FIRMAX HUNGARY

COMPANY CENTER & CORPORATE SERVICES

INVEST IN HUNGARY

DOING BUSINESS IN HUNGARY GUIDE

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1. ABOUT HUNGARY

1.1 General Introduction

Hungary has gradually been successful in seizing the opportunity to close the gap between itself and the world's more developed regions. In 1989, after the collapse of the socialism in Eastern Europe, the economy has been transformed from a centrally planned socialist state directed economy to a functioning market economy. In addition, the essential democratic political institutions have also been established. The country is politically and economically integrated into the prestigious group of developed countries, it is a member of the European Union, NATO and various important international organizations.

As a result of these changes and the developing economy, Hungary has become a country, capable of offering numerous opportunities to businessmen. Because of its central location between Western- and Eastern-Europe it provides access to almost the entire European market. As a consequence of the moderate wage rates, high level of education, the investment friendly legal framework and taxation system, Hungary has become an ideal location with exceptional circumstances and conditions to pursue various business investments. This prospectus introduces you to the realities and the essential background of doing business in Hungary.

1.2 Political system

Hungary is a parliamentary democracy, which means that the legislative power is in the hand of the Parliament. Only the Parliament is entitled to enact laws, however the Hungarian government, its members and the local authorities also have the power to issue decrees in certain areas, as long as these decrees do not contradict Parliamentary legislation. The members of Parliament are elected in multiparty elections by popular vote under a system of proportional and direct representation to serve four-year terms.

The government has the necessary executive powers to execute the acts of the Parliament and other legal regulations. The head of the government is the Prime Minister, who is elected by Parliament on the recommendation of the President of the Republic. The President of the Republic is elected by Parliament for a maximum of two, five year terms. Pursuant to the provisions of the Constitution, the President has restricted executive powers and an important role as the representative of the Nation. Among others, he has an extensive nomination right, as he is entitled to conclude international agreements, he may countersign or veto and return the acts enacted by the Parliament and is the commander-in-chief of the army. In addition to central government, the country also has a local governmental structure with separated legislative and executive powers. These local municipalities consist of the municipality of Budapest, nineteen counties and several other local municipalities.

1.3 Economy

In the last twenty years, the centrally planned market economy was successfully transformed to a functioning market economy. Efficient laws have been put in place in the fields of bankruptcy, accounting, banking, taxation and company law, particularly in relation to company structure and operation. The stock exchange, banks, insurance companies, and other financial institutions have been established and are now functioning independently, as their private ownership is assured and protected through recently enacted legislation. Free

competition is secure and thriving as a result of the harmonization of relevant Hungarian legislation to the EU directives.

Foreign investments are sincerely welcome in Hungary, thus, various legal and financial advantages are being provided to assist them in establishing and operating successful business models. Citizens of other nations may, under the same conditions as Hungarian citizens, pursue any business activities, such as to establish companies or branch offices of their foreign company, to acquire ownership in Hungarian companies and so on. Furthermore, any company registered in Hungary, regardless of the structure or nationality of its ownership, is treated on an equal basis ('national treatment'). As a direct result of the above mentioned conditions, foreign ownership and investment is widespread in Hungarian businesses.

The country is thoroughly integrated into the world economy. The largest proportion of its trade is conducted with the members of the European Union. Economic relations with overseas countries like the United States of America, Japan, China, India are also well established.

2. FOREIGN INVESTMENT REGULATIONS AND CORPORATE REGIME IN HUNGARY

2.1 Foreign Investment Regulations

Hungary signed the Convention On The Settlement Of Investment Disputes Between States And Nationals Of Other States (the 'Washington Convention') which aims to remove major impediments to the free international flows of private investment posed by non-commercial risks and the absence of specialized international methods for investment dispute settlement.

Generally, pursuant to Act XXIV of 1988 on the Investments of Foreigners in Hungary, foreigners may engage in or conduct business activities in Hungary or may engage in business operation by creating a presence for business purposes in Hungary (e.g. a company, a branch, etc.).

2.2 Corporate regime

Act IV of 2006 on Business Organizations (hereinafter referred to as: the 'Companies Act'), as well as Act V of 2006 on the Public Company Information, Company Registration and Winding-up Proceedings Hungarian corporate law serve as basic legislations for corporate matters.

2.3 Business Organizations

2.3.1 Founders

Business organizations can be established by Hungarian resident and non-resident natural persons, legal persons, as well as business organizations, to engage in business operations. Further, such persons can join business organizations as members or acquire participation therein.

Except for limited liability companies and the private and public joint stock companies, at least two members are required for the establishment of a business organization.

2.3.2 Forms of business organizations

Business organizations can only be established in the company forms regulated in the Companies Act. Currently, the following types of business organizations can be established under the current Companies Act:

(a) limited liability company (in Hungarian: 'korlátolt felelősségű társaság', i.e. 'Kft.');
(b) private joint stock company (in Hungarian: 'zártkörűen működő részvénytársaság', i.e. 'Zrt. ');
(c) public joint stock company (in Hungarian: 'nyilvánosan működő részvénytársaság', i.e. 'Nyrt. ').
(d) general partnership (in Hungarian: 'közkereseti társaság', i.e. 'Kkt. ');
(e) limited partnership (in Hungarian: 'betéti társaság', i.e. 'Bt. ').

Joint ventures (in Hungarian: 'közös vállalat') cannot be established since 1 July 2006.

2.4 General attributes of business organizations

2.4.1 Limited Liability Companies ('Korlátolt Felelősségű Társaság' or 'Kft. ')

(a) General rules

A Kft is a business organization which is established with a predetermined amount of initial capital provided by the quotaholders. Securities cannot be issued to incorporate the equity contributions of the quotaholders, but those are represented by the so called 'quotas'. In line with the above, members of a limited liability company are called quotaholders and not shareholders.

(b) Capitalization requirements

The minimum capital required to establish a limited liability company is HUF 3.000.000. The registered capital consists of the capital contributions of the quotaholders, which can be a contribution in cash or in kind. A limited liability company can be established solely by contribution in kind. Specific rules are applicable to the amount of the contribution, which must be provided prior to the date of the submission of the registration application; the amount of the contribution depends on whether it is provided in cash or in kind, and whether the newly found company is a multi-quotaholder or a wholly-owned entity.

(c) Liability of quotaholders

In general, the liability of the quotaholders of the company extend only to the provision of their capital contributions and other contributions set out in the articles of association, and usually they are not held responsible for the liabilities of the company.

(d) Transfer of the quota

Most quotas are freely transferrable among the quotaholders of the company, excluding the company's own quotas. The quotaholders of the company, the company or a person designated by the quotaholders' meeting has, in this order, pre-emption right for the quotas to be transferred by means of a quota sale and purchase agreement, provided that this is not precluded or restricted by the articles of incorporation.

Quotaholders may grant to each other pre-emptive rights in the articles of incorporation, or may restrict or add conditions to the transfer of the quota to third persons by other means. In case of the a quota sale by means of a quota sale and purchase agreement, a quotaholder wishing to purchase the quota, must announce his/her position within 15 days from the date of the selling quotaholder's communication of the sale offer. If he/she does not make any announcement within said deadline, he/she shall waive the right to exercise his/her pre-emptive rights. The deadline to comply is 30 days for the company and the person designated by the company.

2.4.2 Joint Stock Companies ('Részvénytársaság' or 'Rt.')

(a) General Rules

A joint stock company is a business organization established with a predetermined amount of share capital, represented by shares of a predetermined number and nominal value. The liability of the shareholders of a Joint Stock Company is limited to the value of their contribution to the joint stock company's share capital, i.e. to the value of their share(s).

With respect to the form of operation of joint stock companies, two types of joint stock companies can be distinguished.

Private Joint Stock Company
A private joint stock company shall mean a company, the shares of which are not offered to the public. Also any joint stock company whose shares were originally offered to the public and are no longer available to the general public, or that were removed from trading on a regulated market qualify as private joint stock company. In addition, any joint stock company, having one shareholder, or becoming a wholly-owned company must operate in the form of a private joint stock company.

Public Joint Stock Company
A public joint stock company is a company the shares of which (all or some) are traded publicly in accordance with the conditions set out in the act on securities. In addition to this, any joint stock company, the shares of which were not issued to the public, but later offered to the public and also, the shares of which were admitted for trading on a regulated market, is also a public joint stock company.

(b) Capitalization Requirements

Private Joint Stock Company
A private joint stock company is established upon the signing by the founders the articles of association of the company and the commitment of the founders to subscribe for all shares of the company. The registered capital of a private joint stock company shall not be less than HUF 5.000.000. Private joint stock companies can be also established with cash-contribution and/or with in-kind contributions.

Public Joint Stock Company
A public joint stock company can be established by share subscription through a public procedure regulated in capital market and other relevant legislations. The registered capital of a public joint stock company shall be at least HUF 20.000.000. The subscription of shares shall take place in accordance with the draft terms of formation. Subscription of shares can be made against cash contribution only, except for the founder(s), who are established to provide in-kind contribution. Upon subscription of the shares, at least ten percent of the amount subscribed shall be paid upon subscription. The public joint stock liability company shall hold an inaugural meeting within 60 days after the closing of the successful share subscription. This inaugural meeting shall establish the articles of association.

2.4.3 General partnership ('Közkereseti társaság' or 'Kkt.')

The general partnership is a business organization with legal personality. Members of a general partnership shall jointly engage in business operations with unlimited and joint and several liability, and provide to the partnership the capital contribution necessary for the activities of the partnership.

In principle, profits and losses shall be distributed among the members in proportion to their capital contributions. The supreme body of a general partnership is the meeting of members, in the activity of which all members shall take part in person.

Unless otherwise provided in the articles of association, all members shall be entitled to the management of the partnership without any time limitation. In the articles of association, members may entrust one or more members with the management, in which case other members of the partnership would not be entitled to exercise management rights.

In general, the partnership shall be liable for its obligations with its own assets. However, if its assets do not cover its obligations, members of the partnership shall have unlimited, joint and several liability to their private property.

If the number of the members of the partnership decreases to one, the partnership must report at least one new member to the court of registration within 6 months. Failure to do so will result in the termination of the partnership.

2.4.4 Limited partnership ('Betéti társaság' or 'Bt.')

The limited partnership is a business organization with legal personality. The limited partnership shall have at least two members: one general partner and one limited partner.

Members of a limited partnership shall undertake to jointly engage in business operations, where the liability of at least one member (the general partner) for the obligations not covered by the assets of the partnership is unlimited, and is joint and several with all other general partners, while at least one other member (limited partner) is only obliged to provide capital contribution and in principle, not liable for the obligations of the partnership.

A limited partner, who used to be the limited partnership's general partner, shall remain liable for the obligations of the partnership not covered by its assets for 5 years from the change of his title for the limited partnership's liabilities against third parties if such liabilities originated at the time when such partner was general partner of the limited partnership.

In principle, profits and losses shall be distributes among the members in proportion to their capital contributions. If the number of the members of the partnership decreases to one, the partnership shall report at least one new member to the court of registration within 6 months. Failure to do so results in the termination of the partnership.

2.4.5 Hungarian Commercial Representative Office of a Foreign Company ('Kereskedelmi képviselet' or 'CRO')

The establishment of a CRO is governed principally by the provisions of (i) Act CXXXII of 1997 on Branches and Commercial Representative Offices of Foreign Enterprises, as amended (the 'CRO Act'), and (ii) Act V of 2006 on Public Company Information, Court of Registration Proceedings and, Voluntary Windings-up.

(a) Permitted Scope of Activities

The CRO Act recognizes and authorizes the 'CRO' as a legal form through which the following may operate in Hungary:

- a foreign legal person,
- a foreign organization having no legal personality, and
- other entrepreneurs registered abroad

(each referred to as a 'Founder').

The CRO Act permits the CRO to perform only the following activities:

- mediate contracts
- prepare contracts
- perform information, advertisement and promotional activities.

However, the CRO must not engage in any other, entrepreneurial activities. The CRO - being an entity without legal personality - acts in the name of and on behalf of the Founder. Thus, the CRO is entitled to enter into contracts only in the name of and on behalf of the foreign company and only in connection with matters relating to the operation of the CRO. Therefore, for example, the CRO Act provides that persons working for the CRO as employees or service providers, as the case may be, actually have a contractual relationship with the Founder.

(b) Existence

The CRO Act states that a CRO comes into existence when the relevant court of registration, having jurisdiction according to the registered seat of the CRO, registers the CRO in the trade registry. The CRO may commence its operations and may engage in legally permitted activities only following its registration in the trade registry.

(c) Representation of the CRO

The right to represent the CRO may be granted to persons who

(i) are employed by or are assigned to the CRO, or

(ii) have a Hungarian domestic residence and have concluded a contract for services (i.e. a civil law contract) with the CRO.

Thus, it is possible to appoint the executive officer(s) of the Founder as representative(s) of the CRO only if such person(s) have an employment relationship or assignment or contract for services with the Founder.

2.4.6 Hungarian Branch of a Foreign Company

The establishment of a branch is governed principally by the provisions of (i) Act CXXXII of 1997 on Branches and Commercial Representative Offices of Foreign Enterprises, as amended (the 'CRO Act'), and (ii) Act V. of 2006 on Public Company Information, Court of Registration Proceedings and, Voluntary Windings-up.

The CRO Act recognizes and authorizes the 'branch' as an entity form (without legal personality) through which the following may operate in Hungary:

(a) a foreign legal person,

(b) a foreign organization having no legal personality, and

(c) other entrepreneurs registered abroad.

The CRO Act states that a branch comes into existence when the relevant court of registration, having jurisdiction according to the registered seat of the branch, registers the branch in the trade registry. The branch may commence its operations and may engage in legally permitted activities only following its registration in the trade registry. However, the authorized signatories may proceed in the name and on behalf of the branch after the branch submits its application for registration to the competent Court of Registration, in which case the words 'registration in progress' must be included in the branch's name and on all correspondence and documents issued by or signed on behalf of the branch during the period between the date of submission of the registration application and the date of the registration.

Prior to its registration in the trade registry, the branch may not engage in any activities which require official authorization and/or the conduct of which requires a license (including activities relating to purchase and lease of business premises).

The CRO Act provides that a branch may be registered in the trade registry if its registration application and its required appendices comply with the requirements prescribed in the Registration Act and in other laws.

The branch may be represented by persons who
(i) are employed by or are assigned to the branch or
(ii) have a Hungarian domestic residence and have concluded a contract for services (i.e. a civil law contract) with the branch.

According to the CRO Act, the persons who are employed by the branch - employees /representatives (as the case may be) - are in legal relationship with the Founder. Thus, it is possible to appoint the executive officer(s) of the Founder as representative(s) of the branch if these executive officer(s) are in an employment relationship with the Founder. Not all executive officers of the Founder are required to be named in the Hungarian trade registry as representatives of the branch. We recommend that at least those two or three executive officers who are most likely to be called on to sign on behalf of the Founder documents relating to the branch should be named (registered).

2.4.7 European Public Liability Companies

At an EU-level, European Public Limited Liability Companies are regulated by Council Regulation (EC) No 2157/2001 on the Statute for a European Company (SE).

Public limited-liability companies formed under the law of a Member State, with registered offices and head offices within the Community may form an SE by means of a merger provided that at least two of them are governed by the law of different Member States.

In addition to this, public and private limited-liability companies formed under the law of a Member State, with registered offices and head offices within the Community may promote the formation of a holding SE provided that each or at least two of them:
(a) is governed by the law of a different Member State, or
(b) has for at least two years had a subsidiary company governed by the law of another Member State or a branch situated in another Member State.

The subscribed capital of an SE shall not be less than EUR 120,000; the capital shall be expressed in Euro. The capital of an SE shall be divided into shares. No shareholder shall be liable for more than the amount he has subscribed.

2.5 General rules on the operation

2.5.1 Business activities

A business organization may pursue any business activities that are not prohibited or restricted by law. Certain specific economic activities set out by Hungarian laws can only be pursued in specific company forms. Just to mention an example, banks can only be established in the form of a joint stock company.

2.5.2 Registered seat

All business organizations must have a registered seat. The registered office of a business organization generally functions as the business organization's headquarters. The registered office also functions as the business organization's mailing address, where all business and official documents are received, filed, safeguarded and archived, and where the obligations set out in specific other legislation for corporate headquarters are satisfied. Corporate headquarters are to be marked by a company sign.

2.5.3 Representation and Signatory Rights

'Power of representation' means authority to represent a business organization by signing in its name and on its behalf.

Signatory authority may be conferred on a single person or on several persons acting jointly. If conferred upon several persons, the form of authorization may be stipulated as to granting individual authority to certain officers and joint authority to others, or that one of the signatories is always a specific person. However, a person may have either individual or joint signature authority; which means, that Hungarian corporate law precludes a signature structure, where the officers would sign individually in day-to-day matters, but they would sign jointly in a matter representing higher value. An authorized officer shall exercise power of representation in the same manner at all times, either individually or jointly.

2.5.4 Pre-company ('Előtársaság')

As of the date when the articles of association is executed in a public document by a public notary or is countersigned by a lawyer or the legal counsel of the founder, until the registration of the company, the company may operate as the pre-company of the business organization. The pre-company shall be considered to have legal capacity.

A pre-company may commence its business operations after having submitted the company registration application, however during this period, it cannot perform any activities that require prior official authorization. During the registration period, the pre-company status shall be indicated with the appendage 'bejegyzés alatt', or 'b.a.' (meaning 'registration in process').

The pre-company cannot:

(a) change members of the pre-company, expect where provided in the Companies Act;
(b) alter the articles of association other than providing any missing information requested by the court of registry;
(c) initiate legal proceedings for the exclusion of a member;

(d) engage in any activity that is subject to prior official authorization;
(e) adopt any resolution on termination without succession, transformation into another company form, merger and demerger;
(f) establish a business organization, or become a member thereof.

2.6 Corporate Governance

2.6.1 Supreme body

The Companies Act provides that certain decisions fall under the exclusive competence of the Supreme Body (as defined below). In addition to the statutory powers, further issues may be assigned in the Founding Document to the exclusive competence of the Supreme Body, and, as a result, only the Supreme Body may decide such issues. As a main rule, the supreme body shall adopt its decision if supported by the simple majority of its members, quotaholders or shareholders. However, the articles of association or the law may require that certain decisions are rendered by a two-third, a three-quarter or an absolute majority.

The business organization's supreme body is:
(a) the meeting of members in case of general partnerships and limited partnerships;
(b) the quotaholders' meeting in case of liability companies, which consists of all the quotaholders' of the company and shall be convened at least once a year;
(c) the general meeting in case of public and private joint stock companies.

The general meeting consists of all shareholders. It shall be convened at the intervals specified in the articles of association, but at least once a year. An extraordinary general meeting may be held any time when deemed necessary.

In single-member companies, decisions falling within the competence of the supreme body shall be adopted by the sole quotaholder/shareholder, who shall notify the executives of such decision in writing. All members, quotaholders and shareholders of the business organization and – without voting rights – any person invited according to law or the articles of association has the right to attend the meeting of the supreme body of the business organization. All members, quotaholders and shareholders of the business organization have the right to participate in the activities of the supreme body.

2.6.2 Executive Officers

The executives officers of a business organization shall make all decisions that are necessary in connection with the company's operations and which do not fall under the competence of the supreme body or another company organ under law or the provisions of the articles of association.

Duties of the management of the various types of business organizations are performed by:
(a) members entitled to perform the management, in case of general partnership and limited partnership;
(b) one or more managing directors in case of limited liability companies;
(c) Board of Directors in case of joint stock companies.

The articles of incorporation of a private joint stock company may confer powers of the Board of Directors onto one single executive officer. The articles of incorporation of public joint stock companies may also contain provisions to confer management and supervisory functions

upon the Board of Directors; in such case, the public joint stock company shall have no supervisory board.

The Board of Directors of a private joint stock company shall consist of three to eleven natural persons. The Board of Directors exercises its rights and performs its obligations as an independent body.

The Board of Directors of a public joint stock company shall consist of five to eleven natural persons, and the majority of the members of the Board of Directors shall be independent persons, as defined by the Companies Act. Executives may be appointed either for an indefinite term or for a fixed term of a maximum of five years. In case the members (shareholders) have not stipulated the term of the executive officers, they shall be considered to have been designated for a fixed term of five years, except if the business organization is established for a shorter period. The mandate of an executive officer shall take effect from by his accepting such designation. Executive officers may be re-elected and may be removed by the supreme body of the business organization any time, without providing a justification for the removal.

The following persons cannot be executive officers:

- a person who has been sentenced to imprisonment by final and binding court judgment, until relieved from the detrimental legal consequences related to his criminal record;
- a person who has been banned by a final and binding court judgment from becoming an executive officer, under the term of such ban;
- a person who has been banned by a final and binding court judgment from the profession of a business activity that the business organization is performing, under the term of such ban;
- for a period of two years after deletion of the company from the trade registry through a cancellation procedure, a person, who, during the calendar year preceding such deletion, served as an executive officer of said company.

Executives may exercise their rights and perform their duties either on the basis of the provisions of the Civil Code on the rules of contracts for services or employment law provisions.

2.6.3 Supervisory Board

In order to supervise the management of the business organization's, the members (shareholders) may establish a supervisory board.

The establishment of a supervisory board is mandatory:

(a) for public joint stock companies, except for any company that is controlled by the one-tier system;
(b) for joint stock companies, if requested by the founders or members (shareholders) controlling at least five per cent of the total number of votes;
(c) irrespective of the form and operational structure of the company, where required by law with a view to the protection of public assets or to the activities in which the company is engaged;
(d) where required by the Companies Act with a view to exercise the control rights over employees.

2.6.4 Auditor

The auditor of the business organization shall be responsible for carrying out the audits of accounting documents as specified in the Accounting Act. Thus the auditor must determine whether the annual report that the business organization has prepared for the prior financial year, as required by the Accounting Act, is in conformity with the applicable legal requirements, and whether it provides a fair and true view of the company's assets and liabilities, financial position, profit and loss.

The business organization is obliged to nominate a statutory auditor, if it is required by the Accounting Act, by other laws with view to the protection of the public assets, or by the articles of incorporation of the company.

2.7 Establishment, Registration

2.7.1 Establishment

A business organization is established by (i) concluding an articles of association[1]; and (ii) registration with the court of registration.

The articles of association shall be signed by all founders and shall be prepared either as a public document prepared by a public notary or as a private document countersigned by a lawyer or the legal counsel of the founder. The content of the articles of association is primarily determined by the Companies Act; however, the quotaholders/shareholders may include in the articles of association any additional provisions which do not conflict with the regulations of the Companies Act.

In general, the articles of association shall contain:

(a) the corporate name and registered office of the business organization;
(b) members of the business organization, indicating - unless otherwise provided by law - their name (corporate name) and address (registered office), for legal persons and business organizations without legal personality their (company) registration number;
(c) the business organization's main business activity and all other activities which the company intends to indicate in the corporate registry;
(d) the registered capital of the business organization, the financial contribution of each member as well as how and when the registered capital is made available;
(e) the way of representation and the way of signing for the business organization;
(f) the name and address (registered office) of the first executive officers appointed by the members (shareholders), and of the first appointed supervisory board members and auditor where applicable, and for legal persons and business organizations without legal personality their (company) registration number;
(g) the duration of the business organization, if established for a limited period of time; and
(h) any other information required by the Companies Act for the various forms of business organizations.

2.7.2 Registration mechanisms

[1] Articles of association has a different name depending on the company form; it is called as 'deed of foundation' in case of public and private joint stock companies and wholly-owned companies and 'articles of association' in case of multi-owned limited liability companies.

Business organizations shall be considered to be established at the time of their registration at the trade registry, effective as of the date of such registration. The registration application shall be filed with the court of registration within 30 days from the date of the signing of the articles of association. However, in case an official authorization is required to perform the business activities, the deadline for the submission of the registration application shall be 15 days.

Currently, two registration mechanisms are available:
(a) general registration process or
(b) simplified registration process.

The length of the registration process depends on which mechanism is chosen to register the company. If a general registration process is chosen, the registration can occur within 15 working days. If the simplified registration process is used, the registration can occur within about 1 working day. In each case, the days are counted from the submission of all required documents, assuming the trade registry judge has no questions about those documents and does not require any additional documents.

The simplified registration process leads to quicker registration but has potential disadvantages. To be able to proceed with the simplified process, the so called Template Founding Document must be used as the articles of association of the company. The provisions of the Template Founding Document are set out by the law, and those may not be changed in any way. Pursuant to this rule, a company, which is registered through such process, must be established with (i) a financial year which corresponds to the calendar year; and (ii) must use Hungarian Forint as its accounting currency.

2.8 Investments to Hungary in other structures

2.8.1 Joint venture

The Companies Act, effective as of 1 July 2006, abolished the company form 'joint venture' (in Hungarian: közös vállalat), as a result of which companies cannot choose joint venture as the form of their business activities as of 1 July 2006.

However, the above rules on the abolition of the joint venture as a company form do not prevent investors to create a joint venture together with a Hungarian entity in a company form specified by the currently effective Companies Act, for the purpose of cooperating through a specific project or for a continuing business relationship.

2.8.2 Venture Capital

Venture capital is a type of private equity capital typically provided to early-stage, high-potential growth companies in the interest of generating a return through an eventual realization event. Venture capital is most attractive to new companies with limited operating history that are too small to raise capital in the public markets and are too immature to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (and consequently value).

2.8.3 Public Private Partnership

Public Private Partnerships or PPPs are a government service or private business ventures, which are funded and operated through a partnership of government and one or more private sector companies, for long term development or service projects.

The PPP inter-departmental committee headed by the minister of economy and transport is established to comment the PPP plans, monitor and evaluate the PPP projects, as well as to assist in the decision making process in relation to the financing structure, etc.

3. REAL PROPERTY

3.1 Registration of Real Properties

In Hungary, all important information in relation to real properties is recorded in a public land registry system. Real properties have a property sheet that describes the area and the description of the real property and also indicates the owner and information with respect to mortgages, easements and land use rights encumbering the real property. However, the land registry does not include information on lease agreements. The registrations on the property sheet are public information.

Transfer of a real property requires a written real property sale and purchase agreement, which must be prepared and countersigned by a Hungarian attorney and which has to be filed with the competent land registry office within 30 days of its execution.

3.2 Acquisition of Real Property

3.2.1 Acquisition

Companies, registered in Hungary may acquire real property, irrespective of foreign ownership of the company. Regarding non-agricultural land (including developed and undeveloped land), there is no restriction. Regarding agricultural land, there are several restrictions as discussed in Section 3.2.2 below.

Real property acquisitions may be completed through an asset deal or a share deal. In case of an asset deal, the real property is purchased directly; while under a share deal an ownership interest is acquired in a company owning the target real property. Both types of acquisitions require a title due diligence on the target property. In addition, a legal due diligence on the target company is also required under a share deal transaction.

Currently, asset deals, as well as share deals are subject to a 4 per cent transfer tax payable on the gross value (including VAT) of the target real property or the company.

3.2.2 Agricultural land and related restrictions

Regarding agricultural land and forest properties, (1) a reclassification of the land and (2) the approval of a new zoning plan are required to ensure that a development can be implemented on the real property.

(1) The reclassification is subject to (i) the permit of the land registry office, (ii) the payment of the land contribution fee and (iii) a binding building permit for the development to be issued by the notary of the local municipality; (2) while the approval of the zoning plan is within the competence of the local municipality's general assembly.

The zoning plan proceeding usually takes 6-8 months and the building permit proceeding usually takes an additional 4-6 months. However, in case of a real property development, any interested party may appeal against the permits and the zoning plans, which may cause a delay in the commencement and the completion of the construction work.

As to the acquisition of agricultural land, under Hungarian law, companies may not acquire agricultural lands (including forests) and may not be granted an option right over agricultural

land. Therefore, a company may only conclude a preliminary sale and purchase agreement for any agricultural land with its owner. A preliminary sale and purchase agreement includes the obligation to enter into the final sale and purchase agreement; however, there are certain exit possibilities for both parties, regulated by Hungarian law, to terminate the preliminary agreement. After the zoning plans have been approved, a binding building permit has been issued and the reclassification has been completed, a final sale and purchase agreement may be concluded with the owner on the acquisition of the reclassified development area.

3.2.3 Non-agricultural lands

Regarding non-agricultural land (including developed and undeveloped land), there is no restriction on the companies to acquire real properties. However, depending on its classification, a real property may be subject to certain limitations, such as pre-emption rights and mandatory tender proceedings regulated by the local municipality.

In these types of real properties, the modification of the existing zoning plans and a plot formation may be also required.

3.2.4 Related licensing matters

As to licensing, the construction work may only be commenced following the receipt of the binding and final building permit. The building permit is to be issued by the notary of the local municipality.

In respect of agricultural land, the approval of the zoning plans is a condition precedent to the issuance of the building permit. Regarding non-agricultural land, the modification of the existing zoning plans may also be required.

As to the road infrastructure, based on the practice of the road authorities, there is often an obligation to construct the necessary private and public roads at the cost of the development. The construction of the roads is subject to a separate road permit which is to be issued by the road authority.

After the construction work has been completed, an occupancy permit must be applied for (and a road occupancy permit in case of road constructions). The development may only be utilized based on and subsequent to the receipt of a binding occupancy permit.

Lastly, subject to the site condition of the target real property, archaeological excavation or environmental decontamination may also be required, which may cause a delay in the construction and may also result in extra costs.

4. ENVIRONMENT, ENERGY

4.1 Overview

Hungary offers great opportunities for investors in the fields of energy and environment.

Most of the power plants in Hungary are old and operate with relatively low efficiency and high pollution. Electricity is mostly generated by nuclear and fossil material-powered plants; within the latter, especially the ratio of gas-based power plants is relatively high. Hungary's obligations to reduce emission and to increase energy generated by renewable sources necessitates a change in Hungary's energy strategy and open new perspectives for investors with renewable energy projects.

Consequently, there is a need to build new capacities, and in this regard, the increased utilization of renewable energy should be highly evaluated.

In accordance with the March 2007 agreement of the EU leaders, 20 percent of the EU's energy should be produced from renewable fuels by 2020 as part of its drive to cut emissions of carbon dioxide. Hungary undertook to increase the share of electricity produced from renewable energy sources to 7.5% by 2012. Such increased generation of electricity is supported by the Hungarian State through a mandatory electricity take-over system and a fix take-over price system.

In addition to the subsidy system of the state, investors can also take advantage of other benefits through participating in various mechanisms, such as e.g. JI projects or Green Investment Schemes which might result in receiving transfer emission reduction units and subsidies by the state.

4.2 Environmental Regulation

Act LIII of 1995 on the General Rules of Environmental Protection ('EPA') establishes a general framework for environmental law and sets out the principles. Based on the EPA's principles and general provisions, several other acts, decrees and regulations contain detailed rules on the environment's various elements (water, soil and air), noise and vibration, radiation, waste (hazardous waste) and the protection of nature. The detailed sectoral rules are usually in line with the EU's environmental directives.

General rules apply to the above-mentioned different activities affecting or possibly affecting the environment in respect of environmental planning, liability and permits.

The laws define those activities for which some form of permit is required. Activities using or threatening the environment may be conducted after obtaining an authorization or permit (collectively: 'permits'). The procedures for obtaining such permit vary depending on what permit is required for the activity, according to the level of impact on the environment and, in certain cases, to the sectors affected by the given activity. The major types of permits are:

- environmental permit;
- integrated pollution prevention and control ('IPPC') permit;
- site permit;
- other, sector-specific operating permits.

The operator must obtain such permit usually from the competent regional environmental agency (or from the local municipality) or, in some cases, must make a notification to the agency. The authority may impose obligations and/or conditions when issuing a permit. The rules usually contain limit values for emission. Some laws - and usually the permits - set out regular reporting obligations as to the emitted pollutants/components.

Other pieces of legislation constitute a shift from the above-mentioned 'command & control' approach to economic and other incentives: there are several types of fees payable for emission/ the use of natural resources, which aim at the reduction of the impact on the environment. The amount of certain types of fees (e.g. product fees) can be reduced by complying with quotas applicable to environment-friendly products.

In case of damage to the environment or other type of breach (e.g. the failure to timely make the reporting obligations) the liability provisions must be applied. The liability principles are set out in the EPA and its implementing legislation while other pieces of legislation contain environmentally relevant provisions which are/can be relevant for environmental purposes. Environmental legal obligations and standards are generally part of administrative law. Thus, administrative environmental liability can be considered the most important area of environmental liability. The EPA sets out the legal framework for administrative liability and, further, refers to the specific environmental liability provisions of the Civil Code, the Criminal Code and the Administrative Offences Act, with some differences.

Generally, the EPA imposes an obligation to discontinue an activity threatening or polluting the environment, and to rectify any pollution or damage caused to the environment as a result of such activity. Courts and authorities may also restrict, suspend or prohibit the pursuit of environmentally hazardous activities. Under certain circumstances, users may be required to provide security for possible environmental damage, or to procure liability insurance.

Those who exceed permitted contamination or emission limit values imposed by the relevant regulations, or act in violation of other requirements specified in environmental laws, must pay environmental protection fines in proportion to the amount, gravity and frequency of the pollution, the environmental damage caused or the breach of the applicable obligation. Different detailed rules concerning environment fines are specified in the applicable sectoral decrees.

5. TAXATION

The below is a general summary of the taxation rules in Hungary. In Hungary, taxation rules change frequently, but the main concept of taxation does not change and the tax system is stable.

5.1 Corporate Taxation

(a) *Corporate Income Tax 9 %*
The general corporate income tax rate is 10 %, which is the lowest in the EU. The tax base is the company's pre-tax profit amended by tax base increasing and tax base reducing factors (carry forward losses, depreciation, etc).

(b) *No Withholding Tax*
In Hungary, there is no withholding tax on dividend, royalty and interest payments made between corporate entities from a Hungarian source.

5.2 Local Business Tax

Local municipalities are entitled to levy up to 2 per cent local business tax on the following tax base: net sales revenue less cost of goods sold less value of mediated services less cost of materials. The Municipality of Budapest applies the maximum 2 per cent rate.

5.3 Value Added Tax

Currently, there are three VAT rates applied in Hungary. The standard VAT rate of 27 per cent applies to most products and services; the reduced VAT rate of 18 per cent applies to basic alimentary (such as milk, dairy products and products made from grain or flour), district-heating and tourist accommodation services; the super reduced of 5 per cent applies to basic pharmaceuticals and books.

5.4 Transfer Tax

The transfer of real property and rights related to real property is subject to transfer tax on the basis of the market value of the real estate. The transfer tax is payable by the transferee. The general rate of transfer tax for real estates is 4 per cent calculated on the basis of the market value of the real estate. Special transfer tax rate applies to residential apartment units (and if the real estate is acquired by a real estate agent or a financial leasing company).

The gift of movables, immovables and immaterial rights is subject to gift tax. Gift tax has a progressive rate from 11 per cent to 40 per cent depending on the value of the gift and the relationship between the donee and the donor.

5.5 Personal Income Tax

Income earned from employment is subject to

- personal income tax at a flat rate of 15 per cent
- and the following contributions:

Payments by employer		
Payment	**Basis**	**Rate**
Social Security Contribution	gross salary	27%
Vocational Training Contribution	gross salary	1.5%
Total		28.5%

Payments by employee		
Payment	**Basis**	**Rate**
Pension contribution	gross salary (capped at HUF 7.942.200 per year)	10%
Health insurance contribution	gross salary	8.5%
Total		18.5%

6. INCENTIVES TO INVESTORS IN HUNGARY

6.1 Overview

Competitiveness, cost efficiency, skilled human capital productivity and business-friendly environment

In times of crisis these phrases are more important than ever. Even a minor advantage can lead to major gains and to the loss of a market.

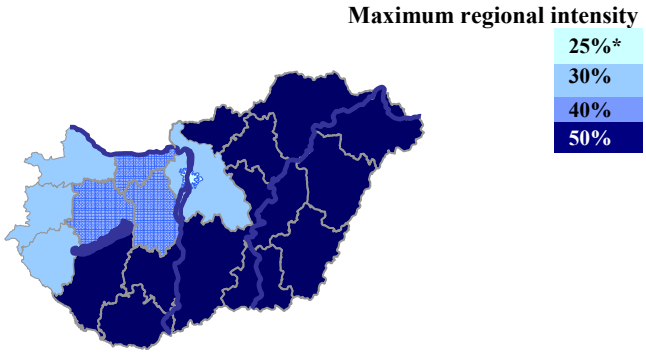
competitiveness, cost efficiency, skilled human capital productivity and business-friendly environment

These phrases also mean Hungary. The Hungarian Government is committed to ease doing business, to increase the competitiveness of both SMEs and large enterprises in Hungary. The focus is on high value added activities, like shared service centers, research and development, high value added production.

What can Hungary offer you?

Skilled, cost efficient and the most productive labor force in Central Europe, excellent infrastructure and at last but not least the Hungarian Government grants financial assistance to companies that decide to realize their investments in this business-friendly country. As the member of the European Union, Hungary can offer a broad scale of subsidies. An investment of a large enterprise – depending on the location – can be entitled to receive state subsidies of up to 50% of the eligible costs of the investment.

The legal basis for all investment subsidies within Hungary is provided by common legal framework of the European Union. Following maximum regional subsidy intensity ratios have been set by the European Commission:



The maximum intensity ratio is increased by 10 percentage points for medium-sized and by 20 percentage points for small enterprises. For criteria determining SME categories see table below:

Size	Headcount	Turnover	OR	Balance Sheet
Small	< 50	<= EUR 10 M	OR	<= EUR 10 M
Medium	< 250	<= EUR 50 M	OR	<= EUR 43 M

Large	>= 250	> EUR 50 M	OR	> EUR 43 M

Subsidy for large investment projects is also subject to an adjusted regional aid ceiling, on the basis of the following scale:

Eligible expenditure	**Adjusted aid ceiling**
Up to EUR 50M	100 % of regional ceiling
For part between EUR 50-100M	50 % of regional ceiling
For part exceeding EUR 100M	34 % of regional ceiling

6.2 Incentives for Manufacturing Projects

The Special Incentive Package may consist of the following elements:

6.2.1 Direct cash subsidy

Option 1 – up to EUR 25M investment volume outside Central Hungarian Region
EU co-financed cash subsidy
Type: cash, non-refundable
Amount of subsidy: 5-35%, max. HUF 200-1500M (EUR 0.7-5M)
Conditions: investment volume min. HUF 1500M (EUR 5M), min. 25 new jobs, outside Central Hungarian Region
Application: tender package shall be submitted to Hungarian Center for Economic Development, official subsidy offer within approx. 38 days

Option 2 – above EUR 10M within, above EUR 25M outside Central Hungarian Region
Cash subsidy based on individual Government decision
Type: cash, non-refundable
Amount of subsidy: decided individually by the Hungarian Government
Conditions: min. 50 new jobs (25 in preferred regions[2])
Application: „request list' containing core investment data shall be submitted to the Hungarian Government, official subsidy offer is presented within approx. 30 days

6.2.2 Development tax allowance

Type: tax allowance for post-investment period
Amount of subsidy: exemption for 80% of the corporate tax payable for 10 years following installation. The amount of available allowance is limited by the maximum intensity ratio
Conditions: investment volume min. HUF 3bn (EUR 10M), min. 150 new jobs (HUF 1B investment volume and 75 new jobs in preferred regions)
Application: depending on investment volume request or application needs to be submitted

6.2.3 Training Subsidy

Type: cash subsidy, non-refundable

[2] 1 For preferred regions see shaded areas in Intensity Map

Amount of subsidy: 25-90% of eligible training costs, max. EUR 2M (HUF 600M)
Conditions: cash subsidy based on individual Government decision is granted
Application: letter of intent needs to be submitted to the Hungarian Government

6.2.4 Job creation subsidy

Option 1

Type: cash subsidy, non-refundable
Amount of subsidy: HUF 80-260M (EUR 0.3-0.9M) per project
Conditions: cash subsidy based on individual Government decision is granted; in preferred or most preferred locations; min. 500 new jobs (200 in most preferred).
Application: letter of intent needs to be submitted to the Hungarian Government.

Option 2

Type: cash subsidy, non-refundable
Amount of subsidy: HUF 0.8-1.5M (EUR 3000-5000) per new job
Conditions: min. 2 new jobs
Application: March-April every year, through the relevant regional labor office

6.3 Incentives for Research and Development Projects

The Special Incentive Package may consist of the following elements:

6.3.1 Direct cash subsidy

Option 1 – up to EUR 25M investment volume
EU co-financed cash subsidy
Type: cash, non-refundable
Amount of subsidy: up to 40% (up to 25% in Central Hungarian Region), max. HUF 200-1500M (EUR 0.7-5M)
Conditions: primary-, applied research or prototype development; min. 5 new R&D jobs
Application: tender package shall be submitted to Hungarian Center for Economic Development, official subsidy offer within approx. 38 days

Option 2 – above EUR 25M investment volume
Cash subsidy based on individual Government decision
Type: cash, non-refundable
Amount of subsidy: decided individually by the Hungarian Government
Conditions: min. 10 new jobs
Application: 'request list' containing core investment data shall be submitted to the Hungarian Government, official subsidy offer of the Hungarian Government within approx. 30 days

6.3.2 Development tax allowance

Type: tax allowance
Amount of subsidy: exemption for 80% of the corporate tax payable for 10 years following installation. The amount of available allowance is limited by the maximum intensity ratio
Conditions: investment volume min. HUF 100M (EUR 0.3M)
Application: depending on investment volume request or application needs to be submitted

6.3.3 Training Subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: 25-90% of eligible costs, max. EUR 2M (HUF 600M)
Conditions: cash subsidy based on individual Government decision is granted
Application: letter of intent needs to be submitted with the Hungarian Government

6.3.4 Job creation subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: HUF 0.8-1.5M (EUR 3000-5000) per new job
Conditions: min. 2 new jobs
Application: March-April every year, through the relevant regional labor office

6.3.5 Other R&D incentives

- R&D costs and depreciation may be 100% deducted from corporate tax base and solidarity tax base
- 300% of R&D direct expenses, maximum HUF 50 million (EUR 0.2M), may be deducted from corporate tax base if located at university or public research institute
- 10% of R&D direct costs and wage costs of employed software developers may be deducted for a period of 3 years
- Tax free employment of PhD, MSc or MBA students up to the official minimum wage
- Tax free development reserve for five years – 25% of pre-tax profit (max. HUF 500M, EUR 1.7M)

6.4 Incentives for Logistics Projects

The Special Incentive Package may consist of the following elements:

6.4.1 Direct cash subsidy

Option 1 – up to EUR 20M investment volume

EU co-financed cash subsidy
Type: cash, non-refundable
Amount of subsidy: up to 50% (up to 25% in Central Hungarian Region), max. HUF 50-750M (EUR 0.2-2.5M)
Conditions: min. 70% of the logistic services are provided for other companies; min. 10,000 sqm warehouse capacity or 10,000 TEU/125,000 tons intermodal reloading for intermodal logistic centers; min. 5,000 sqm warehouse capacity for regional distribution centers
Application: tender package shall be submitted to Hungarian Center for Economic Development

Option 2 – above EUR 20M investment volume

Cash subsidy based on individual Government decision
Type: cash, non-refundable
Amount of subsidy: decided individually by the Hungarian Government
Conditions: min. 10 new jobs

Application: „request list' containing core investment data shall be submitted to the Hungarian Government, official subsidy offer of the Hungarian Government within approx. 30 days

6.4.2 Development tax allowance

Type: tax allowance for post-investment period
Amount of subsidy: exemption for 80% of the corporate tax payable for 10 years following installation. The amount of available allowance is limited by the maximum intensity ratio
Conditions: investment volume min. HUF 3B (EUR 10M), min. 150 new jobs (HUF 1B investment volume and 75 new jobs in preferred regions)
Application: depending on investment volume request or application needs to be submitted
Provider of incentive: Ministry of Finance

6.4.3 Training Subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: 25-90% of eligible costs, max. EUR 2M (HUF 600M)
Conditions: cash subsidy based on individual Government decision is granted
Application: letter of intent needs to be submitted with the Hungarian Government

6.4.4 Job creation subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: HUF 0.8-1.5M (EUR 3000-5000) per new job
Conditions: min. 2 new jobs
Application: March-April every year, through the relevant regional labor office

6.5 Incentives for Shared Service Center Projects

The Special Incentive Package may consist of the following elements:

6.5.1 Direct cash subsidy

Option 1 – up to EUR 25M investment volume outside Central Hungarian Region
EU co-financed cash subsidy
Type: cash, non-refundable
Amount of subsidy: 5-35%, max. HUF 200-1500M (EUR 0.7-5M)
Conditions: investment volume min. HUF 1500M (EUR 5M), min. 25 new jobs, outside Central Hungarian Region
Eligible costs: both tangible/intangible assets and wage related costs
Application: tender package shall be submitted to Hungarian Center for Economic Development, official subsidy offer within approx. 38 days

Option 2 – above EUR 10M within, above EUR 25M outside Central Hungarian Region
Cash subsidy based on individual Government decision
Type: cash, non-refundable
Amount of subsidy: decided individually by the Hungarian Government
Conditions: creating at least 25 new jobs
Eligible costs: wage related costs
Application: „request list' containing core investment data shall be submitted to the Hungarian Government, official subsidy offer of the Hungarian Government within approx. 30 days
Note: for Budapest and Central Hungary only projects above EUR 10M can receive cash grant

6.5.2 Development tax allowance

Type: tax allowance for post-investment period
Amount of subsidy: exemption for 80% of the corporate tax payable for 10 years following installation. The amount of available allowance is limited by the maximum intensity ratio
Conditions: investment volume min. HUF 3bn (EUR 10M), min. 150 new jobs (HUF 1bn investment volume and 75 new jobs in preferred regions)
Application: depending on investment volume request or application needs to be submitted

6.5.3 Training subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: 25-90% of eligible training costs, max. EUR 2M (HUF 600M)
Conditions: cash subsidy based on individual Government decision is granted
Application: letter of intent needs to be submitted to the Hungarian Government

6.5.4 Job creation subsidy

Type: cash subsidy, non-refundable
Amount of subsidy: HUF 0.8-1.5M (EUR 3,000-5,000) per new job
Conditions: creation of at least 2 new jobs
Application: March-April every year, through the relevant regional labor office

6.5.5 Further employment related incentives

- Wage support promoting the employment of disadvantaged groups
- Start (Extra) Program: employers are expected to pay reduced contributions for a 2 year period for fresh graduates and over 50 year old employees
- Mobility subsidy: travelling costs of a disadvantaged commuting employee can be compensated
- Transport subsidy
- Accommodation subsidy
- Various labour market services

7. IMMIGRATION

Hungary joined the European Union in May 2004; however, it became part of the Schengen area only at the end of 2007.

The Schengen Agreement was incorporated into European law by the Amsterdam Treaty and has been further developed since then. The Schengen provisions are currently applied by twenty-two EU Member States and three other European countries, and provide for the removal of systematic border controls between the participating countries[3], establishment of common control at the borders of the Schengen area, application of a common visa policy and all measures related to these matters.

Pursuant to the Schengen provisions, nationals of the Schengen Member States are no longer required to show their passports when crossing borders of the Schengen Member States. Accordingly, Hungarian citizens are free to enter other Schengen Member States without a passport. However, different rules apply to nationals of third countries.

7.1 Applicable legislation for immigration requirements of third country nationals

Act II of 2007 on the Admission and Rights of Residence of Third-Country Nationals ('Third-Country Nationals Act') provides the relevant rules concerning the entry and residence of third-country nationals in Hungary. The Third-Country Nationals Act provides different rules and requirements applicable on residency of third-country nationals in Hungary for a period not exceeding 3 months and for a period longer than 3 months.

7.2 Rules on residing in Hungary less than three months

Third country nationals may enter Hungary for a maximum of three months during the six-month period following the third country national's first entry into Hungary in compliance with the following requirements: (i) they are in possession of a valid travel document or documents authorizing them to cross the border; (ii) they are in possession of a valid visa, if required pursuant to Council Regulation (EC) No 539/2001 of 15 March 2001, except where they hold a valid residence permit; (iii) they justify the purpose and conditions of the intended stay, and they have sufficient means of subsistence, both for the duration of the intended stay and for the return to their country of origin or transit to a third country into which they are certain to be admitted, or are in a position to acquire such means lawfully; (iv) they are not persons for whom an alert has been issued in the SIS for the purposes of refusing entry; (v) they are not considered to be a threat to public policy, internal security, public health or the international relations of any of the Member States.

Unless Community rules, international treaties, the Third-Country Nationals Act or any other legislation on the basis of the Third-Country Nationals Act provides otherwise, third country nationals are required to obtain a visa for entry to and residing in Hungary for a maximum period of three months.

Visas for a maximum period of three months are:

[3] Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, plus Norway, Iceland and Switzerland

(a) airport transit visa, for entering the international areas of the airport and to stay there until the departure of the flight to the destination country;
(b) transit visa, for single or multiple entry, and stay for maximum five days;
(c) short-term visa, for single or multiple entry, and stays not exceeding three months.

All visas set out above are valid for a period no longer than 5 years.

7.3 Rules on residency of third-country nationals exceeding three months

Third-country nationals may enter and stay in Hungary for a period exceeding 3 months, provided they meet the following requirements: (i) they have a valid travel document; (ii) they have a visa or the relevant permit (iii) they have the necessary permits to return or continue their travel; (iv) they justify the purpose of entry and stay; (v) they have accommodations or a place of residence in Hungary; (vi) they have sufficient means of subsistence and financial resources to cover their accommodation costs in Hungary and for the return to their country of origin or transit to a third country into which they are certain to be admitted, or are in a position to acquire such means lawfully; (vii) they have healthcare insurance or sufficient financial resources to cover their healthcare services; (viii) they are not subject to entrance restriction or residence restriction, they are not considered to be a threat to public policy, public security or public health, or to the national security of Hungary; (ix) they are affected by SIS (Schengen Information System) warning sign for entrance restriction or residence restriction.

The applicable law distinguishes between the following type of visas and permits: (i) a visa for a longer period than three months, (ii) a residence permit; (iii) an immigration permit; (iv) a permit for settling down; (v) an interim permit for settling down; (vi) a national permit for settling down, or (vii) an EC permit for settling down.

Visa for a longer period than three months

A 'visa for a longer period than three months' could be: (i) a visa for acquiring the residency permit; (ii) seasonal employment visa, for single or multiple entry and for the purpose of employment for a period of a minimum of three months but no longer than six months; (iii) national visa may be issued under specific international agreement, for single or multiple entry and for a period of longer than three months.

Residence Permit

Third-country nationals having a residence visa (issued under the Act on Immigration which is not effective any more) or a national visa, can obtain a residency permit after the expiry of the validity period of such visas. Based on the residence permit a third-country national is entitled to stay longer than 3 months, however such permit can only be obtained for two (2) years and occasionally be extended for two (2) years. If the purpose of the stay is the performance of work, the residency permit at the first occasion may be issued for a maximum period of 3 years, but later it may be extended for by an additional 3 years. However, if the third-country national intends to perform an activity which requires a work permit, the validity period of the residence permit must be identical to the validity period of the work permit.

In addition, under specific circumstances, a residence permit may be issued for the purpose of family reunification, performing work, studying, scientific research, etc.

Settlement Permit

The applicable law specifies 3 (three) types of settlement permit: (i) an interim settlement permit; (ii) a national settlement permit, and (iii) an EC settlement permit. However, the Third-Country Nationals Act also acknowledges the settlement permit which was issued before the Third-Country Nationals Act came into force.

A third-country national intending to settle down in Hungary may obtain (i) an interim settlement permit, (ii) a national settlement permit or (iii) an EC settlement permit, if he/she satisfies the following requirements:

(a) the expenses related to the third-country national's living and accommodation in Hungary is covered;
(b) the third-country national has a full healthcare insurance, or have sufficient financial resources to cover his/her healthcare services;
(c) the third-country national is not affected by any prohibitions under the relevant laws.

A third-country national, holding an EC settlement permit granted by an EU Member State in accordance with Council Directive 2003/109/EC of 25 November 2003, can obtain an interim settlement permit, if he/she intends to stay in Hungary for the following purposes: (i) performing work except seasonal employment;(ii) studies or vocational training; or (iii) other certified reason. Such permit can be obtained for 5 (five) years, but occasionally it can be extended for 5 (five) years.

A national settlement permit may be issued to third-country nationals holding a residence visa or a residence permit or an interim settlement permit, if he/she:

(a) lawfully and continuously lived in Hungary for at least 3 (three) years before the application for national settlement permit was submitted;
(b) is a family member - other than the spouse - or a dependent, ascending relatives of a third-country national with immigrant or permanent resident status or who has been granted asylum, and they are living in the same household for at least 1 (one) year before the application was submitted;
(c) the spouse of a third-country national with immigrant or permanent resident status or who has been granted asylum, provided that they married at least two years prior to the application;
(d) was a Hungarian citizen and whose citizenship was terminated, or whose ascendant is or was a Hungarian citizen.

An EC permit for settling down may be issued to a third-country national, if he/she lived legally at least for 5 years in Hungary prior to the filing of the application for such permit.

7.4 Work Permit

Pursuant to Decree No. 8/1999 (amended effective as of 1 May 2004 with respect to Hungary's accession to the European Union) on the Licensing of Employment of Foreigners in Hungary issued by the Minister of Social and Family Affairs (the 'Decree'), as a general rule a work permit must be obtained if a foreigner (i.e., non-Hungarian citizen) would like to perform work in Hungary within the framework of an employment relationship. A work permit is also necessary if a foreign individual who is employed by a foreign company performs work in Hungary on secondment.

No individual work permit is required for the performance of work by a foreign citizen being an executive officer or a member of the Supervisory Board of a Hungarian company operating with foreign participation.

8. EMPLOYMENT

As a result of Hungary's accession to the EU in 2004, Hungarian labour law has been almost fully harmonized with the applicable EU laws.

8.1 Sources of Hungarian Labour Law

The primary source of Hungarian labour law is Act I of 2012 on the Labour Code, as amended (the 'Labour Code'). In addition to the Labour Code, various other Hungarian legislation concerning labour matters, health and safety, social benefits and immigration issues may also govern a particular employment relationship.

There are three levels of Hungarian labour law on which an employment relationship can be governed. These are:

(i) the Labour Code and other labour legislation;
(ii) collective bargaining agreement;
(iii) the employment contract concluded between the individual employee and the employer.

8.2 The new Labour Code

The entering into force of the new Labour Code of Hungary on 1 January 2012, resulted in major changes in Hungarian employment regulation. The very strict and employee friendly labour regulations have basically been "liberalized" allowing for a much more flexible and investment friendly employment framework.

8.3 Terms of employment

The Labour Code requires that employment relationships are established in writing, which is to be arranged for by the employer. An employment contract not concluded in writing can be cited as invalid by the employee within a period of thirty days from the commencement of work.

The name and other important employment-related information of the parties, the basic salary of the employee, the job profile of the employee and the place of work must always be defined in the employment contract. The place of work can be a permanent location or a variable location.

Notwithstanding the foregoing, in addition to the minimum conditions set out above, it is always advisable to define the most important conditions of the employment relationship in the employment contract. If those are not regulated in the employment contract, the employer must, upon concluding the employment contract, inform the employee of certain important information in relation to the working conditions, and must confirm those in writing within 30 days.

The employment relationship can be established for a definite or for an indefinite period of time. Unless otherwise agreed by the parties, the employment is established for an indefinite period of time. Where an employment for a definite period is renewed or extended between the same parties without any rightful interest attached to the part of the employer and the conclusion of the contract is aimed at compromising the rightful interests of the employee, the

employment relationship shall be deemed to have been established for an indefinite period of time.

Unless otherwise provided in the employment contract, the employment is established on a full-time basis.

8.4 Probationary period

Upon concluding an employment contract, a probationary period can be stipulated in the contract. In case the term of the probationary period is not defined in the employment contract, it shall be 30 days. Parties can agree in longer probationary period, however it shall not be longer than 6 months. The probationary period cannot be extended, and parties can not deviate from these rules. During the period of employment, the employment relationship can be terminated by either party with immediate effect and without justification.

8.5 Working conditions

8.5.1 Gross Basic Salary

Unless otherwise provided by law, the gross basic salary must be established and paid in Hungarian Forints. Unless otherwise agreed by the parties or stipulated in the labour law regulations, the salary must be paid, at the latest, by the tenth day of the month following the relevant month.

8.5.2 Fixed salary vs Performance-related salary

The employee may receive a fixed salary, which is not related to either to his/her or the company's performance; however his/her salary may also be linked to his/her or the company's performance. If the achievement of the performance requirement does not depend solely on the employee, a minimum salary must be guaranteed.

8.5.3 Bonus

Apart from the above described salary structure, the employer may grant to an employee a bonus, in addition to his/her salary. The granting of a bonus is normally in the employer's sole discretion and may not be claimed by the employee. However, in the case that the bonus is promised in advance to an employee upon completing a specific task, such bonus can be claimed by the employee.

8.6 Working Hours and Overtime

8.6.1 General

The general statutory limitation on the length of a work day is 8 hours per day and on the length of a work week is 40 hours per week.

The working time with extraordinary work ordered for the employee may be increased to the maximum of 12 hours per day and 48 hours a week; however, the law strictly defines when extraordinary work may be ordered, and the maximum amount thereof.

8.6.2 Reference period scheduling system

Working time can be defined in the so-called reference period scheduling system. If an employer adopts the so called reference period scheduling system, the working time of the employee may exceed the general 8/40 hours limit, but still must be within the 12/48 hours limitation and in the average of the reference period must correspond to the general 8/40 hours limit.

8.6.3 Extraordinary Work

In exceptional cases the employee may be obliged to perform extraordinary work. Overtime work, work performed on weekly days off and on public holidays, as well as stand-by and on call duties at defined places for a specific period of time, qualify as extraordinary work performed.

Employees may be required to do extraordinary work only under justified and extraordinary circumstances. Extraordinary work on holidays can be ordered only if the employee can otherwise be required to work on such day; or in the interest of the prevention or mitigation of any imminent danger of accident, natural disaster or serious damage or of any danger to life, health or physical integrity.

Extraordinary work cannot be ordered if it imposes any danger to the physical integrity or health of the employee, or if it constitutes any unreasonable hardship to the employee in respect of his/her personal, family or other circumstances.

An employee may be ordered to work not more than two hundred hours in any given calendar year in special work duty; or three hundred hours under collective agreement. The employer and the employee may enter into an agreement for a fixed duration of maximum one year, laying down an option for the employer to order special work duty of one hundred hours annually, in addition to the two hundred hours already available annually, not to exceed three hundred hours in total.

Extraordinary work cannot be required from pregnant women from the date of the diagnosis of their pregnancy to the time when the child reaches one year of age; men caring for their children as single parents, up to the time when the child reaches one year of age; and employees who work under conditions harmful to health as defined by other legislation.

In consideration for working on weekly days off, an employee should preferably be granted additional days off from work. If the employee receives such additional days off from work, he/she is also entitled to a minimum supplemental of 50% on his/her salary for each additional day worked. If the employee is not granted additional days off, he/she becomes entitled to a minimum supplemental of 100% on his/her salary for each additional day worked.

8.6.4 Rest Period

Should the daily working time exceed six hours, the employee is entitled to at least a twenty-minute break. The employees must be allowed at least 8 hours of rest between the end and commencement of daily work.

8.6.5 Weekly Days off

The employee is entitled to two days off weekly, one of which must be on Sunday.

However, there are statutory exceptions to the Sunday work prohibition. Generally, only employees employed under irregular work schedules (e.g., continuous operation, three or more shifts and seasonal work) may be ordered to work on a Sunday as an ordinary work day. Special rules apply where the work schedule is determined on the basis of reference periods.

8.7 Annual Leave

In principal, the number of the annual leaves is based on the age of the employee. An employee is entitled to at least 20 days ordinary annual vacation. As shown in the chart below, after reaching a given age, the employee is entitled to the following total days of paid annual vacation:

Age	Number of Annual Vacation Days
25	21
28	22
31	23
33	24
35	25
37	26
39	27
41	28
43	29
45	30

The maximum number of annual leave is 30 days, available for employees being at least 45 years old.

Annual leaves shall be scheduled by the employer; however one-fourth of the basic annual leave shall be scheduled as requested by the employee.

Annual leave shall be allocated in the year in which it is due. Employers shall allocate vacation time before 31 March of the year following the year in question in the event of economic reasons of particular importance or any direct and consequential reason arising in connection with its operations, or before 30 June of the year following the year in question if so stipulated in the collective agreement. If the employee's illness or another unavoidable restraint affects the employee, annual leaves shall be taken within a period of thirty days following the cessation of such restraint subsequent to the year in question.

8.8 Sick Leave

Employees shall be entitled to fifteen days of sick leave per calendar year from the employer, for the duration of time during which the employee is not able to work due to illness, not including accidents at work and occupational diseases as specified by other laws. Employees shall be paid 70 per cent of the absentee pay for the duration of sick leave.

For the period of sick leave exceeding the fifteen days, employees are entitled to receive support from the social security authorities. The maximum period of sick leave is one year under the current social insurance system.
The employee is required to submit a doctor's certificate for the time of his/her illness.

8.9 Other Work Time Allowances

8.9.1 Maternity leave

All pregnant employees are entitled to take up to 24 weeks maternity leave, which should be taken in such way that preferably 4 weeks should fall prior to the expected date of childbirth.

The employee is entitled to additional maternity leave without pay:

(a) until the child reaches the age of three, in order to care for the child at home;
(b) until the child reaches the age of ten, during the period of eligibility for child-care allowance, provided that the employee cares for the child at home;
(c) in the event of the child's illness in order to provide home care, until the child reaches the age of twelve.

8.9.2 Paternity Leave

The father is entitled to take 5 days paternity leave within 2 months following the birth of his child.

8.9.3 Long-lasting home care

The employee may request the employer to permit unpaid leave for long-lasting nursing or home care of close relatives for the duration of care, if the employee personally provides such care. The duration of long-lasting home care must reflect the duration of the home care and it may not exceed 2 years. Long-lasting home care shall be certified by the duly qualified medical practitioner of the person who needs care.

8.10 Public Holidays

Public holidays are: 1 January, 15 March, Easter Monday, 1 May, Whit Monday, 20 August, 23 October, 1 November, 25-26 December.

8.11 Termination of the Employment

Pursuant to the Labour Code, an employment relationship may be terminated by: (i) 'ordinary notice'; (ii) 'extraordinary notice'; (iii) during the probationary period with immediate effect; or (iv) by mutual consent of the employer and employee.

8.11.1 Termination of Employment by Ordinary Notice

An employment relationship for a definite period of time may only be terminated by ordinary notice by the employer and only if the employer pays to its employee an amount equal to one year's average salary. If, however, the remaining period of employment is less than one year, an amount equal to the average salary for such remaining period must be paid.

Both an employer and an employee may terminate an employment relationship for an indefinite period by ordinary notice.

The notice of termination by an employer must contain the employer's clear and justified reasons for termination, unless the employee is an executive of the employer as defined by the Labour Code (e.g., a managing director or a member of the Board of Directors). Termination notices, which fail to include justified reasons are unlawful.

The reasons for the termination may only be in connection with: (i) the abilities of the employee; (ii) his/her behavior in relation to the employment; or (iii) the operations of the employer.

Before giving an employee notice of termination due to his/her work performance or behavior, an employer must give the employee an opportunity to defend himself or herself against the objections raised by the employer.
In case the employee terminates an indefinite employment relationship by an ordinary notice, he/she is not required to justify such termination.

In certain cases (e.g.: if the employee is on sick leave or pregnant), the Labour Code prohibits the employer from terminating the employment relationship by ordinary notice.

8.11.2 Termination of Employment by Extraordinary Notice

Both an employer and or an employee may terminate an employment relationship by extraordinary notice if:

(a) any important obligation stemming from the employment is materially and intentionally breached by the other party or if the breach is caused by the gross negligence of either party; or
(b) the other party acts in a way which precludes the possibility of maintaining the employment relationship.

The parties may neither extend nor limit the scope of the reasons which may serve as a basis for the extraordinary notice of termination. However, the parties may give concrete examples in the employment contract which may lead to an extraordinary notice of termination within the scope defined above.

A notice of termination must contain the terminating party's clear and justified reasons for termination.

A extraordinary notice of termination has immediate effect.

The party terminating the employment relationship by an extraordinary notice must exercise this right within fifteen days of learning of the cause for such extraordinary termination. However, the terminating party may exercise the right of termination within a maximum period of one year from the date on which the facts giving rise to the right to terminate actually arose. Further, if the reason for the termination by extraordinary notice is a crime committed by the other party, then the party terminating the employment may do so within the applicable statutory limitation.

8.12 Definition of Executives under the Labour Code

Different provisions of the Labour Code are applicable to the top management as compared to the general employees of an employer.

For the purposes of the Labour Code, an executive is the head of an employer (i.e. the manager(s), in case of a limited liability company, and the members of the board of directors, in case of a company limited by shares) and his/her deputies.

In addition, the articles/deed of foundation of the employer or the resolution of the major corporate organ of the employer may define, in respect of the applicability of certain provisions of the Labour Code as an executive under the Labour Code other employees performing important scope of duties and acting as key employees.

In respect of damages caused by an executive, the general rules of the Labour Code are applicable, save for the negligence of the executive, in which case, an executive is liable up to the amount of his/her 12 months' average salary. In addition, an executive may be required to pay the same amount of damages caused by his/her unlawful termination of employment.

8.13 Trade Unions

8.13.1 Definition of Trade Unions

The Labour Code defines a trade union as an employee organization whose primary function is the promotion and protection of employees' interests as they relate to the employment relationship.

8.13.2 The Role and Certain Rights of a Trade Union

The Labour Code permits employees to establish trade unions within the organization of the employer. A trade union may operate local organizations inside a company and may involve its members in such operations.

A trade union may inform its members of their rights and obligations concerning their material, social, cultural, living, and working conditions and represent them against their employer and/or before state authorities in matters concerning labour relations and employment.

A trade union may represent its members, on the basis of a power of attorney, before a court of law or any other authority or organization, on matters concerning their living and working conditions.

The employer must request the opinion of the trade union on its contemplated measures affecting a larger group of employees, in particular plans for reorganization, transformation of the employer, conversion of an organizational unit into an independent organization, modernization. The trade union must deliver its opinion in connection with the employer's planned actions within a period of 15 days. Failure to do so is to be interpreted as granting consent to such action.

Further, a trade union may request information from an employer on all issues concerning its employees' employment-related economic and social welfare interests. The employer may not refuse to provide this information or refuse to provide a justification for its actions when requested by the trade union. The trade union may also provide the employer with the union's position concerning the employer's actions or decisions and, further, initiate negotiations in connection with those actions or decisions. If there is no workers' council operating at the employer, the employer is obliged to inform the trade union of those matters of which the workers' councils are to be informed (see below in section concerning Workers' Councils).

A trade union may also examine an employer's compliance with regulations relating to working conditions. The trade union may draw the attention of the relevant authorities to any mistakes or omissions observed in the course of the union's inspection, and if the authorities

do not take the necessary measures in a timely fashion, the union may institute legal proceedings against the employer. In such a case, the authority conducting the proceedings must inform the trade union of the result of the proceedings.

A trade union may also object to an employer's unlawful action or omission that directly affects the employees or the organizations representing their interests.

8.14 The Collective Agreement

A collective (bargaining) agreement between the employer(s) or an organization that represents the interest of the employer(s) and the trade union(s) regulates the rights and duties arising from the employment relationship, the manner of exercising and fulfilling the same, the procedural rules related thereto, and the relationship between the parties thereto. The trade union whose candidates received at least 50% of the votes in the workers' council election is deemed as the representative for such negotiations. If more than one workers' council is elected at an employer, the results of each election are combined to determine representation rights. A trade union whose membership includes at least two-thirds of the employees of an employer in the same employment group is also deemed as a representative. If a trade union qualifying as a representative union requests the employer to enter into negotiations with that trade union concerning the collective bargaining agreement, the employer may not refuse to commence such negotiations.

Each year an employer must propose to negotiate the regulations on the remuneration for work set out in the collective bargaining agreement with the representative trade union.

Unless otherwise agreed by the parties, the collective bargaining agreement may be terminated by either party upon three months' notice, but it may not be terminated within six months after the execution thereof.

8.15 Workers' Councils

The Labour Code provides that a workers' council must be elected at all employers or at all of the employer's independent premises or sites where the number of employees exceeds 50.

If the number of employees (in total or at any independent division of the employer) is less than 51 but exceeds 15, no workers' council is required to be elected, but a workers' representative must be elected by the employees. The Labour Code's provisions regulating the rights and obligations of a workers' council apply equally to the workers' representative.

Workers' council and the workers' representative is elected for a three-year term.

8.16 European workers' council

A new act (Act XXI of 2003 on the establishment of European workers' council and the procedures of consultation and information of employees) providing for the establishment and operation of European workers' councils has already been enacted in Hungary. The Act has entered into force on the date of accession to the European Union.
Under the act, in addition to the already existing local workers' councils, European workers' councils must be formed at those companies which themselves operate or belong to a group that operates on a European level (a company or group of companies operates on a European level if the company or group of companies employs at least 1,000 employees in the EEA and at least 150 employees in two or more Member States).

The purpose of the European workers' council is to ensure that the employer complies with the employees' right to receive information and to be consulted by in a formalized manner regarding the status of the company and the employees. The European workers' council has the right to request and receive general information from the company at least once a year and to be informed of certain particular circumstances affecting the employees.

9. INTELLECTUAL PROPERTY

Hungarian law grants protection for nearly all types of intellectual property, including trademarks, geographical indications and designations of origin, design rights, copyright and related rights, patents, supplementary protection certificate rights, plant variety rights and utility models. The Hungarian legislature provides different ways to protect the IP rights, among others civil and criminal procedure, furthermore, the customs monitoring system.

9.1 Types of IP Rights that have effect in respect of Hungary

9.1.1 Trademark

A trademark is any sign which is capable of being represented graphically and which can in the course of trade, distinguish the goods or services from those of other undertakings. Such signs may include words, devices, letters, and the shape of goods and their packaging. It is a basic tool of the economic competition and plays a very important role in marketing and advertisement.

There are three types of registered trademark that provide protection in Hungary:

(a) Hungarian National Trademark
Hungarian registered trademarks are national rights managed by the Hungarian Patent Office in Budapest.

(b) Community trademarks (often referred to as CTMs)
Community trademarks provide a single right that is enforceable throughout the European Union, including Hungary. The CTM system is administered by the Office for Harmonization in the Internal Market (Trademarks and Designs) (OHIM).

(c) International trademarks (under the Madrid system)
International trademarks registered through the Madrid system, where the trademark designates Hungary. The Madrid system is a multi-national system based on two international treaties (the Madrid Agreement and the Protocol) and administered by the World Intellectual Property Organization (WIPO).

9.1.2 Geographical indications and designations of origin

Geographical indications and designations of origin are for protecting products whose characteristics are in some way based on their geographical origin. A designation of origin indicates that a product is very closely associated with a particular region, e.g., Roquefort for cheese. A geographical indication indicates that a product has a more casual link to a region, for example it might be that one aspect of its production took place there, e.g., Tokaj wine.

9.1.3 Designs

Designs protect the appearance of the whole or a part of a product. This can include contours, colours, shape, texture or ornamentation.

9.1.4 Copyright and related rights

Copyright is the right to prevent other people from copying certain kinds of original works. Copyright provides protection for, among other things, literature, science, art and music. Copyright and related rights come into existence automatically upon the creation of an original work in Hungary. No registration of copyright is necessary in Hungary. No transfer of the personal rights is possible.

Related rights protection covers the rights of performers, producers of phonograms, film producers, broadcasting organizations and producers of databases.

Hungarian Copyright Act prescribes special provisions for software programs, for databases and works ordered for publicity purposes. In the case of these types of works, pecuniary rights can be transferred. In case of software and databases entering into a written license agreement is not compulsory. In the case of software and databases, the Act also specifies special rules relating to the cases of free use.

According to the Copyright Act, employees - as authors - are entitled to receive royalty in case the employer transfers the pecuniary rights related to the work; or gives license to a third party to use the work created by the employee.

9.1.5 Patents and supplementary protection certificates

Patents protect inventions on any field of technology in Hungary. Hungarian law grants patent protection for both products and processes. The requirements to qualify for patent protection in Hungary are broadly similar to those in most other developed countries, including the concepts of novelty, inventiveness and industrial application. The maximum term of protection is 20 years calculated from the day of filing the patent application.

A supplementary protection certificate (SPC) is a certificate that can be issued to grant extended protection for patents that relate to medicinal or plant protection products. Because patented products of this type cannot be marketed until government authorities have conducted safety tests and issued a marketing authorization, the introduction of such products can be delayed for years, during which the normal 20-year term of patent protection continues to run. The supplementary protection certificate becomes effective at the expiry of the basic patent (20 years) for a period equal to the period which has elapsed between the date of application and the date of receiving marketing authorization in the European Union. The duration of the certificate cannot exceed five years.

There are three ways of obtaining patent protection in Hungary:

(a) Applying to the Hungarian Patent Office;
(b) Using the European patent system (established under the European Patent Convention);
(c) Using the international patent system (established under the Patent Co-operation Treaty) ('PCT').

All of the above mentioned systems eventually grant the same right, a national Hungarian patent, consequently, it does not make a difference which system is chosen when applying for patent protection. The European or PCT systems may be preferable if the application is for protection in the territory of Hungary and one or more other countries that are party to either

the European Patent Convention or the Patent Co-operation Treaty, as one can file a single application that results in national patents in more than one country.

9.1.6 Plant variety rights

Plant variety right is a form of registered IP right that protects new varieties of plants.

9.1.7 Utility model protection

Utility model protection is registered protection for new technical solutions not reaching the level of patentable invention. Based on the utility model protection the right holder has the exclusive right to exploit the utility model or to provide a license to other persons authorizing exploitation. The protection has a definite term of 10 years, after that period the utility model becomes public domain.

9.2 IP Law Enforcement

9.2.1 Customs Monitoring

Customs will intercept and seize suspected infringing goods either on the basis of an accepted Customs Monitoring Application for action, or sometimes on its own initiative if it detects goods it suspects infringe IP rights. Under the so called 'simplified procedure' it may even be possible to have the goods destroyed under Customs control without there being any court judgment on whether an IP right has been infringed.

9.2.2 Civil proceedings

A civil lawsuit may be initiated for the infringement of your IP rights and/or for unfair competition against the infringer. IP infringement litigation must be based on IP rights that are valid in Hungary. The Metropolitan Court (Budapest) has exclusive jurisdiction to hear IP infringement cases, while county courts have jurisdiction to hear unfair competition cases and copyright cases.

9.2.3 Preliminary injunction

The IP right holder may request the Metropolitan Court to grant a preliminary injunction even before filing a statement of claim. The purpose of a preliminary injunction is to provide immediate relief for the holder of the IP right (e.g., the seizure of the infringing goods). The court can order preliminary injunction if the requested action is necessary to prevent imminent and direct damage, or to preserve the existing status of the litigants, which gave rise to the legal dispute or for such legal protection of the petitioner, which deserves special considerations and if the disadvantages brought by the injunction do not exceed the advantages gained by granting injunction.

9.2.4 Criminal proceedings

The IP right holder can report a crime to the police/Customs, which will investigate further and prosecute the infringer. A criminal action can be brought irrespective of a pending civil lawsuit. Criminal prosecution of IP infringement in Hungary is not as developed as enforcing IP rights in civil proceedings. Authorities and prosecutors dealing with criminal reports are generally not specialized in IP law.

10. LEGISLATION IN THE HIGH-TECH SECTORS

Introduction

The applicable IT/Communication legislation is primarily determined by the harmonization obligations of Hungary. Therefore, the Hungarian IT/Communication legislation is basically in line with the EU rules.

During the last few years, the practical application of the above legislation has become considerably smoother. The realization of E-government (E-administration) has shown considerable progress.

10.1 Electronic Communication

Act C of 2003 on the Electronic Communication and the related decrees contain the most important rules in connection with the provision of electronic communication services. The scope of the Electronic Communication Act is broad: it also applies to such electronic communication services which are directed to the territory of Hungary.

Electronic communications service is defined as a service (normally) provided for remuneration which consists wholly or mainly in the conveyance and, where applicable, switching or routing of signals on electronic communications networks, but excludes content services or information society services. An electronic communication service provider may provide different services, operation electronic communications networks or equipment, supply terminal equipment, etc.

In order to provide electronic communication services in Hungary, the service provider must notify the National Communication Agency (the Agency) and comply with the relevant legislation.

The Agency is responsible for analyzing the different communication markets; it performs this activity in accordance with the recommendation of the European Commission. The Agency may impose certain obligations on the service providers. In Hungary, like in other EU Member States, the possibility that the Hungarian Competition Office and the Agency would apply different market definition cannot be ruled out.

10.2 Media

According to the Hungarian Constitution, freedom of speech and freedom of press are valuable constitutional rights.

The traditional and electronic media is regulated in different legislations. We refer to Act CLXXXV of 2010 on Radio and Television Broadcasting, which is known as the media act. The media act applies to broadcasters (any natural or legal person who has editorial responsibility for the programs).

Currently, the most important issue is the implementation of the Audiovisual Media Services Directive (Directive 2007/65/EC of the European Parliament and of the Council of 11 December 2007) which will change the current system.

The digital switchover is also in process. The expected time of the analogue switch off (television broadcasting) is the end of December 2011; digital terrestrial broadcasting has already started. In case of radio broadcasting, digital switchover shall become a reality by December 2014.

10.3 E-commerce and some related legislation

Act CVIII of 2001 on Electronic Commerce and on Information Society Services ('E-Commerce Act') is the basic e-commerce legislation in Hungary. It applies also to information society services directed to Hungary. The E-Commerce Act is in line with Directive 2000/31/EC.

According to the E-Commerce Act, the term information society service covers services provided electronically - normally for financial consideration - at a distance and at the individual request of the recipient of the services. E-commerce services are also information society services.

Information society services may be provided without authorization (however, the Electronic Communication Act requires notification in certain cases).

The E-Commerce Act contains rules regarding electronic contracts, the information which has to be provided to recipients, liability related rules (liability of the service provider and the intermediary service provider), etc.

Hungary has adopted legislation on electronic signatures (Act XXXV of 2001 on electronic signatures). According to this act, if a document is signed with at least qualified electronic signature, it qualifies as a written document.

An investor may register a domain with the Hungarian top level '.hu'. Delegation of domains directly under the .hu public domain may be applied for by (a) any citizen of the EU or (b) any natural person holding a permit for domiciliation in Hungary, or (c) i) any entity established by virtue of law, ii) entered in the records of or registered with an authority or court, or iii) any entity filing its respective application with the competent authority or court and commencing its operations pursuant and according to the law prior to such entry or registration in the territory of the European Union, (d) furthermore, the beneficiary of a trademark registered with the Hungarian Patent Office or granted protection rights in Hungary, too, provided that the applied domain name is character-by-character identical with the word(s) of the trademark in question.

An application for the registration of a domain must be submitted to one of the internet service providers which acts as a 'registrar' and arranges the registration of the domain with the Council of Internet Service Providers that registers Hungarian top level domains.

11. THE HUNGARIAN BANKING SYSTEM

11.1 General overview

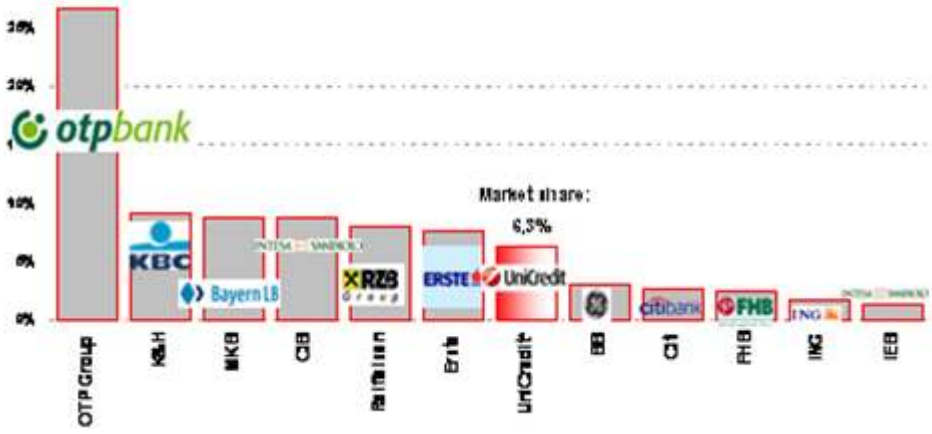
11.1.1 Development of the banking system

The Hungarian banking system has been converging rapidly to the banking systems of the advanced developed countries. This process is reflected in the scale and quality of its products and services offered by Hungarian banks, operational reliability, prudential regulations and profitability, as well as management schemes. One of the reasons of such quick improvement is that most of the Hungarian banks have come under the control of foreign strategic investors during the bank consolidation in the nineties. Consequently, all of the leading Hungarian players have been operating as a successful local subsidiary of top Italian, Austrian, Belgian, German and American banks, thus there are several different corporate culture competing for the dominant role of the Hungarian market. The local subsidiaries of the foreign European mammoths are operating based on their major home principles and philosophy, while the regulations of the Hungarian Financial Supervisory Authority (HFSA) also developed to the level of western countries and became EU conform by the date of accession to the EU.

After abolishing the former separation of the commercial and investment banking activity, the laws have allowed the existence of universal commercial banks, hence the major commercial banks have integrated their investment service provider companies in the past few years.

The domestic private or state owned equity of banks is barely more than 10 per cent in Hungary the foreign direct ownership proportion exceeds 80 per cent, while the indirect interest is around 95 percent.

There was a significant change in the institutional structure of the market in 2007, as the merger of the Hungarian subsidiaries of Banca Intesa and Sanpaolo IMI took place in this year, resulting in the integration of Inter-Európa Bank into CIB Bank by 1 January, 2008. Based on its assets, the new, merged financial institution which emerged after the transaction is the second biggest player of the domestic banking sector.



Source: Annual reports of the banks, 2011

11.1.2 Financing Activity

Hungarian banks are active in the fields of not just retail but also corporate lending including sophisticated structured and project finance transactions. The major Hungarian banks are active not just in Hungary but also provide loans to companies and projects in other CEE countries and Russia.

Hungarian banks, led by the biggest Hungarian bank, OTP Bank Nyrt. made several acquisitions of banks in the region, which acquisitions were the basis of their regional expansion.

11.2 Legal Overview

The legal framework of the present banking system is based on Act CXII of 1996 on Credit Institutions and Financial Enterprises (the Credit Institutions Act), Act CXXXVIII of 2007 on Investment Firms and Commodity Service Providers and on the rules of their activity (the Investment Firm Act) and Act CXX of 2001 on the capital markets (the Capital Markets Act) and decrees of the Finance Minister and the Government. Regulation of the Hungarian banking system is generally in line with the relevant EU banking standards.

11.2.1 EU Membership

The Hungary became a member of the European Union on 1 May 2004. Membership of the EU has resulted in the Hungary adopting and implementing various EU directives. Changes have, therefore, been made to Hungarian banking law and accounting rules in order to harmonize them with EU directives. EU accession has greatly enhanced the international integration of the domestic money market and has strengthened the close relationship between credit institutions and their foreign parent banks, the majority of Hungarian banks being owned by foreign credit institutions.

As of 1 January 2006 Hungary has implemented Commission Directive 2003/6/EC on insider dealing and market manipulation (the Market Abuse Directive) and Commission Directive 2004/72/EC implementing directive 2003/6/EC as regards accepted market practices, the definition of insider information in relation to derivatives and commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

Within the framework of the harmonization of the financial regulatory system, the Credit Institutions Act was amended by new rules with regard to the Hungarian central credit information system. As a result, the new rules aim to broaden the rights of individuals to receive information from the database on their registered data and to seek legal redress in case of incorrectly or unlawfully registered personal data. The amendment to the regulation on the Hungarian central credit information system has enlarged the scope of persons that are subject to registration therewith, thereby enhancing the safety of investment credit, securities lending activities and financial stability.

In the framework of the harmonization of national law with EU law, Hungary has implemented Directive 2004/39/EC on markets in financial instruments (the MiFID) and Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the Transparency Directive). Hungary has implemented the Transparency Directive by means of implementing Directive 2007/14/EC on detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonization of transparency requirements in

relation to information about issuers whose securities are admitted to trading on a regulated market.

Hungary has also implemented (a) Directive 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive and (b) Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions. As of 14 December 2007 Hungary implemented Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. As a result of the implementation of the above-mentioned directives, the Hungarian Parliament has passed the Investment Firm Act, which entered into force on 1 December 2007. Further the Credit Institutions Act and the Capital Markets Act were amended in various respects.

11.2.2 Domestic Background

Role of the National Bank of Hungary

Act CCVIII of 2011 on the National Bank of Hungary regulates the Hungarian National Bank and its current position in the system of European Central Banks.

Although the National Bank of Hungary has no legal obligation to support Hungary's credit institutions, it may serve as a lender of last resort to a credit institution if the credit institution faces temporary liquidity difficulties which jeopardize the stability of the financial system. However, the National Bank of Hungary is not permitted to grant any financial aid to the Government. Any loans granted by the National Bank of Hungary in its capacity as lender of last resort to Hungary's credit institutions qualify as general unsecured obligations of the credit institutions.

The National Bank of Hungary reviews reports filed by banks and maintains a publicly available database on the Hungarian Banking System. Furthermore, it continuously evaluates the status and publishes all information regarding the financial position and condition of Hungarian credit institutions and of the Hungarian Republic itself. The National Bank of Hungary also monitors compliance of credit institutions with those provisions of the Credit Institutions Act that belong to its licensing power and the decrees issued by the Governor of the National Bank of Hungary.

The European Central Bank and the National Bank of Hungary

There is no official date indicated by the Hungarian government for Hungary to become a member of the Economic and Monetary Union (the EMU). The financial experts' analysis is controversial in respect of Hungary's financial situation. Prior to joining the EMU, the Hungary will accede to the ERM-II system.

The Hungary is presently at the second stage of monetary integration, therefore it still retains the discretion to set its own monetary policy. Nevertheless, pursuant to the Treaty of Maastricht, it is bound to follow a strategy of convergence. The Governor of the National Bank of Hungary is a member of the Governing Council of the European Central Bank.

Hungarian Financial Supervisory Authority

Since 1 April 2000, supervision of the banking sector has been carried out by the Hungarian Financial Supervisory Authority (the HFSA), which is the successor of the Hungarian Banking and Capital Market Supervisory Authority, the State Insurance Supervisory Authority and the State Pension Fund Supervisory Authority. The HFSA's establishment, status and activity are regulated by Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority (the HFSA Act).

The HFSA is an administrative agency of the Hungarian Government and has national jurisdiction. It is headed by a Council consisting of from three to five members and managed by the Chairman of the Council. The Chairman of the Council is elected by the Hungarian Parliament on the proposal of the Hungarian Prime Minister. The other members of the Council are appointed by the President of Hungary and proposed to the President of Hungary by the Hungarian Prime Minister. The Chairman of the Council reports to the Hungarian Government through the minister supervising the HFSA.

The Office, as administrative body of the HFSA, is responsible for the operative functioning of the HFSA. The Office is headed by the Director and two Deputy Directors. The Director and the two Deputy Directors are appointed by the Hungarian Prime Minister on the proposal of the minister supervising the HFSA.

The HFSA holds wide-ranging powers under the Credit Institutions Act, the Investment Firm Act, the HFSA Act and the Capital Markets Act to license and supervise the operation of credit institutions. Supervision of banking activities in the Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the HFSA, with the National Bank of Hungary retaining a more limited supervisory role (mainly related to the circulation of currency).

As of 1 January 2006, the supervisory role of the HFSA has been harmonized with the relevant EU Directives with regard to insider dealing and market manipulation.

11.2.3 Banking Regulations

The Credit Institutions Act, the Investment Firm Act and the Capital Markets Act set out the regulatory framework for the Hungarian banking system. Specific rules not regulated in detail under these Acts are set out in Government decrees or decrees issued by the Ministry of Finance. The HFSA does not have the power to issue regulatory decrees, or any other legally binding regulation.

Capital Adequacy

According to the Credit Institutions Act and in line with European regulations, banks must have a registered capital of at least HUF 2 billion (circa EUR 8 million). Mortgage credit institutions are specialized credit institutions with a registered capital requirement of at least HUF 3 billion (circa EUR 12 million), which must be in the form of cash contribution. The amount of a credit institution's equity may not be less than the minimum amount of its registered capital. If the amount of a credit institution's equity falls below the registered capital, the HFSA will give the credit institution a maximum of 18 months to bring its equity to the required level.

In order to maintain solvency and its ability to satisfy its liabilities, a credit institution must at all times have own funds equal to the amount of the risk of the financial and investment

activities it engages in, and pursuant to detailed rules its own funds may not in any event be less than the minimum amount of its registered capital.

Trading Book and Activity

In order to ascertain a credit institution's capital requirements on trading and certain other open positions, a trading book must be kept to record the financial instruments in the trading portfolio that are exposed to the market risks fundamentally connected with specified investment and financial services and the risks undertaken in connection with these.

As of 1 December 2007 a new regulation entered into force with respect to the Trading activities with the implementation of the MiFID. The new rules on the Trading activities set out in the Investment Firm Act contain further criteria for the credit institutions to elaborate new by-laws in respect of the Trading activities and also set out the principles that will have to be followed in the by-laws.

General Reserves

A credit institution must create general reserves from its after-tax profits to offset the losses incurred during its activities prior to paying dividends and shares. A credit institution must place 10 per cent, of its annual after-tax profits into the general reserve. (Upon request, a credit institution may be exempted by HFSA from the obligation to create general reserves if the amount of the credit institution's solvency capital is at least equal to 150 percent of the minimal amount of solvency capital as set out by the Credit Institutions Act and if it has no negative profit reserves.)

A credit institution may pay dividends or shares only if it has created the general reserves described as set out above in the calendar year, or if the HFSA has granted exemption from the obligation to create general reserves. A credit institution may use general reserves only to offset the losses incurred during its activities. A credit institution may re-allocate its available profit reserves in whole or in part into general reserves.

Solvency Capital and Risk Provisions

Based on the implementation of Directive 2006/49/EC of the European Parliament and of the Council passed on 14 June 2006 regarding the capital adequacy of investment firms and credit institutions (the Capital Adequacy Directive), a bank must have a sufficient amount of solvency capital. The Directive is in line with the framework agreement of the Basel Committee on Banking Supervision on the international convergence of capital measurement and capital requirements (the Basel II). The minimal amount of the solvency capital of credit institutions is determined by the Credit Institutions Act.

The solvency capital must be enough to secure, at all times, the risk of a bank's business activity to provide continuous solvency and to assure that the bank's obligations are fulfilled. The solvency capital cannot be less than the minimal capital requirement of a bank and it is calculated by means of adding the capital requirements in respect of lending and partner risks, exposures registered in the trading book, market risks deriving from FX and other risks and capital requirements for operational risks.

Pursuant to an amendment of the Credit Institutions Act entered into effect on 1 July 2007, there are two methods to calculate the value of a bank's risk-weighted exposure: the Standardized Method and the Internal Ratings Based Approach. The Standardized Method is

based on certain principles laid down in the Credit Institutions Act, and the Internal Ratings Based Approach is based on the previous records of a bank. In some portfolio segments it is possible to apply the two methods simultaneously for the reason that the Internal Ratings Based Approach may apply the Standardized Method.

Pursuant to the Standardized Method, each exposure must be categorized into an exposure class and each exposure class is linked to a risk category. A bank may only use the Internal Ratings Based Approach provided that it complies with certain conditions set out in the Credit Institutions Act and the HFSA has approved the application of the Internal Ratings Based Approach.

Act LI of 2007 on the amendment of the Credit Institutions Act sets out further rules in accordance with the Capital Adequacy Directive on (i) the date when the amendments enter into force and (ii) the method how the banks shall implement the calculation methods and rules introduced by the Basel II.

With respect to the Internal Ratings Based Approach, Act LI of 2007 sets out a progressive transition into the new regime. Pursuant to Act LI of 2007, credit institutions may continue to apply the calculation methods applicable before the implementation of the Capital Adequacy Directive during a transitional period in such a way that the minimal amount of solvency capital is continuously decreasing on a year by year basis to (95 percent of the minimum requirement by 31 December 2007, 90 percent by 31 December 2008 and 80 percent by 31 December 2009).

In 2001, the Hungary harmonized its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU Directive 93/6.

Regulation on Transactions

The Credit Institutions Act also contains limits on large exposures and the exposures related to acquisition of ownership, as well as real estate and other sorts of investment restrictions.

11.2.4 The Hungarian money and capital markets

The market of the Hungarian Forint was fully liberalized in 2001. Until the end of February 2008, the Hungarian Forint was set to the official intervention band of 240.01 – 324.71 HUF/EUR, and as of February 2008 the HUF is a floating currency.

Both the Budapest Stock Exchange and the Government securities market are integrated into the global capital markets. The extent of corporate bonds (including banks' commercial papers and mortgage bonds) has been relatively limited as a result of the abundant liquidity and cheap funding opportunities of the commercial banking system. Unfavorable funding environment resulting from the 2007 sub-prime financial crisis has increased the costs of the securities-based funding of both the banking and the corporate sectors

12. BANKRUPCY AND RESTRUCTURING

The Bankruptcy Act generally applies to all types of business organizations and their creditors recognized under Hungarian law. The Bankruptcy Act also applies to legal entities registered in a Member State of the European Union provided that main solvency proceedings or secondary proceedings may be conducted. Certain other laws specify special provisions applicable to entities (such as credit institutions or insurance companies) in addition to or instead of those of the Bankruptcy Act. The procedures to be followed in the case of the insolvency of non-business organizations (such as government agencies), except for local municipalities, are not regulated under Hungarian law by means of general rules, but are subject to the particular statutes relating to those entities.

All assets of a company existing on the commencement date of its bankruptcy, liquidation proceedings are subject to such proceedings. Assets of the company include assets owned by the company and, through the shares or quotas of its subsidiaries, indirectly the assets of its subsidiaries.

During liquidation proceedings the relevant Court of Registration, tax, customs, social security authorities, the labour authority and credit institutions are notified of the commencement of bankruptcy proceedings by the court carrying out the proceedings.

12.1 Bankruptcy

The purpose of bankruptcy proceedings is to make arrangements for the settlement of creditors' claims against the debtor. Bankruptcy proceedings are voluntary proceedings which either precede or avert liquidation proceedings. A managing director of the debtor is entitled to file an application for bankruptcy with the competent court at any time, depending on the financial status of the debtor and subject to the restriction that the debtor may not declare bankruptcy within 2 years of the announcement of its previous bankruptcy, if a moratorium was granted to the debtor by its creditors in the course of the earlier bankruptcy proceedings.

12.2 Liquidation Proceedings

The purpose of liquidation proceedings is to provide satisfaction to creditors for the debt of insolvent debtors at the moment of dissolution and the termination of corporate existence pursuant to the Act. A 'debtor' is the entity unable to pay its debt when due or presumably will not be able to pay its debt when the debts become due. A 'creditor' is a person who has a claim against the debtor based on a final and executable court ruling or administrative decision, or has an overdue claim which is not disputed or has been acknowledged by the debtor.

12.3 Initiating liquidation proceedings

Creditors may request the court to initiate liquidation proceedings against a debtor. At the request of the creditor, the court examines whether the debtor is insolvent. The request of the creditor must specify the origin of the debt, the due date and a summary of the reasons for which the debtor is insolvent. The creditor may refer to the following reasons of insolvency:

(a) the debtor’s failure to settle or contest his previously undisputed or acknowledged contractual debts within fifteen days of the due date, and failure to satisfy such debt upon receipt of the creditor’s written payment notice, or

(b) the debtor's failure to settle its debt within the deadline specified in a final court decision, or
(c) the court enforcement procedure against the debtor was unsuccessful, or
(d) the debtor did not fulfill its payment obligation as stipulated in the composition agreement.

The documents supporting the claim must be attached, including a copy of the written payment notice sent to the debtor.

If the court finds the debtor insolvent based on any of the above reasons, then it orders the liquidation of the debtor by a decree within 60 days after the receipt of the request for the liquidation proceedings. The court must notify the debtor about the liquidation request of the creditor by sending a copy of the request. As a response, the debtor declares whether it acknowledged the contents of the petition within 8 days from the notification. If the debtor acknowledges the claim, he must also simultaneously declare whether he wishes to require time to settle the debts.

The court examines the solvency of the debtor upon receipt of a petition for or notice of liquidation and may, at the request of the debtor, grant a 30 day grace period to such debtor for repayment of its debt(s).

The court will terminate the liquidation proceedings if it can be established that the debtor is solvent.

The court orders the appointment of a liquidator upon the establishment of the insolvency of the debtor.

The most important legal consequences of the opening of the liquidation procedure are the following:

- The rights of the owner of the debtor legal entity shall cease when the liquidation procedure begins and only the liquidator is authorized to make any legal statements in connection with the debtor's assets.
- The name of the debtor company shall be appended by the words under liquidation or by the abbreviation 'f. a.'.
- All debts of the debtor company become due.
- Any judicial enforcement proceedings in progress against the debtor in connection with the assets under the liquidation shall be stopped by the court.
- Any claim against the debtor in connection with the assets covered under liquidation can be enforced only in the framework of the liquidation.

12.4 Temporary administrator

The creditor may request the court to appoint a temporary administrator, from the register of liquidators, to supervise the debtors' financial management during the procedure. The requirements of appointing a temporary administrator are the following: (a) evidence that the subsequent satisfaction of the claim at a later date is endangered; (b) the amount of the claim and its expiry can be proven by a public document or a private document with full probative force; (c) the creditor advances the fee of the temporary administrator (HUF 150,000 if the debtor has no legal personality and HUF 300,000 for legal persons; currently equaling approx. EUR 500 and 1,000) and deposits the fee at the time of the submission of the request.

The temporary administrator has the power to monitor the debtor's business activities to protect creditor's interests, and reviews the debtor's financial situation. The managers of the debtor company are required to cooperate with the temporary administrator and to provide assistance. If the managers of the debtor company violate their obligations to cooperate, the court can order the company's liquidation immediately, irrespective of whether the debtor is declared insolvent or not. This order may be executed irrespective of any appeal. The term of the temporary administrator ends when the liquidation proceedings begin or when the liquidation proceedings are concluded.

The signatory rights of a debtor's executive officer or other entitled person in liquidation terminate on the official commencement date of the liquidation. Following such date, any undertakings and signatures on behalf of the debtor may only be given by the liquidator.

12.5 Simplified liquidation

If the assets of the debtor would not cover the costs of the liquidation, or the liquidation may not proceed due to inadequate books and records of the debtor, upon the request of the liquidator, the court will order a simplified liquidation. In most of such cases the assets are not enough to satisfy the costs of the procedure.

12.6 The role of the liquidator in the liquidation proceedings

The appointed liquidator acts on behalf of the debtor and may not assign the execution of liquidation proceedings to any other parties, the liquidator also analyzes the financial standing of the debtor, subsequent to which the liquidator opens a liquidation account, estimates the costs of liquidation and sets up a timetable for its implementation. The liquidator keeps separate records about the claims reported within 40 days from the publication of decree to liquidate and about the claims reported after the 40 day period but within one year from the publication of decree to liquidate. The time of the notification has an effect on the sequence and/or ratio of satisfaction of the claims. The liquidator decides the reported claims in 45 days from the last day of the notification period. If the notified claim is acknowledged by the liquidator, the liquidator issues a statement on the acknowledged claim as per the beneficiary's request.

The liquidator must convene all the registered creditors, within 90 days following the date of publication of the opening of liquidation, to establish the creditors' committee. The liquidator sends a settlement of account and a report on liquidation expenses to the creditor's committee every six months.

Upon the commencement of the liquidation proceedings, employment rights over the employees of the debtor are exercised by the liquidator.

The liquidator has the power to terminate the contracts concluded by the debtor with immediate effect, or if none of the parties performed any services, the liquidator may withdraw from the contract. The liquidator shall collect the claims of the debtor when due, enforce its claims and sell its assets. In the process of the liquidation, the liquidator provides protection and safeguard for the debtor's assets.

If the amount of money received during the liquidation procedure is sufficient to cover the claims of creditors, the liquidator may prepare an interim liquidation account after the deadline of the notification claims. Provisions shall be made to cover the expected liquidation expenses and the disputed creditor's claims on the basis of the interim account. The interim

account shall be presented to the court for approval and the opinion of the creditors committee shall be attached as well. The court shall approve or refuse the interim account and the proposal for partial distribution of the assets within 30 days. In such case the liquidator satisfies the claims on basis of the interim account approved by the court and also informs all creditors of the debtor about the exact amount of the payment.

At the end of the liquidation proceedings, the liquidator prepares the final liquidation balance sheet, the statement of the revenues and expenditures, the final tax returns and sends all these documents to the court and to the tax authorities. The final balance sheet must be prepared within 2 year from the time of opening of the liquidation proceedings.

12.7 Settlement Agreement in the course of liquidation

The liquidation proceedings may be concluded by the dissolution of the debtor or by a settlement. The settlement can take place 40 days after publication of the decree following the conclusion of the notification period. Only those creditors who reported their claim in conformity with the regulations can participate in the settlement negotiations. The creditors and the debtor can conclude a settlement before the final liquidation balance sheet is submitted. Those who did not register as creditors in the liquidation proceedings may not enforce their claim during the settlement negotiations.

During the negotiations between the debtor and the creditors within 60 days following the request of the debtor, the debtor presents a program suitable for the restoration of solvency and a settlement proposal, as well as the list of creditors. During the negotiations, the company under liquidation and the creditors may agree on (a) the order for the settlements of debts (b) reschedule of the payments (c) the ratio and the manner of satisfaction of debts and (d) any other questions that are deemed essential by the parties for the purpose of restoring the debtor's solvency. If the solvency of the company is restored through the settlement and it conforms to the law then the court approves it by a decree.

13. DISPUTE RESOLUTION

13.1 Sources of law

Hungary is a civil law jurisdiction. The sources of law are the Constitution, the acts of the Parliament, and the governmental, ministerial and municipal decrees. The Constitutional Court is authorized to review the constitutionality of all almost Hungarian legislation.

Since Hungary's accession to the European Union on 1 May 2004, European laws also form part of the Hungarian legal system.

Judicial precedents are generally not binding.

13.2 State Courts

Hungary has a four-tier court system, which include the Local Courts, the County Courts (including the Metropolitan Court in Budapest), the Appellate Courts and the Supreme Court.

Local Courts, including the district courts operating in Budapest, are courts of first instance. They deal with any commercial matter except those delegated to the County Courts.

There are 20 County Courts in Hungary: one in each of the 19 counties and an additional one in Budapest (the latter is called the Metropolitan Court). The County Courts hear appeals from judgments of the Local Courts, and also act as courts of first instance in certain matters, among others in commercial disputes where the amount in controversy exceeds HUF 10 Million (cc. EUR 35,000). Separate divisions of the County Courts act as Courts of Registration and are responsible for the trade registry records of corporations registered in Hungary.

There are five Appellate Courts in the country, which hear appeals from the County Courts and the Metropolitan Court.

An important task of the Supreme Court is to develop the jurisprudence of the Hungarian courts. The Supreme Court has exclusive jurisdiction for extraordinary judicial review. The Supreme Court also hears appeals from certain decisions of the Appellate Courts and, in limited cases, from the County Courts.

13.3 Arbitration

The Hungarian Arbitration Act regulates both domestic and international arbitrations in Hungary. The Arbitration Act is based on the UNCITRAL Model Law. The most widely known Hungarian permanent arbitration court is the permanent Arbitration Court attached to the Hungarian Chamber of Commerce and Industry. No appeal is allowed against arbitration awards. However, state courts are allowed to cancel arbitration awards on certain, very limited grounds.

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