topic proposed that the rules of procedure of the bodies, committees shall cover the procedures in case of employing an external advisor. The compliance rate was quite low regarding the specific bodies, committees:

- Board of Directors: 39.02%,
- Supervisory Board: 34.15%,
- Audit Committee: 31.71%,
- Nomination Committee: 9.76% (typically the issuers explained that the company does not operate such committee),
- Remuneration Committee: 9.76% (typically the issuers explained that the company does not operate such committee).

Overall, high rate of the negative answers is not explained in this issue. It is also remarkable that there are five issuers on the Prime Market where none of the rules of procedures covered the procedures applicable when using the services of an external advisor, and there is only one issuer where all its rules of procedures covers this issue. In contrast, two issuers on the Standard Market also answered yes in every subpoint. Curiously in one case, the issuer replied in 3.1.1 that they have no Nomination Committee, therefore, the the answers are inconsistent.

2.9.2 Just over half of the BSE issuers (60.98%) answered yes to the question whether the Board of Directors, the Supervisory Board and the Audit Committee were notified in all cases when the mandate given to the auditor would be – due to its nature – a significant expense; may cause conflicts of interests; or may have a material impact on the business in any other way. 75% of the no responses was given

due to that such event giving rise to the notification provided in the recommendation did not occur during that period. It cannot be ascertained whether the issuers would have met this recommendation if such an event occurred. Furthermore, it is not clear whether every respondent giving “yes” answers have had such an event, or that they would have complied with the recommendation verifiably in case of such event, and they made a statement – based on the latter – that they would comply.

2.9.3 43.9% of the issuers complied with the BSE recommendation that the Board of Directors / Governing Board shall inform the Supervisory Board of a mandate was given to the auditor or external advisor regarding an event that materially affects the operation of the company. The main reason for non-compliance was that no such event occurred or assignment was given at the company or the company has no Supervisory Board. It shall be noted that the main text of the Corporate Governance Recommendations includes the notification of the Audit Committee as an option, but only the Supervisory Board is specified in the questionnaire. For this reason, an issuer on the Prime Market gave a negative answer.

Just over a quarter (26.83%) of the issuers only complied with the recommendation that the Board of Directors / Governing Board shall stipulate in its resolution in advance what events may be considered to have a material impact on the operation of the company. Many of the negative responses explained that there was no such decision or that the Board of Directors individually evaluates the events materially affecting the company. In the case of an issuer operating in the insurance sector, the explanation referenced to sector-specific regulations (Act LXXXVIII of 2014 on the Business of Insurance).

2.9.4 At the same time, high rate of the issuers (87.8%) complied with the proposal that the Board of Directors / Governing Board invites the auditor of the company, with consultative status, to the meetings discussing the agenda of the general meeting. According to the applicable laws, the statutory auditor shall be invited to the meeting of the company's supreme body with the agenda discussing the financial report of the company, and its omission would be an infringement of the law.

2.9.5 A slightly lower but still significant majority (73.17%) complied with the proposal that its internal audit will work with the auditor in order to effectively carry out the audit. The reason for non-compliance is generally the lack of internal control, and one of the issuers in the financial sector argued that such cooperation is prohibited by law.





### 3.1. Committees: General Principles

3.1.2 Compared to the previous year, issuers represented a substantially unchanged compliance rate (78%) regarding the proposal that addresses the regular information and annual reporting of the Chairman of the Audit Committee to the Board of directors / Governing Board.

The “yes” replies are substantially lower regarding the nomination and Remuneration Committees (34%), which is based on that only a part of the issuers operate such body. In the case of the Audit Committee. The higher compliance rate may also be downgraded by the fact that the Audit Committee is the assistive body of the Supervisory Board (or the Governing Board), therefore, the Audit Committee does not report to these bodies and not to the Board of Directors.

3.1.4 In 2017, there were issuers who replied with non-compliance or did not answer at all to the recommendation that the members of the committee members shall have skills, expertise and experience, so the compliance rate is only 95%. The reason for non-compliance was that the issuer does not operate independent committees.

3.1.5 The compliance rate is basically unchanged regarding the recommendation related to the content of the rules of procedures of the committees.

3.1.6 The issuers complied differently with the recommendation regarding the committees that specifies to disclose the objectives, rules of procedures and composition of the committees on the website of the company (including the members’ name, date of appointment and short professional biography). The compliance rate based on the replies, depending on which committee is involved, are the following: in the case of the Audit Committee 60% (1% increase); in the case of the Nomination Committee 27% (4% increase) and in the case of the Remuneration Committee more than 31% (6.7% increase). The compliance with these recommendations is naturally the highest in the case of the Audit Committee, of which rules are governed by the Civil Code, as opposed to the less frequently established Nomination Committee and Remuneration Committee (only one quarter of the issuers responded positively in 2017).



### 3.2 Audit Committee

3.2.1 The compliance rate of the issuers slightly decreased (by 1.8%, to 73%) regarding the recommendation that proposes the Audit Committee / Supervisory Board to monitor the efficiency of the risk management, the functioning of the internal control system and the activities of the internal auditor (Some answers of non-compliance explained that the Board of Directors carries out this duty, in other cases the reason referenced to internal organizational reasons or sectoral legal rules).

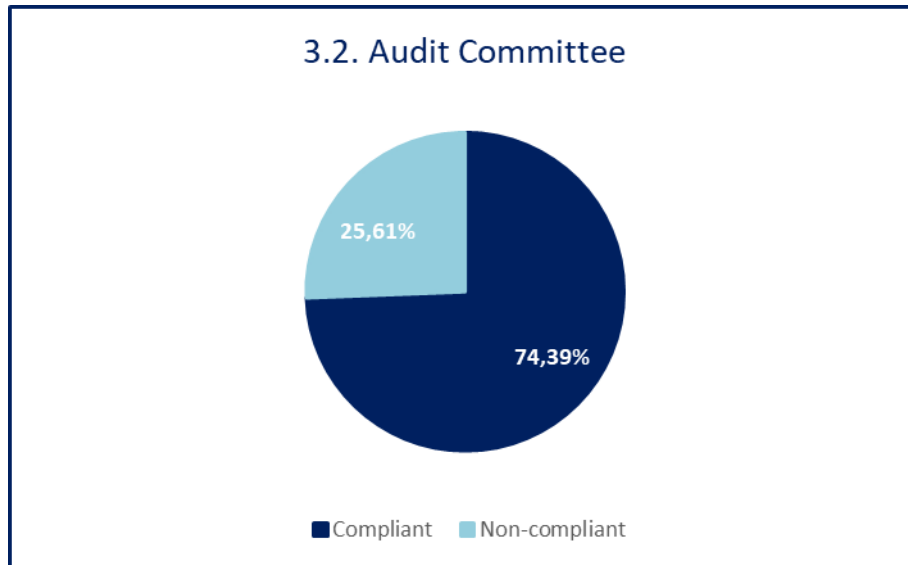
3.2.2 The number of issuers decreased by 2% (95%) who answered yes to the recommendation that the members of the Audit Committee / Supervisory Board shall be informed of every aspect of the accounting, financial and operational characteristics of the company.

3.2.3 70.7% of the issuers (29 companies) are in compliance with the recommendation that the Audit Committee / Supervisory Board received accurate and detailed information on the working plan of the internal auditor and the independent auditor and received the auditor's report on the problems identified during the audit. The compliance rate shows a decrease of 4.3% compared to the previous year's compliance level (75%).

Based on the individual reports, in conclusion, the answers of non-compliance are mostly explained, similarly to the last year, by that the particular issuer does not have an independent internal auditor.

3.2.4 58.5% of issuers (24 companies) are in compliance with the recommendation that the Audit Committee / Supervisory Board requests the new auditor nominee to make a disclosure statement. This compliance rate shows a 6.5% decrease compared to the previous year's level of compliance (65%).

Based on the individual reports, in conclusion, the answers of non-compliance are mostly explained, similarly to the last year, by that the issuer did not have a new auditor nominee.



### 3.3 Nomination Committee

3.3.1 Still, only particularly few (7) issuers operate a Nomination Committee, which represents an improvement of 4.6% compared to the previous year's compliance rate (12.5%) of 17.1%.

The most common explanation for deviation is that the Board of Directors is responsible for this task, but at some issuers, the shareholders (general meeting) nominate, or some issuer also referred to that it is not justified due to the size or nature of the company, or that operating a Nomination Committee is not required by the law. Some of the companies operating a Nomination Committee has a committee which merges the Nomination and Remuneration Committee and there are even a case where the Nomination Committee holds its meetings irregularly.

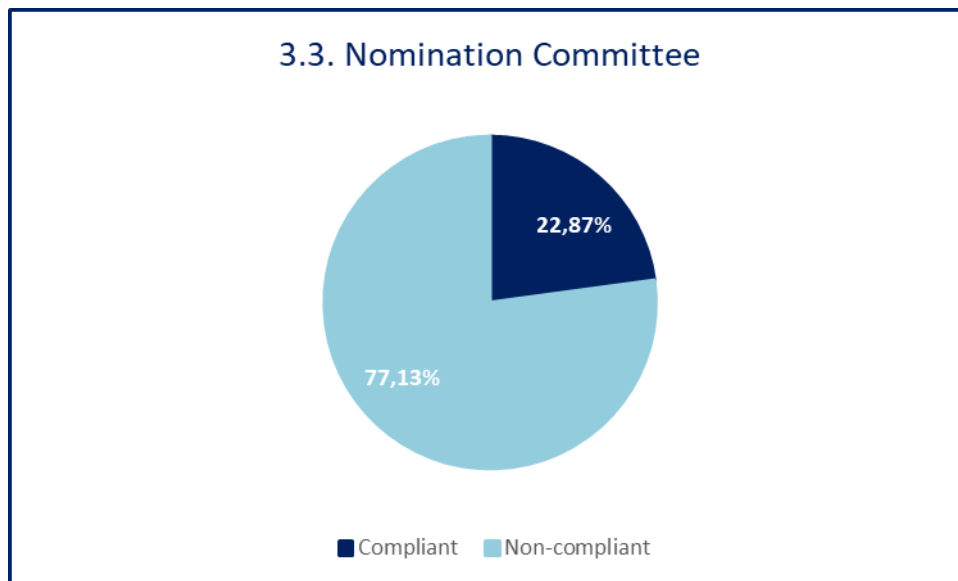
3.3.2 For the four recommendations, specified in Section 3.3.2, regarding the tasks performed by the Nomination Committee, there are slightly more “yes” answers (12-13 depending on which task) than in Section 3.3.1. The compliance rate for each task shows an improvement of 4.2% - 6.7% compared to the previous year, but it is still low: depending on the tasks, it is only 29.3% - 31.7%.

The reason for the higher compliance rate compared to the one in Section 3.3.1 is that, similarly to the last year's, some issuers gave positive answers even if the given tasks were performed – in the absence of a Nomination Committee – by another body of the company (typically the Board of Directors). It can also be established, on the ground of the corporate governance reports, that companies, where Nomination Committee operates, the majority responded positively to the issues related to its responsibilities.

3.3.3 Regarding the recommendation related to the evaluation of the operation, members' work, and compliance assessment of the Board of Directors/Governing Board, the compliance rate is identical to the compliance rate in 3.3.1 (7 issuers, 17%), due to that issuers operating a Nomination Committee are almost entirely compliant with the recommendation. The compliance rate shows a 2% improvement over the previous year.

3.3.4 Only 6 issuers complied with the recommendation regarding the independence of the majority of the members of the Nomination Committee, which, together with the 2% improvement compared to the previous year, means a remarkably low compliance rate of only 14.6% and indicates that not every of the few issuers, operating a Nomination Committee, fully comply with this recommendation.

3.3.5 Only 5 issuers comply with the recommendation on the rules of procedure of the Nomination Committee, which, together with the 2% improvement compared to the previous year, represents a remarkably low compliance rate of only 12.2% and indicates that not every of the few issuers, operating a Nomination Committee, fully comply with this recommendation.



### 3.4. Remuneration Committee

3.4.1 Compliance with the recommendation for the establishment and operation of the Remuneration Committee is one of the lowest compliance rates (17.07%) and not even a significant growth trend can be detected compared to the previous year's compliance (12.50%). The Remuneration Committee could be the organizational guarantee that the remuneration of the company's officers and senior employees based on principles and controlled performance transparent to the shareholders. The General Meeting cannot fulfill this function on its own, as it only discusses the proposals related to the agenda items.

Among the explanations for deviations, the most common was to state that the Board of Directors / Governing Board or the General Meeting performs the remuneration related tasks.

In addition to explaining the reason for non-compliance, it was not indicated when the issuer plans to comply with the recommendation and how the objectives of the recommendation were fulfilled by the measures taken instead of compliance.

3.4.2 Due to the absence of the Remuneration Committee, compliance with the recommendations on the operation of such a committee was also low (34.15%), but almost twice of the compliance rate of the companies regarding the recommendation to establish a Remuneration Committee. This is presumably based on a misunderstanding that can be eliminated by more precise wording of the recommendations.

3.4.3 The compliance rate was also low (34.15%) regarding the recommendation that the management's remuneration should be based on the recommendation of the Remuneration Committee.

The reasons for the deviations were most often the absence of such a committee, but it was not clear from the responses that on which body or officer proposed the basis for the management's remuneration or what are the controlled frameworks and limitations of the remuneration.

The remuneration of the Board of Directors/Governing Board was approved by the General Meeting on the basis of a proposal from the Remuneration Committee.

The recommendation also specifically covers the remuneration of the members of the Board of Directors / Governing Board, but the pronounced absence of Remuneration Committees has also left a mark on the low compliance rate (34.15%), although it would be necessary to provide organizational guarantees elements for such a body.

Explanations of the reasons for the deviations do not provide guidance on whose proposal the remunerations of the Board of Directors / board is based on and on which guarantees are provided for the limits of the remuneration.

The Remuneration Committee also reviewed the remuneration scheme of equity options, cost reimbursements, and other benefits. The recommendations broadly specified the responsibilities of the Remuneration Committee in relation to remuneration. In this respect, the compliance rate (24.39%) indicates that the controlling of the system of equity options, cost reimbursements, and other benefits is not ensured even if a Remuneration Committee operates.

The explanations for the deviances do not indicate whether there is any body controlling the system of equity options, cost reimbursements, and other benefits.

3.4.4 According to the recommendations, the remuneration principles are expected to be proposed by the Remuneration Committee. Compliance with this recommendation and with the other operational recommendations on Remuneration Committee, reached an unjustly low level (21.95%).

The reasons for deviation do not indicate that, in the absence of a Remuneration Committee, which body sets the principles of remuneration with what principles and guarantees how the transparency is ensured regarding the shareholders.

3.4.4.1 The recommendations also include that the Remuneration Committee deals with – in addition to the remuneration principles and the remuneration of individuals – the terms and conditions of the

contracts concluded with the management and monitors whether the company complies with its information obligation regarding remuneration. (2005/162/EC 3.2)

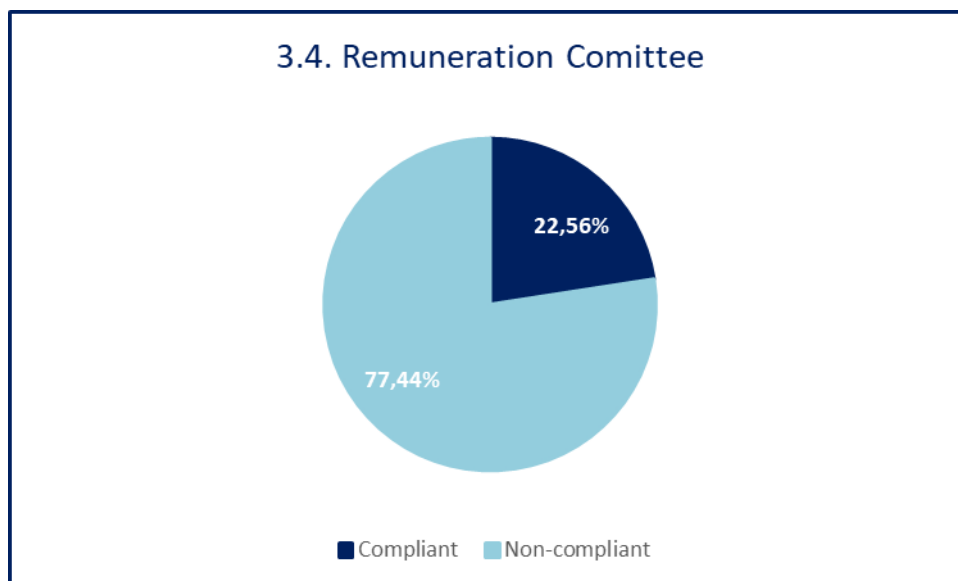
In addition to the low (19.51%) compliance rate, the reasons for the derogations only indicate the absence of the Remuneration Committee, but not covering that which body or person, with what limits and framework are these tasks carried out and how the obligations of providing information are met regarding remuneration.

3.4.4.2 According to the recommendations, the review of contracts with management members is also the responsibility of the Remuneration Committee. The absence of such committee also caused a low compliance rate (21.95%).

The explanations regarding deviations indicated the absence of the Remuneration Committee, but they did not give a substantive justification for such deviation.

3.4.4.3 According to the recommendations, one of the important tasks of the Remuneration Committee would be to monitor the compliance with the obligation to provide information on remuneration issues. In the absence of such committees, compliance with the recommendation was partly characterized by this a low compliance rate (24.39%), and partly by the quality of the explanations for deviations as described above.

3.4.7 The recommendations also cover the composition of the Remuneration Committee, which proposes independent committee members as general requirement. The low compliance rate (21.95%) regarding this recommendation indicates that the majority of companies do not establish organizational arrangements for the performance of their remuneration tasks, or even if it is established, the independence of such body cannot be fully established.



### 3.5. Merging Committees

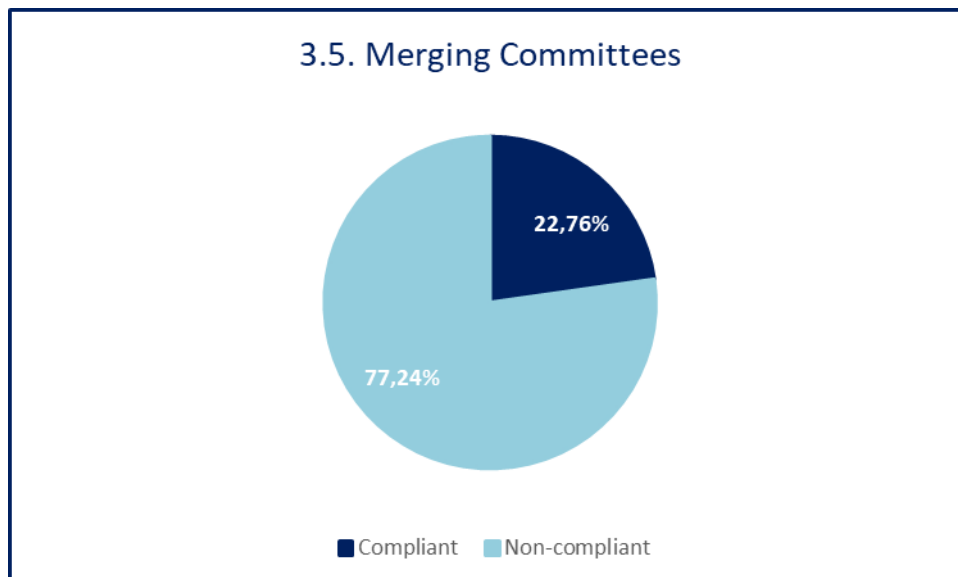
3.5.1 The reasons for the merger of the Nomination Committee and the Remuneration Committee were disclosed by a total of 5 issuers (12.2%), but the low figure is also due to the nature of the recommendation, given that only those issuers can comply with it that operate a committee merging the Nomination committee and the Remuneration Committee.

3.5.2 26.8% of issuers (11 companies) provided information on the duties of the Nomination Committee carried out by the Board of Directors / Board of Directors. The compliance rate shows an improvement of 1.8% compared to the previous year.

The explanation for the non-compliance is partly that these tasks are not performed by the Board of Directors / Governing Board, but - for different reasons – the issuers did not always disclosed information according to the recommendation, where the Board of Directors / Governing Board is responsible for the tasks of the Nomination Committee.

3.5.2.1 29.3% of issuers (12 companies) provided information that the Board of Directors / Governing Board is responsible for the tasks of the Remuneration Committee. The compliance rate improved by 1.8% compared to the previous year.

The explanation for the non-compliance is partly that these tasks are not performed by the Board of Directors / Governing Board, but - for different reasons – the issuers did not always disclosed information according to the recommendation, where the Board of Directors / Governing Board is responsible for the tasks of the Remuneration Committee



## 4 Transparency and Disclosure

4.1.1 The vast majority of BSE issuers (78.05%) drew up disclosure guidelines on the basis of the recommendation setting out the drafting of such guidelines, which is a slight improvement compared to

last year. The general justification of non-compliance is that the given issuer acts in conformance with legal regulations, BSE regulations and supervisory resolutions.

4.1.2 Almost all of the issuers (97.56%) 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.

4.1.3 68.29% of the issuers answered that their the company's disclosure principles cover the procedures for electronic, on-line disclosure, which is a lower compliance rate than that of recommendation no. 4.1.1. The explanations are the same as those of recommendation no. 4.1.1 on the one hand, on the other hand, issuers pointed out that there was no need to address these specific procedures. Almost all company websites (97.56%) had been designed by 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 (87.37%). The explanation for the negative answers was that the Board of Directors was not the body that carried out the survey or that there were no disclosure guidelines beyond the statutory requirements. Significantly less compliance has been achieved by the issuers in the proposals, that suggest that the disclosure guidelines shall cover the issues set out in the Recommendations (60.98%) and that the Governing Board / Board of Directors shall inform shareholders about the findings of its annual investigation in the annual report (29.27%) - this latter compliance has improved compared to last year but is still extremely low.

4.1.6 73.17% of issuers complied with the recommendation that the Governing 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. Explanations of negative responses refer to statutory disclosures, and to the lack of guidelines for business ethics and other relevant parties.

4.1.7 Vast majority (87.5%) of issuers comply with the recommendation on preparing the company's financial statements in line with IFRS. This is an improvement compared to 82.5% last year.

4.1.8 A More than half (53.66%) of issuers comply with the recommendation that the Governing 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. This is a slight improvement compared to the previous year (50%). 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 65.85% of issuers complied with the recommendation that in its annual report and on its website, the issuer shall publish information on the professional careers of members of the Governing Board / Board of Directors, Supervisory Board 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 or electing the members. The level of compliance deteriorated compared to last year's 72.5%.

4.1.10 75.61% of issuers (significantly more than last year's 67.5%) complied with the recommendation that the company disclose information on the internal organisation and operation of the Governing Board / Board of Directors and the Supervisory Board. 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. articles of association, rules of procedure of executive bodies).

Though there is an improvement compared to last year's 40%, the compliance is still very low (41.46%) with the recommendation that the company provide information on the aspects taken into account when evaluating the work of the administrative Governing Board / Board of Directors and management as well as the individual members thereof. The explanation for many negative answers was that there are no prior or separate criteria, the evaluation is unique, or such information is available to the public as part of the annual general meeting process.

4.1.11 Nearly half (48.78%) of issuers gave positive answers to the recommendation, according to which the company, in its annual report and by 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 Governing Board / Board of Directors, the Supervisory Board and management. The large ratio of negative answers is in relation to strict questioning, as several criteria shall be met (persons: Governing Board / Board of Directors, the Supervisory Board and management members, place and form of the disclosure 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 and explanations, more than half of the issuers disclosed the information on the remuneration of members of the Governing Board / Board of Directors, the Supervisory Board and management in one form or another.

4.1.12 Less than half (39.02%) of issuers complied with the recommendation that the Governing Board / Board of Directors, the Supervisory Board shall 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 statutory regulations. There are several issuers that do not even comply with recommendations 2.8.3 - 2.8.5, and as such have nothing to disclose. Another eight issuers drew up the guidelines relating to the internal control system, but did not publish these. It is worth adding that pursuant to Accounting Act, 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 Less than half (48.78%) 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 applicable law and has the required internal policy in place.

The vast majority (80.49%) 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 Governing Board / Board of Directors, the Supervisory Board 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 flash/annual reports.

4.1.15 Less than half of the issuers (46.34%) complied with the recommendation that the company shall disclose via the annual report and the company's website any relationship between the members of the Board of Directors / Governing Board, the management and any third party which may affect the operation of the company. The majority of the negative responses were explained by the absence of such relationship in the past or present.

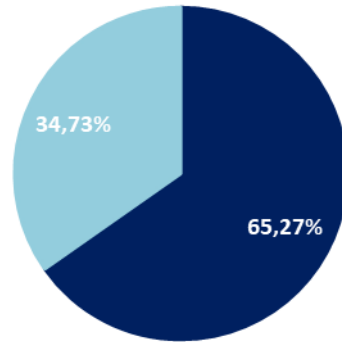
4.1.5, 4.1.13, 4.1.16 In cases where the statutory or exchange rules cover all or part of the relevant BSE recommendation or proposal, almost every issuer or almost every issuer on the relevant Market complies with such recommendations:

4.1.5. With the exception of one issuer on the Prime Market, all issuer complied with recommendation on the disclosure obligation of the corporate action timetable, while only four issuers on the Standard and two issuers on the T Market comply with it. As a result, with every issuer taken into account, the compliance rate is 56.1%, which is a significant improvement over the previous year (45%). The clear reason for this relates to the BSE General Terms of Service which stipulates: "Issuers with security series in Equities Prime Market shall disclose a corporate action timetable by January 1 of each year (or by the first day of their financial year in case it is not January 1st) [...]".

4.1.13 With the exception of an issuer under listing, all issuers comply with the recommendation that, in order to inform market participants, the company publishes its corporate governance report on an annual basis when the annual report is disclosed. The clear reason for this relates to the BSE General Terms of Service which stipulates: "Issuers of equities falling within the scope of the Civil Code shall publish in accordance with the Regulations on Official Publications the Corporate Governance Report consistent with the "Corporate Governance Recommendations" issued by the Exchange along with the publication of their annual report."

4.1.16 With two exceptions, all issuers on the Prime Market comply with the recommendation on disclosure in English, while only one additional issuer on the Standard Market complies with it. As a result, with every issuer taken into account, the compliance rate is 41.46%. The clear reason for this relates to the BSE General Terms of Service which stipulates: "Issuers listed on or reclassified to Equities Prime Market are required to select English as their (or one of their) reporting languages". The compliance rate improved significantly compared to the previous year's 32.5%.

#### 4.1. Transparency and Disclosure



■ Compliant ■ Non-compliant