

Management

The executive officers of a company provide for the company's management and day-to-day operation; by law, they may be elected for a definite period of time of a maximum of five years or, if the company's constitutive document specifically provides, for an indefinite period of time.

The executive officer (s) is/are called:

- ▶ managing director (s) (Kft)
- ▶ members of the board of directors (Rt) (or in the case of private Rts, a general director may be elected)
- ▶ member(s) entitled to carry out the management (Kkt)
- ▶ general partner(s) (Bt)

In the course of their management activities, executive officers must act with the responsibility generally expected of persons holding such positions. Executive officers will be liable for any

damage incurred by their company due to their negligent or intentional breach of the above duty. Detailed rules apply in respect of the non-compatibility of executive officers.

Since the executive officers represent the company, the company is directly liable for any damage caused by executive officers in relation to third parties. However, the company may then bring indemnification claims against the executive officers for such damage.

Following the occurrence of a situation which threatens the company with insolvency, the executive officers must conduct their managing duties based on the priority of the interests of the creditors of the company. During the liquidation proceedings any creditor or the liquidator may commence an action for the court to establish that the persons who were executive officers of the

company in the three-year period prior to the commencement date of the liquidation proceedings, failed to conduct their managing duties on the basis of the priority of the interests of the creditors after the occurrence of any situation threatening the company with insolvency, as a consequence of which the company's assets diminished to the extent specified in the action.

In the case of the termination of a company without a legal successor, indemnification claims may be brought against the executive officers by members (shareholders) who have membership interests at the time of the cancellation of the company by the Court of Registration for a period of one year following cancellation. If during the existence of the company the liability of the members (shareholders) for the obligations of the company was limited, the members (shareholders) may claim

indemnification from the assets distributed upon termination of the company according to the proportion which corresponds to them.

Supervisory board

The formation of a supervisory board is mandatory for:

- ▶ public Rts (except if the company operates pursuant to a special regime called the unified company management system)
- ▶ private Rts, if shareholders representing at least 5% of the voting rights so request
- ▶ any company, irrespective of its form and its method of operation, if the law so prescribes in order to protect public property or with respect to the activities pursued by the company
- ▶ all companies employing an annual average of 200 full-time employees

The basic role of the supervisory board is the supervision of management activities; furthermore, an Rt's or Kft's constitutive document may authorize the supervisory board to: (i) appoint and remove members of the board of directors or the managing director, (ii) establish the remuneration of members of the board of directors or the managing director, and/or (iii) give its prior consent to the passing of certain major resolutions.

If, acting within the special competence transferred to it, the supervisory board has refused to give its consent to a resolution, the managing director or the board of directors is entitled to convene the quotaholders'/shareholders' meeting, which corporate body may change the resolution of the supervisory board. For any damage caused to the company by resolutions made within the above powers of the supervisory board, its

members and the executive officers will have joint and several liability vis-à-vis the company.

Auditors

By law, an auditor must be elected:

- ▶ if the Accounting Act requires a company (e.g. the company has double-entry bookkeeping, and its annual net sales revenue, calculated on the basis of its preceding two business years' average sales revenue, exceeds HUF 100,000,000 (EUR 400,000))
- ▶ if the articles of association of the company so prescribe
- ▶ if the law so prescribes for the protection of public property